

# Portfolio Managers' Views

  
**03 October 2022**  
FUND MANAGEMENT DEPARTMENT

# MALAYSIA & REGIONAL

## The Week in Review (26-30 Sep 2022) & Our Managers' Views

- 1 USDMYR:** We expect the MYR to continue weakening against the USD until Bank Negara Malaysia increases its Overnight Policy Rate. Aggressive hikes of the US Fed Funds Rate caused US bond yields to increase. This caused the yield spread between Malaysia and US 10 year government bond to shrink by 70% YTD to 0.6% (10 year average is 1.5%). The narrow yield spread induced more fund outflows from Malaysia, in turn weakening the MYR against the USD.
- 2 Rising geopolitical tensions:** During the week, geopolitical tensions intensified as gas pipelines leading from Russia into other European countries were rumoured to be sabotaged. The pipeline damage will likely prolong the the absence of gas exports into Europe from Russia which was halted in Early Sept-22. We expect regional markets to trade cautiously until this resolves. The United Nations (UN) Security Council is expected to meet on Friday to discuss the matter.
- 3 Gas supply worries:** We remain invested in a local gas producer as global gas supply tightens. The Australian Government signed a deal with its local gas suppliers to ensure Australians will have reliable and affordable gas supply. This comes as fears of gas shortages mount, stemming from a potential shortage in Europe as we approach winter. However, this would only be an issue if Europe experiences a harsher than usual winter. We are invested to benefit from higher regional gas prices.
- 4 Technology Demand Slowdown:** We reiterate our Underweight call on the Technology sector as macro headwinds persist. TSMC (the global leader in chip manufacturing) indicated that 2023 orderbooks had been cut. Similarly, its key customer Apple Inc. ditched its plan to increase production of the new iPhone 14 as demand weakened. Micron also guided on a demand slowdown for 4Q22. We expect the weakness to have a spillover effect to other companies within the supply chain.
- 5 Construction foreign labour shortage:** We trim our holdings in the construction sector as labour shortages persist and macro headwinds mount. Construction associations have urged the PM to intervene with the prolonged labour shortage. The issue coupled with work delays from COVID, higher material prices and interest rates are forcing contractors to prematurely terminate their contracts. We expect these headwinds and the upcoming elections to weigh on the sector's outlook.
- 6 Consumer:** We are bullish on consumer staples as their products have more resilient demand. We prefer Malaysia's consumer staples over consumer discretionary as people tend to down trade and spend on necessities during economic downturn. We favour low gearing companies that export their products as their earnings will benefit from stronger USD and are less impacted by higher interest rate.

# MALAYSIA & REGIONAL (cont')

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**Valuation:** KLCI valuations are more attractive after falling from the fear of recession. We maintain our view that the KLCI continues to remain cheap at a 2022 price-earnings ratio ("PER") of 13.51x (-1.5 standard deviation, below its 5Y average of 16.06x). Its price-to-book ratio of 1.36x (below the 5Y average of 1.54x), dividend yield of 4.38% (above its 5Y average of 3.65%).

# MALAYSIA MARKET REVIEW

Markets weighed down by aggressive Fed rate hike trajectory

Exhibit 1: KLCI vs Shariah Index

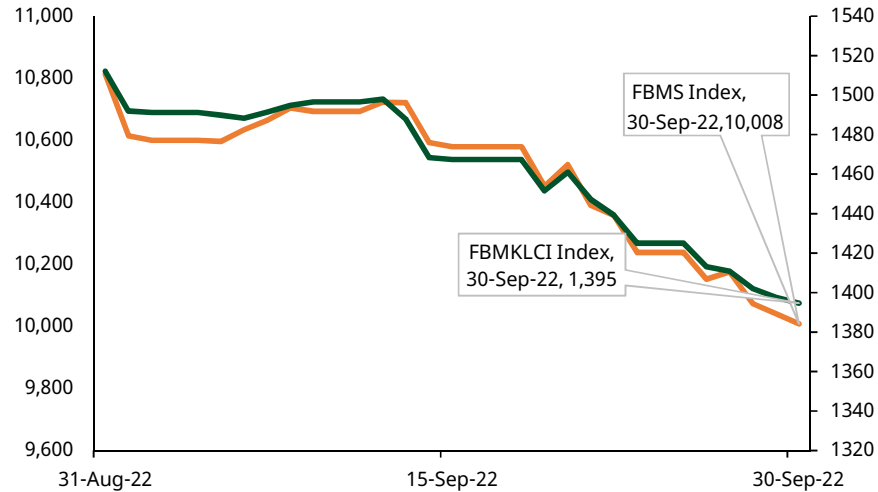


Exhibit 2: USDMYR

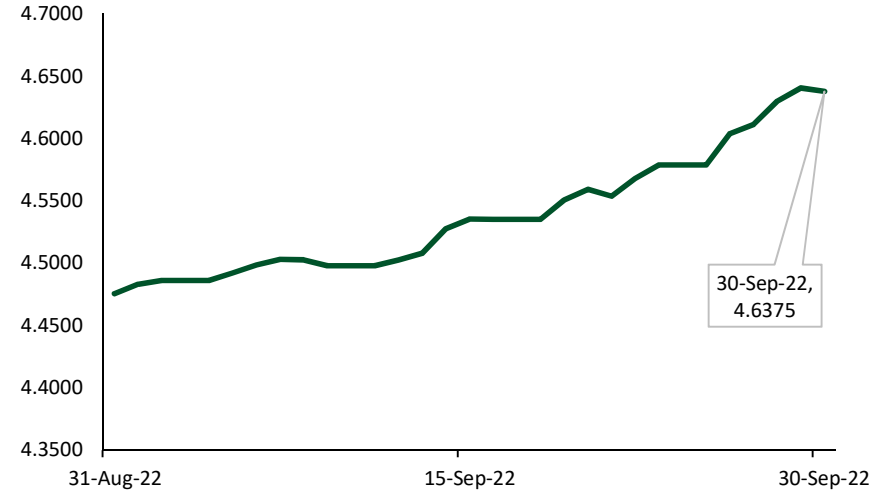


Exhibit 3: Sector Performances Week-to-Date (%)

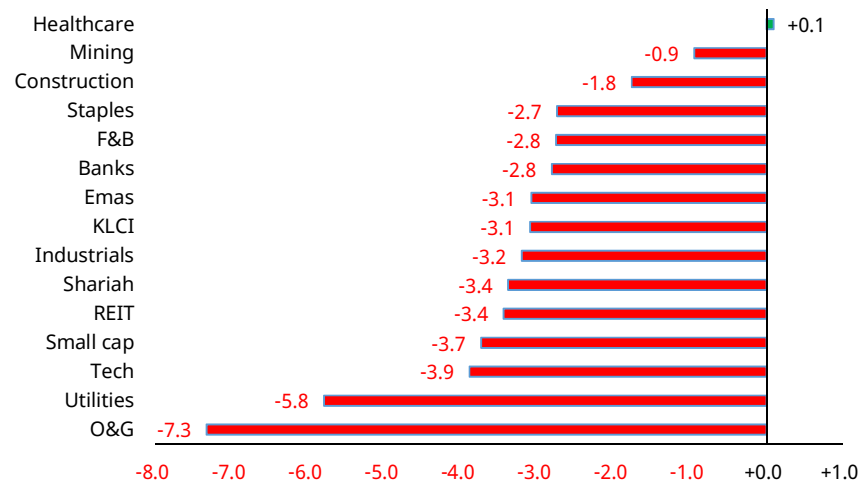
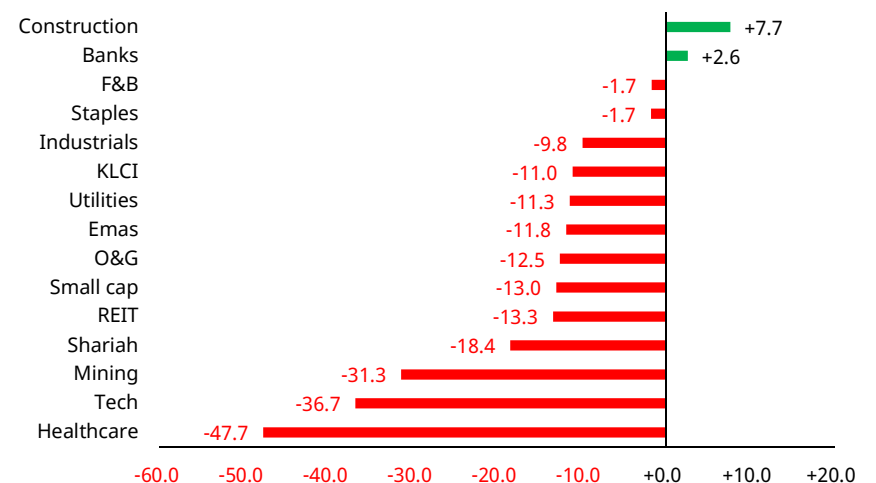


Exhibit 4: Sector Performances Year-to-Date (%)



Source: Bloomberg

# MALAYSIA VALUATIONS

Remains attractive historically and versus the region

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

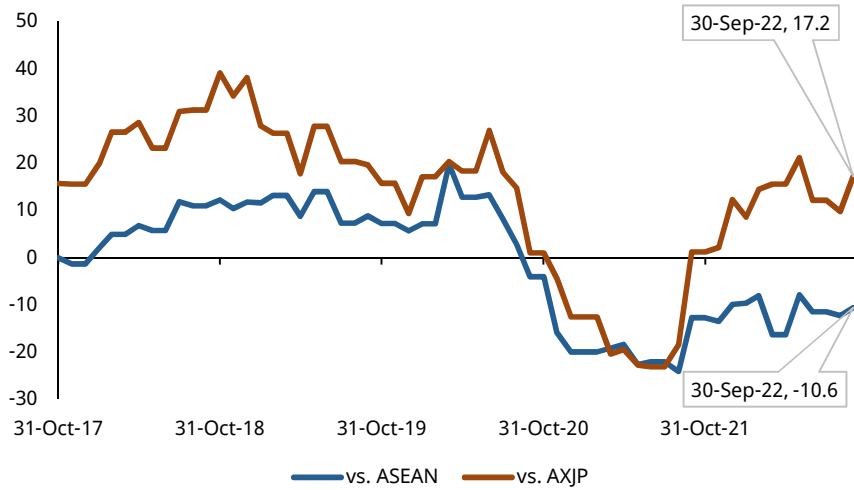


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

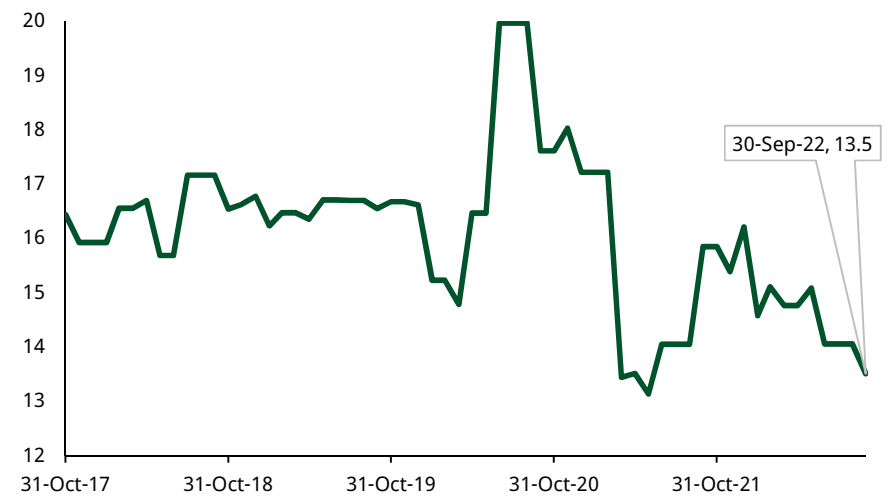


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

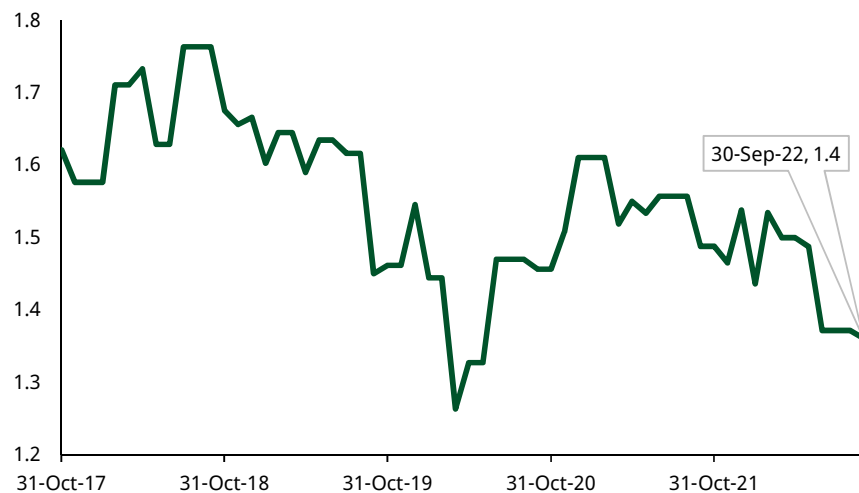
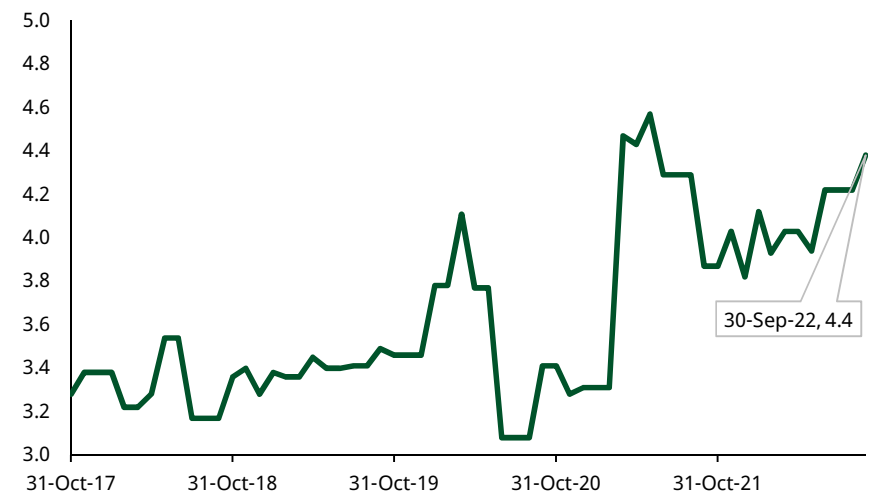


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

# REGIONAL MARKETS REVIEW

Markets weighed down by aggressive Fed rate hike trajectory

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

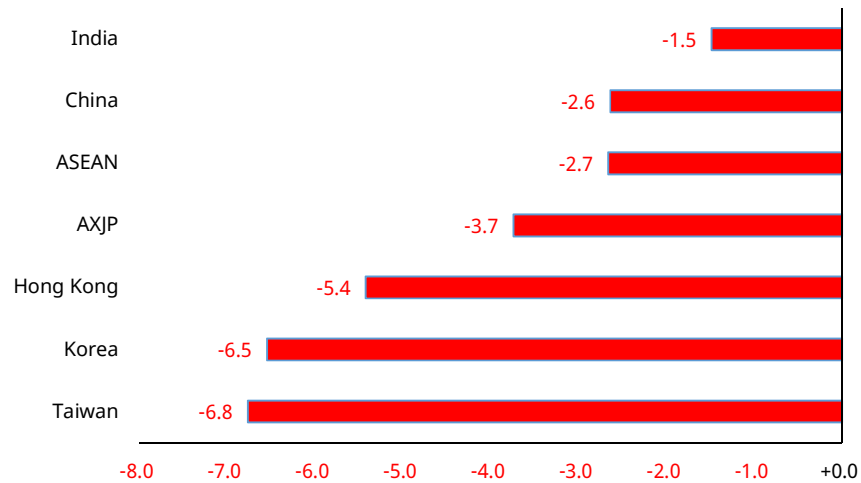


Exhibit 2: Country Performances Year-to-Date (%)

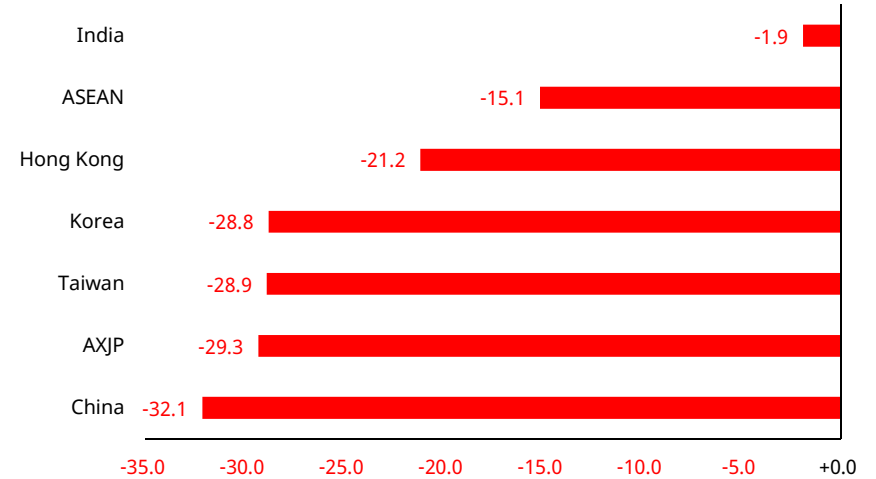


Exhibit 3: Sector Performances Week-to-Date (%)

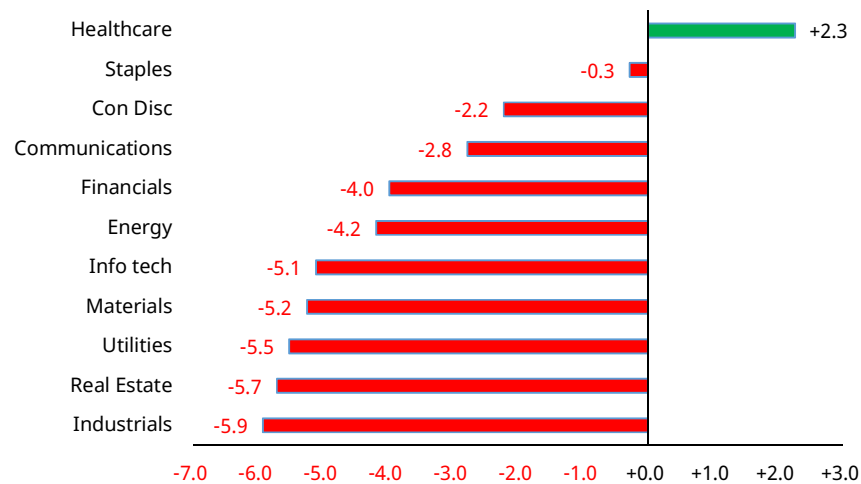
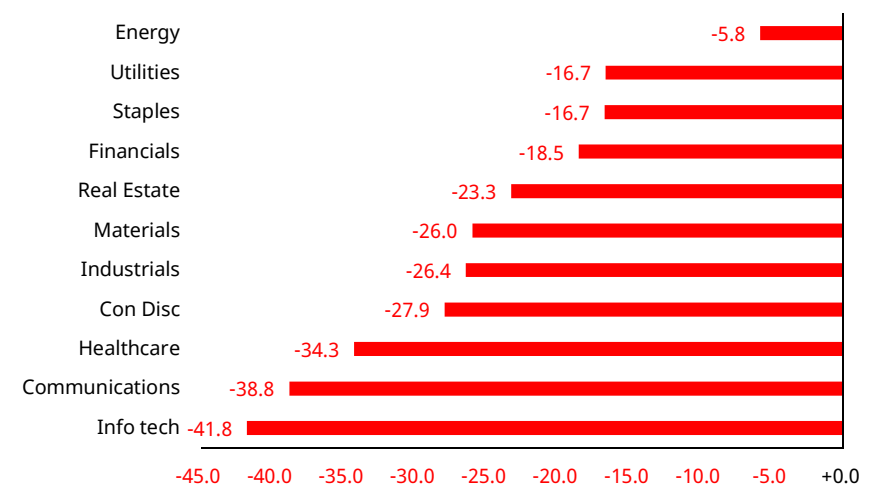


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

# REGIONAL VALUATIONS

Markets weighed down by aggressive Fed rate hike trajectory

Exhibit 5: Regional Price-Earnings Ratio (x)

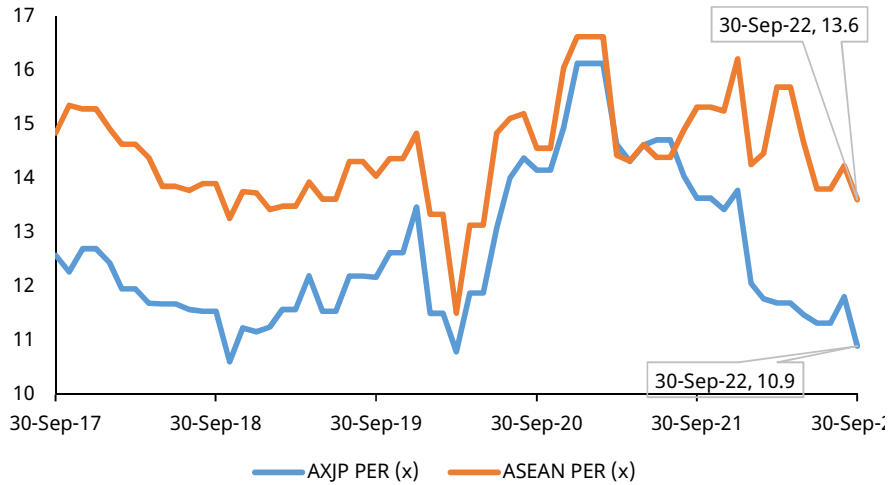


Exhibit 6: Regional Price-to-Book Ratio (x)

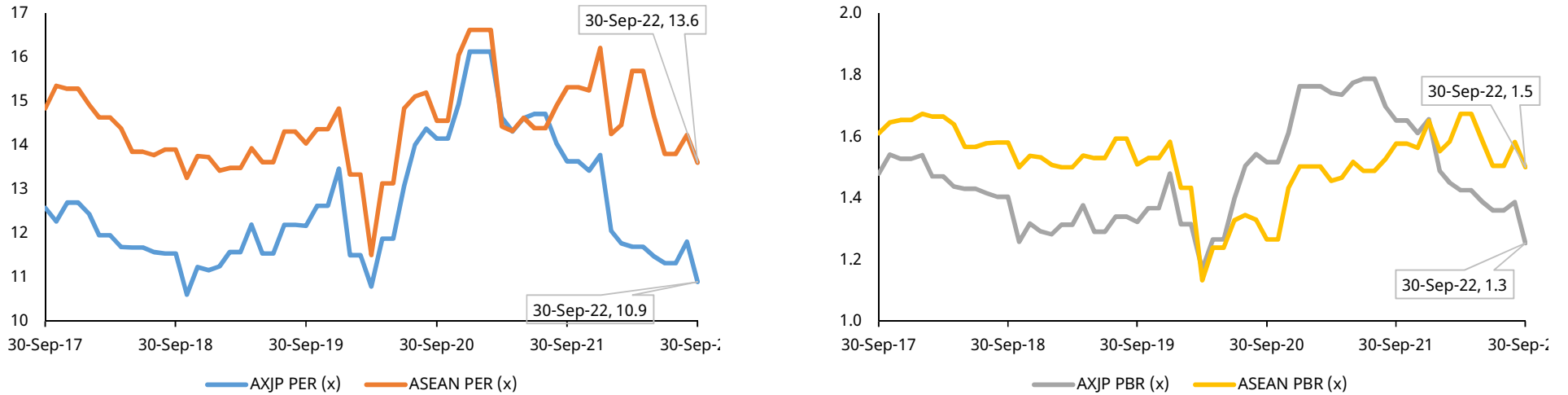


Exhibit 7: Regional Dividend Yield (%)

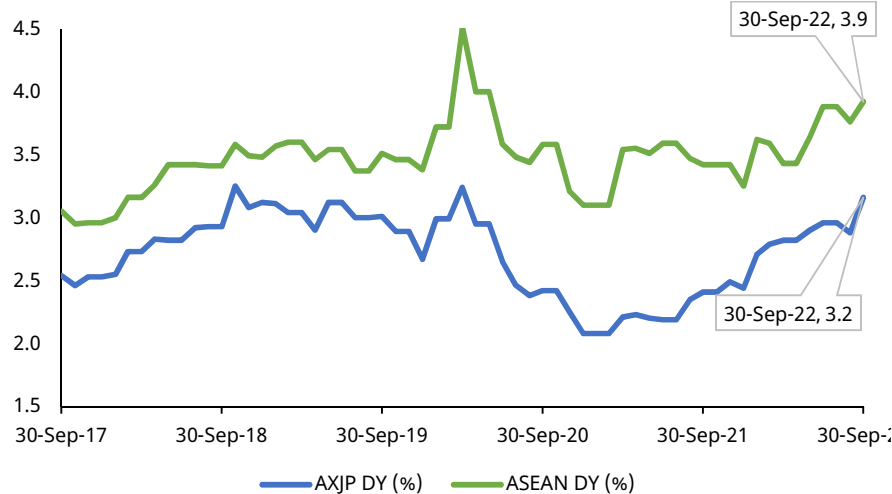
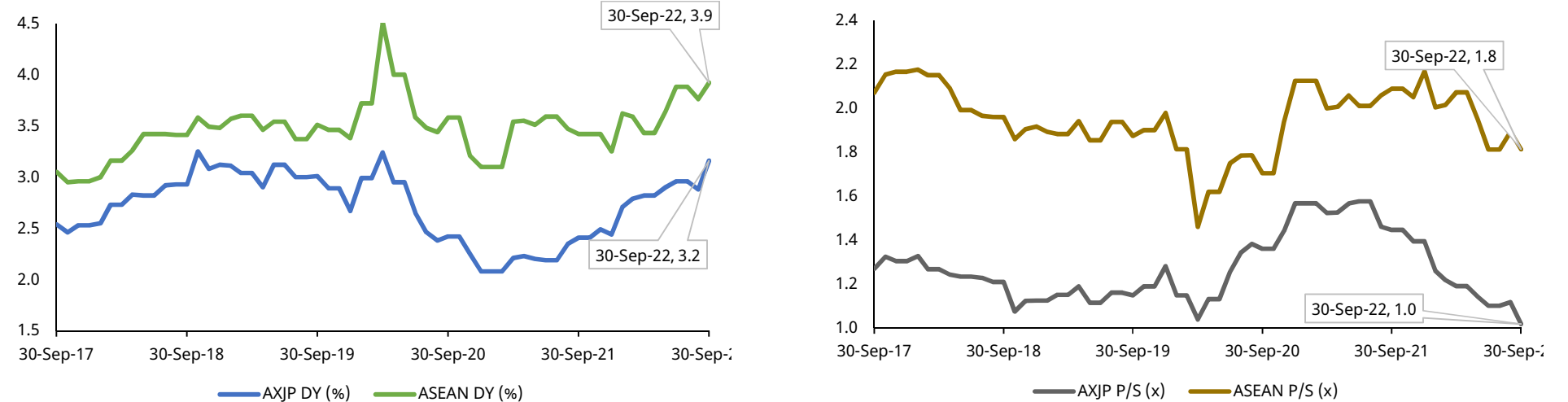


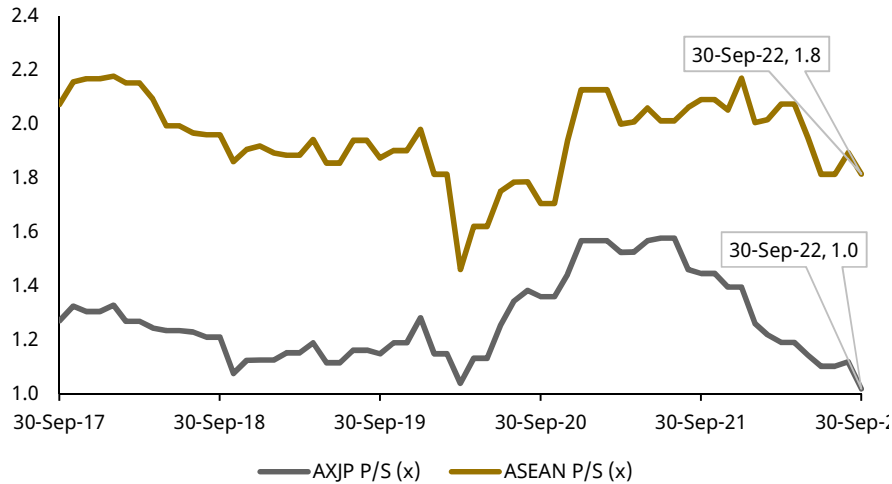
Exhibit 8: Regional Price-to-Sales (x)



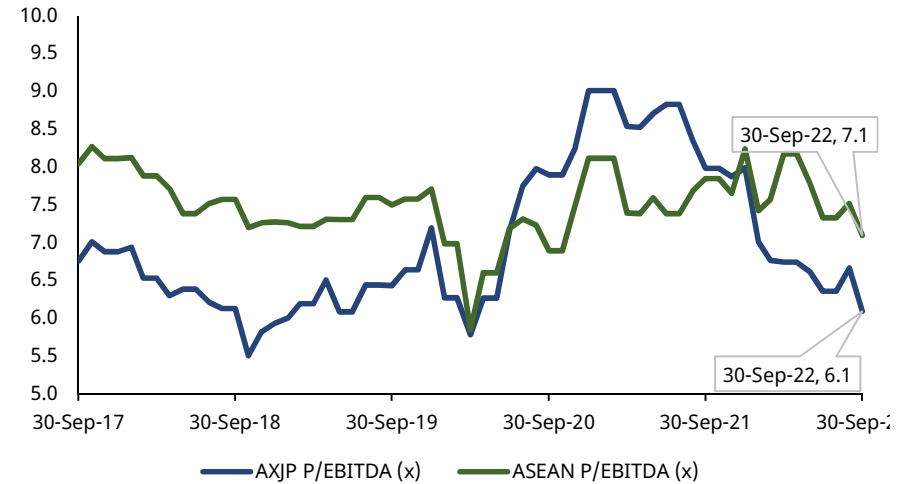
Source: Bloomberg

# Asian Markets: Valuation (cont')

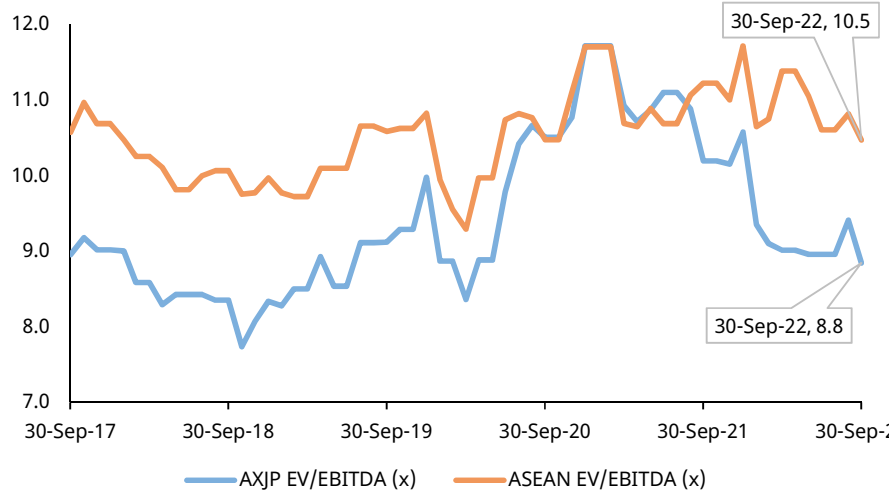
Regional Price-to-Sales Ratio (x)



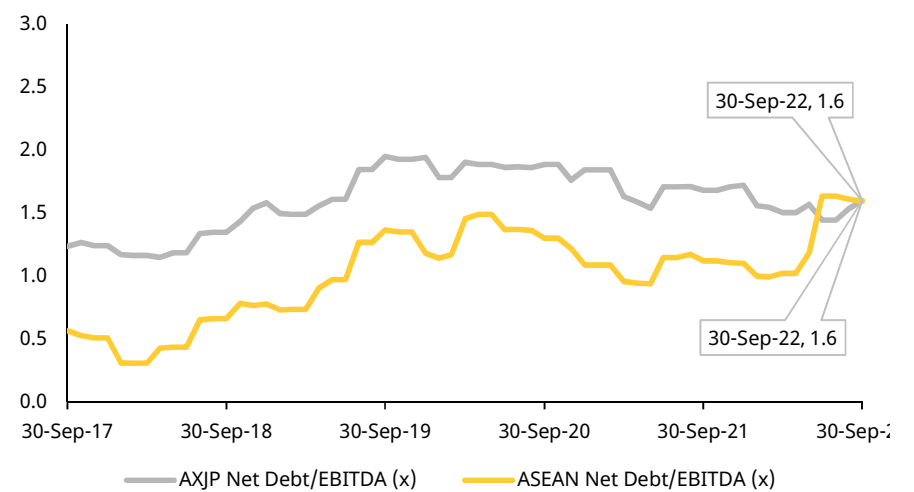
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)



Source: Bloomberg



# 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)

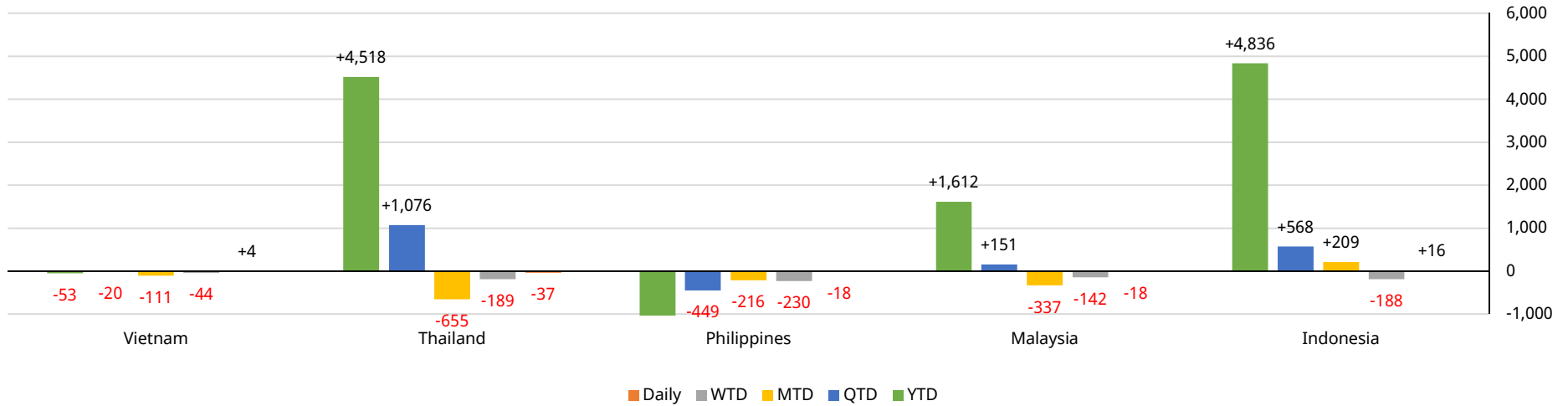
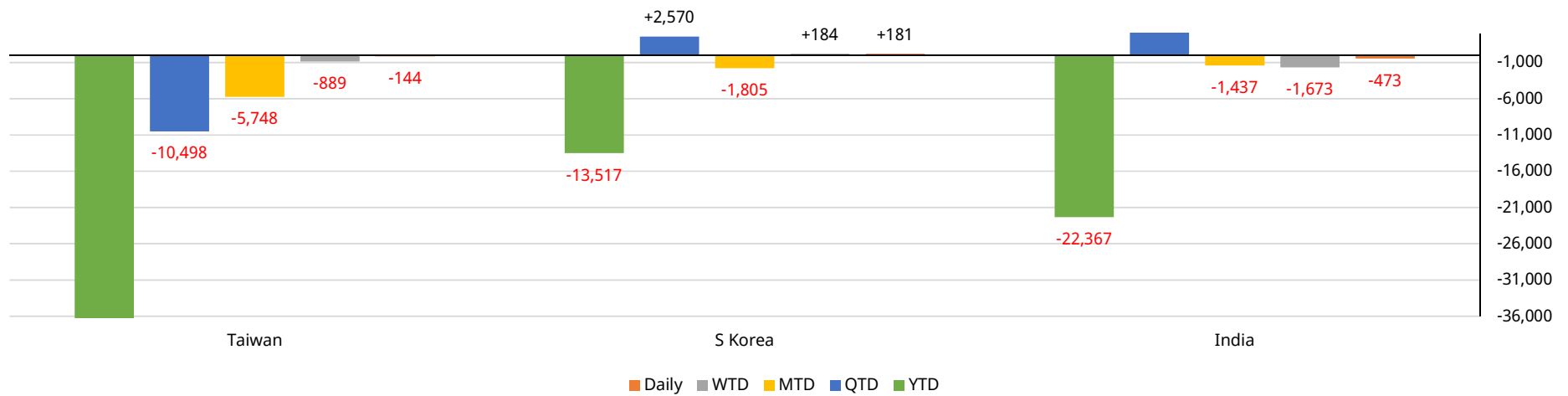


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



Source: Bloomberg

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