

Portfolio Managers' Views

19 December 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (12 Dec - 16 Dec 2022) & Our Managers' Views

- 1 Federal Reserves (Fed):** Last week, the Fed raised rates by another 50bps to 4.5%. Moreover, the Fed also raised their 2023 terminal rate forecast from 4.6% to 5.1%. Aggressive rate hikes continue to weigh on the US and Malaysia stock markets. Given the latest Fed's statements and expectations of the economy slowing down in 2023, markets may trade range bound in the coming months.
- 2 Palm Oil:** We remain invested in the plantation sector as they offer decent dividend yields when CPO prices trade at RM4,000/ton and above. The Malaysian Palm Oil Board reported that Malaysia's palm oil inventory in Nov-22 decreased by 5% MoM to 2.3mil tons due to lower-than-expected production. We expect Malaysia's palm oil inventory to decrease further in 1Q23 due to the low production season and higher demand as China reopens.
- 3 2023 Brent Oil price supported at \$90/bbl:** We attended a call with an oil market analyst from a top foreign brokerage firm. She forecasts that the fair value of oil is \$84/bbl, based on a mild surplus of 0.7mbpd. However, she believes actual prices will be \$90/bbl as she expects (1) the US to replenish its Strategic Petroleum Reserves and (2) OPEC to cut 400kbpd of production by Feb-23. We concur with her views and maintain our price target of \$90/bbl in 2023.
- 4 China Tech Incentives:** Reuters reported that China is prepared to offer a \$147bil incentive package for China chip firms. We believe this will incentivise further capex spending in China as they look to grow their local semiconductor ecosystem. This is positive for local tech firms that are exposed to China's front end capex market. However, we maintain our Underweight call on the sector given the high valuations and the current industry down cycle.
- 5 Glove industry bottoming out:** We attended TopGlove's investor briefing. Management guided that they expect to still make losses for 1QCY23, with recovery only to come in 3QCY23. This is predicated on a slower rate of ASP declines, low distributor inventories and lower capacity expansions by industry players. They also highlighted the rising threat of competitors from China. We are not invested in the gloves but we believe that the worst in the sector is likely behind us.
- 6 Valuation:** KLCI valuation increased WoW, as market volatility increased after the hike of Federal Reserves Rate and forecasted a higher terminal rate. We maintain our view that the KLCI continues to remain cheap at a 2022 price-earnings ratio ("PER") of 14.5x (-1.0 standard deviation, below its 5Y average of 16.1x). Price-to-book ratio and dividend yields are also attractive at 1.5x (below the 5Y average of 1.55x) and 4.1% (above its 5Y average of 3.6%).

MALAYSIA MARKET REVIEW

Volatile market due to hawkish Fed. Defensive sectors outperformed in WTD.

Exhibit 1: KLCI vs Shariah Index

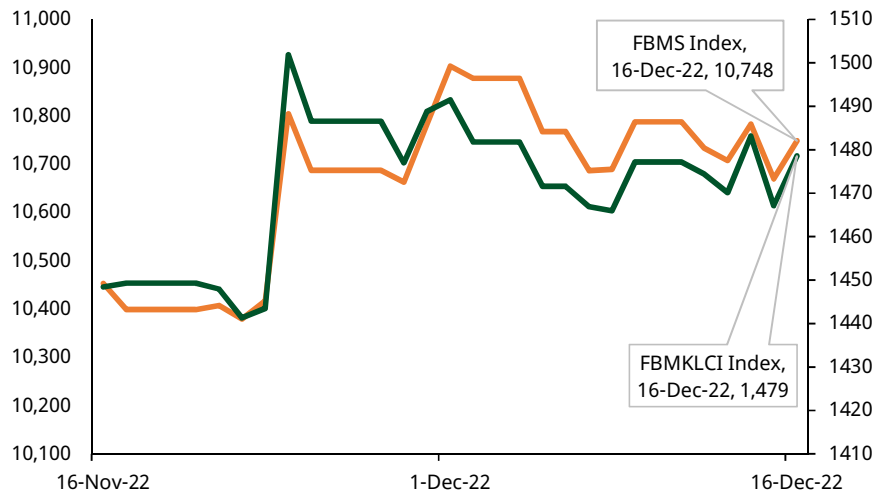


Exhibit 2: USDMYR

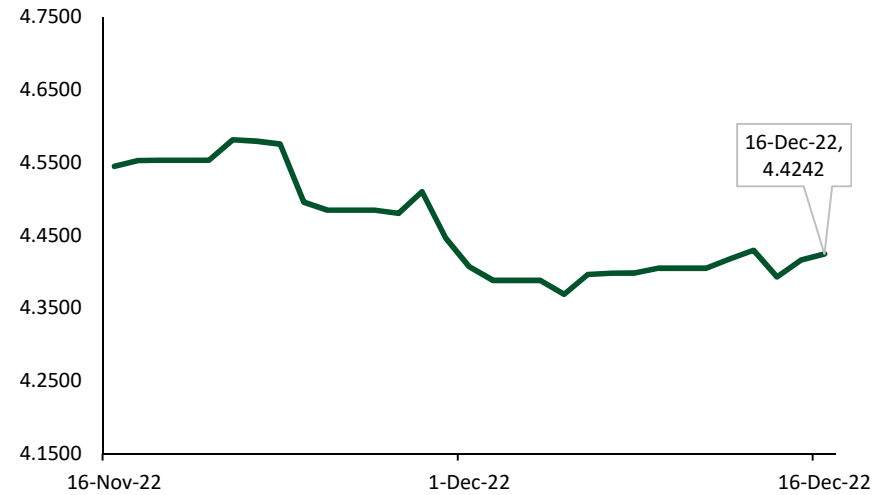


Exhibit 3: Sector Performances Week-to-Date (%)

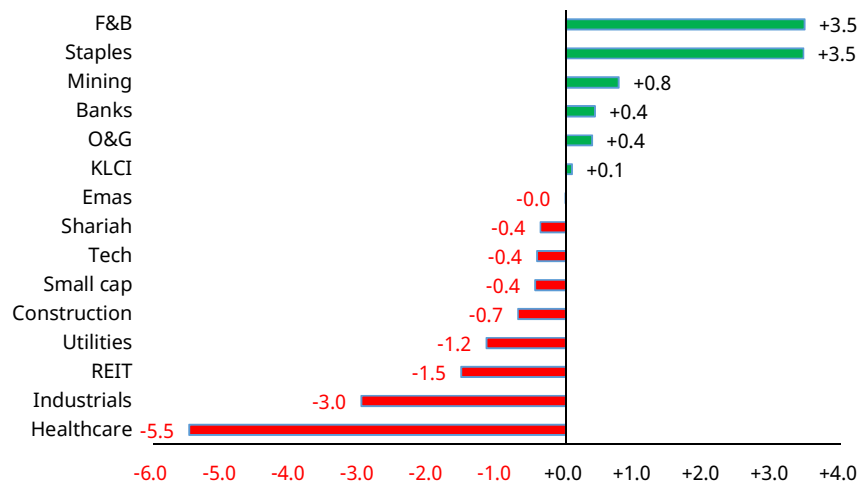
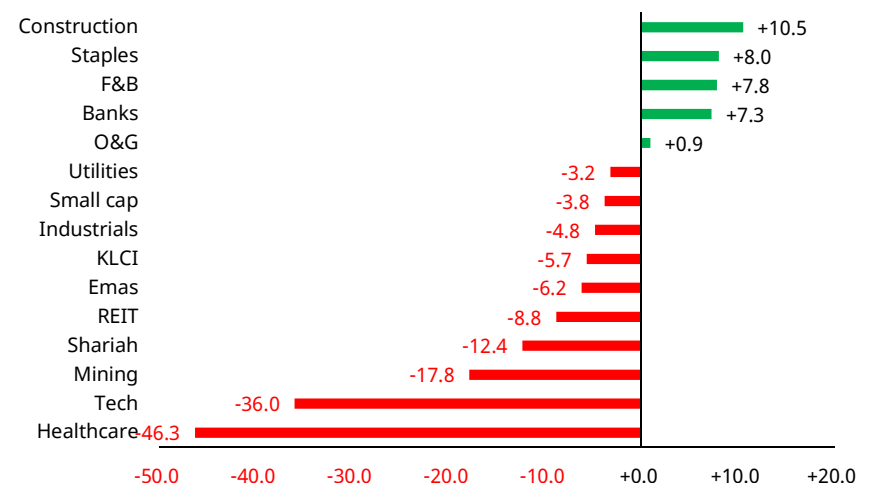


Exhibit 4: Sector Performances Year-to-Date (%)



MALAYSIA VALUATIONS

Malaysia remains in BUY territory

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

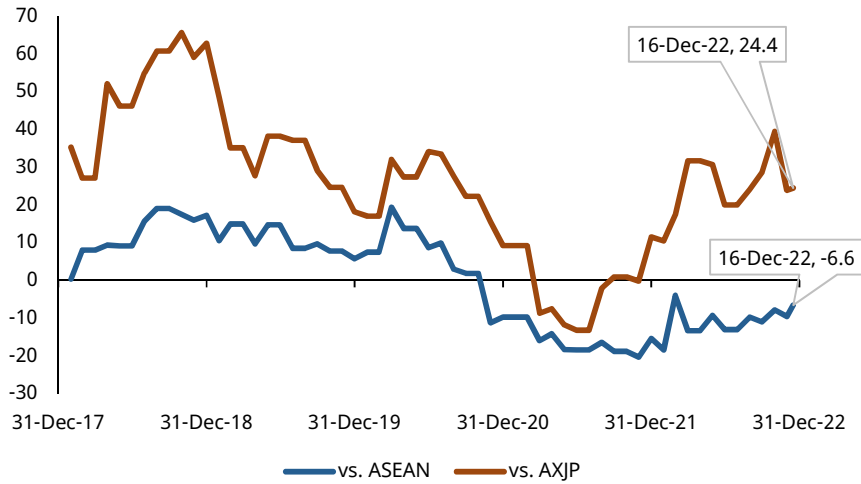


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

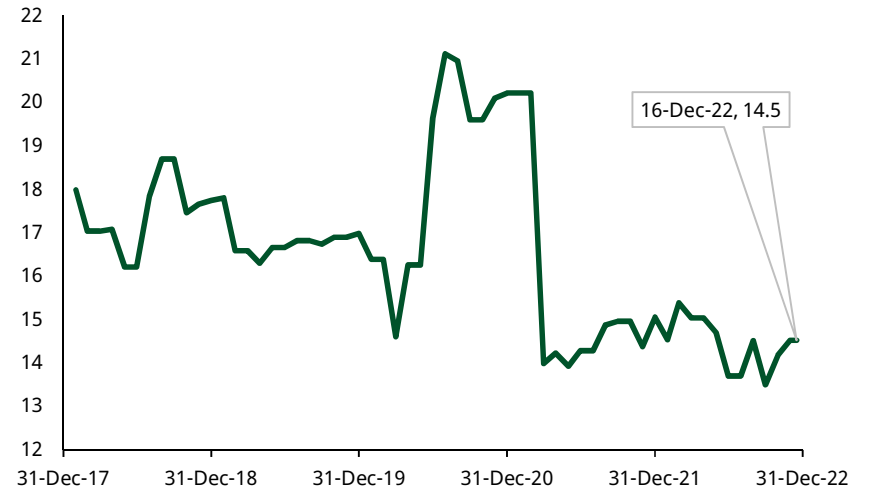


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

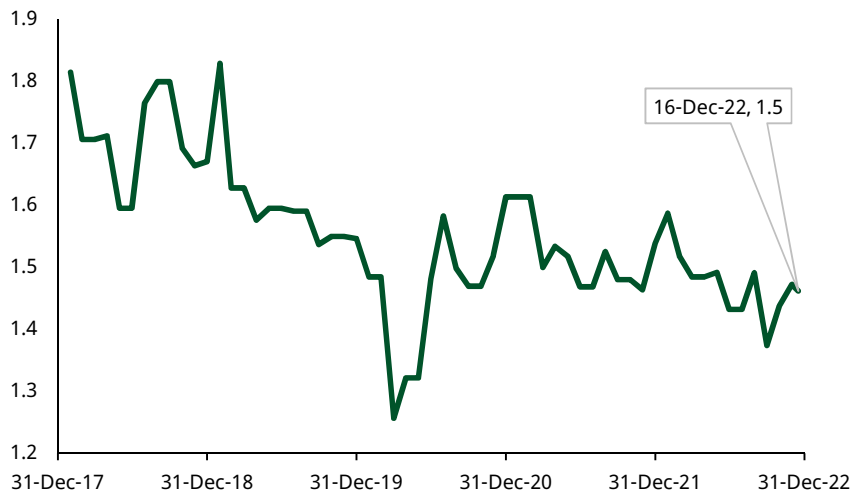
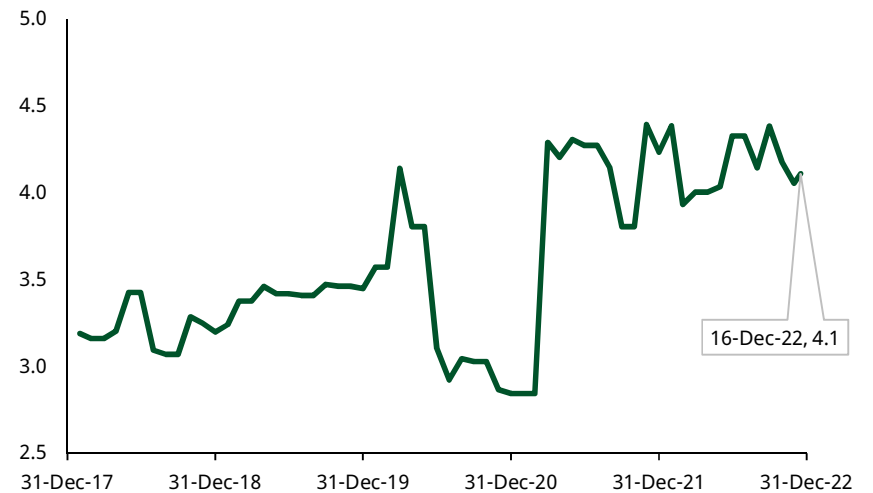


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

India outperformed other Asia Ex-Japan countries

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

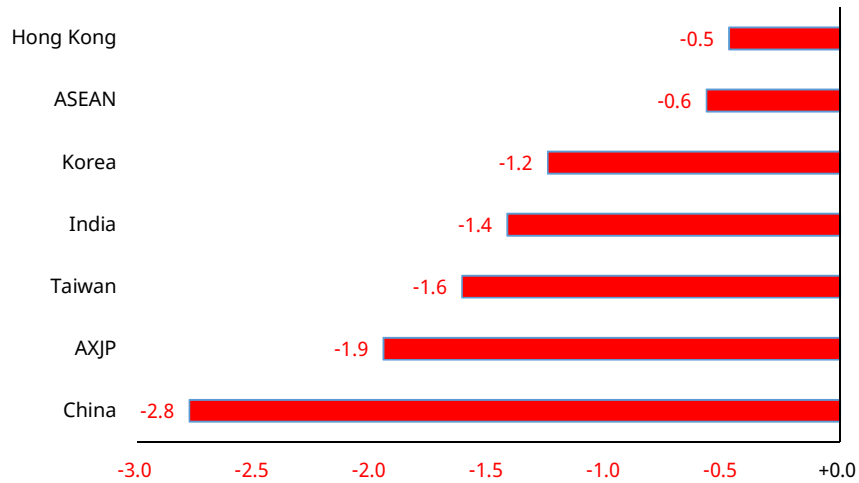


Exhibit 2: Country Performances Year-to-Date (%)

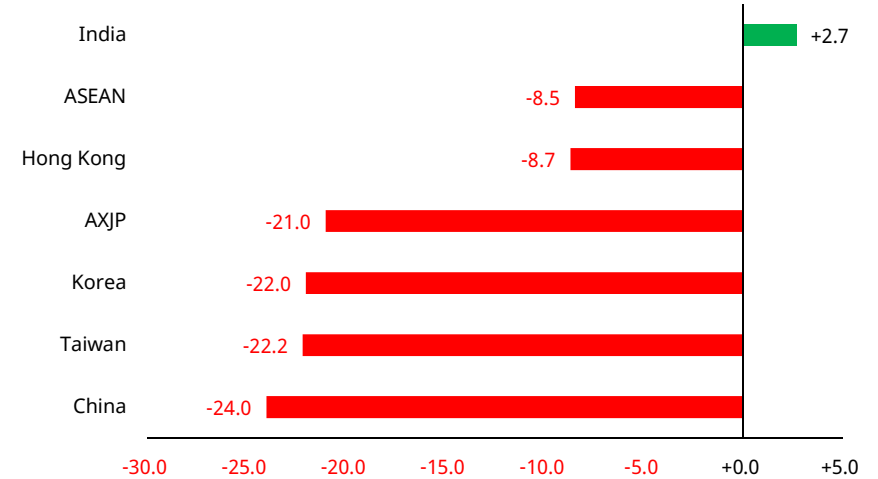


Exhibit 3: Sector Performances Week-to-Date (%)

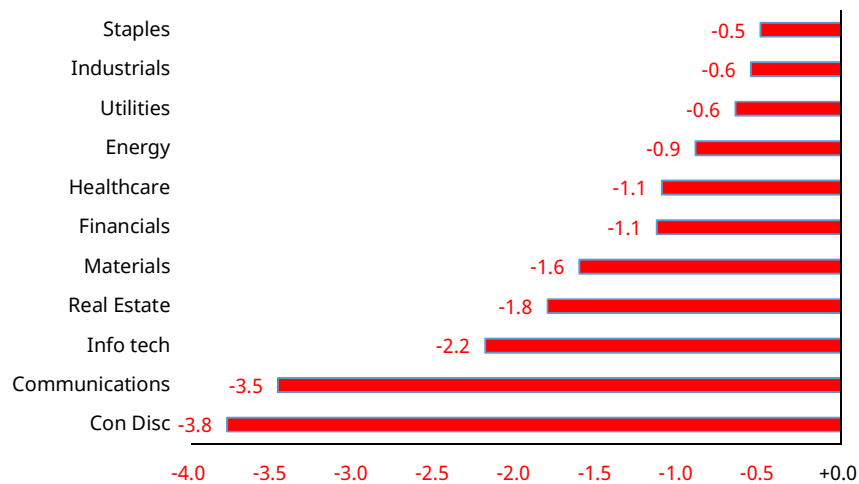
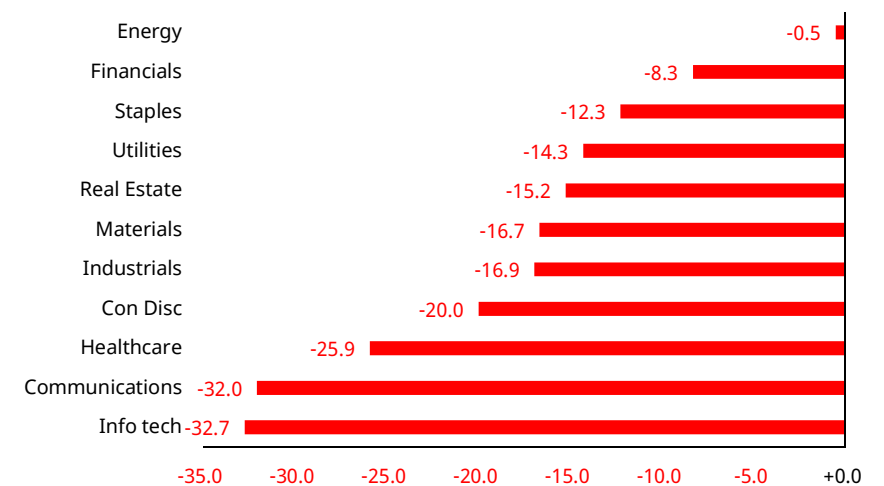


Exhibit 4: Sector Performance Year-to-Date (%)



REGIONAL VALUATIONS

Asian valuations remain attractive

Exhibit 5: Regional Price-Earnings Ratio (x)

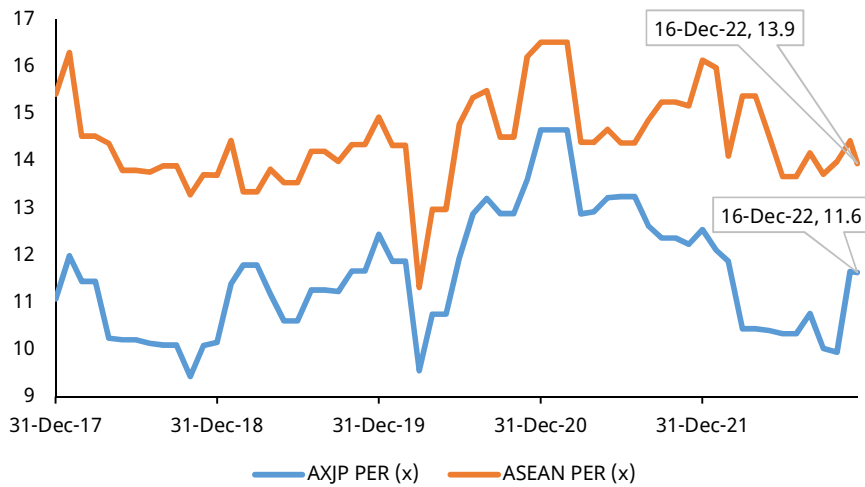


Exhibit 6: Regional Price-to-Book Ratio (x)

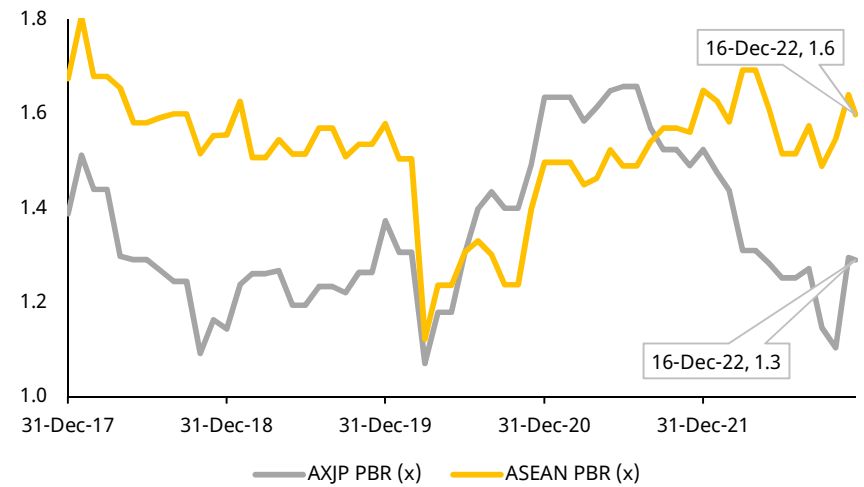


Exhibit 7: Regional Dividend Yield (%)

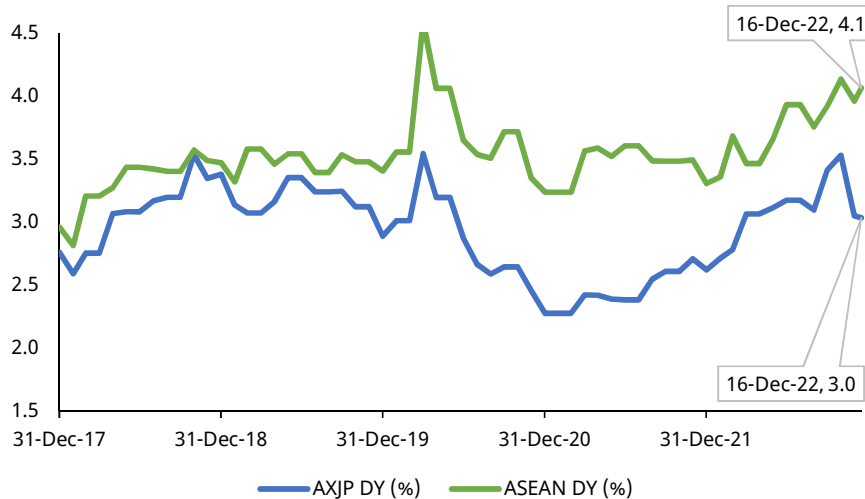
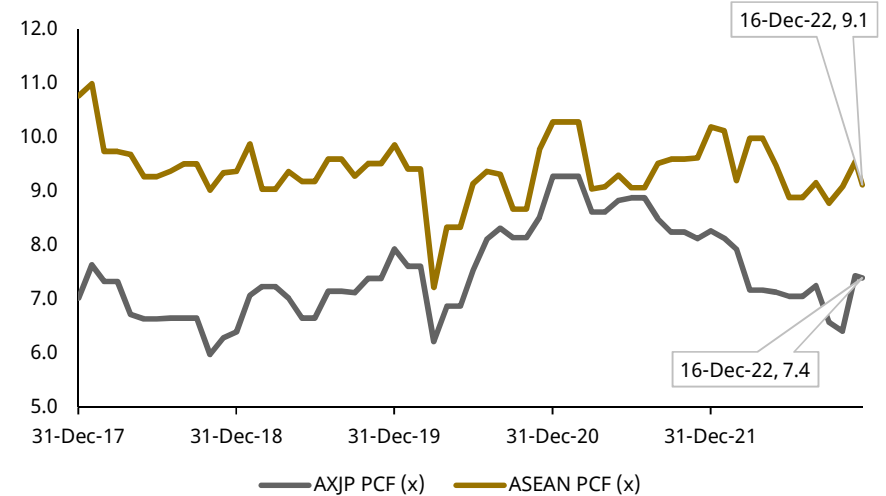


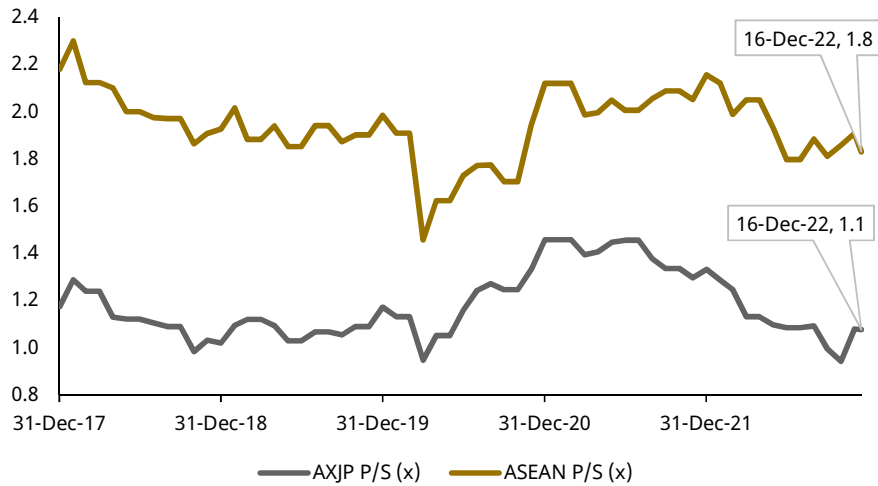
Exhibit 8: Regional Price-to-Cash Flow (x)



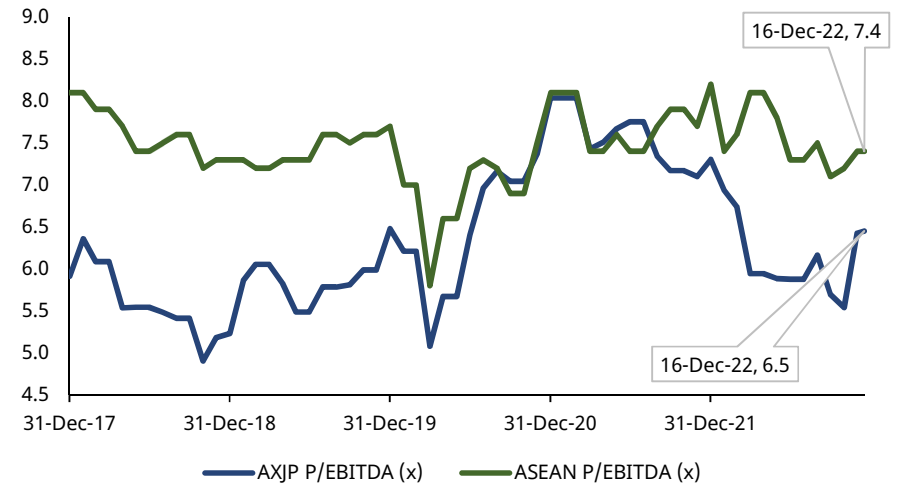
REGIONAL VALUATIONS

Asian valuations remain attractive

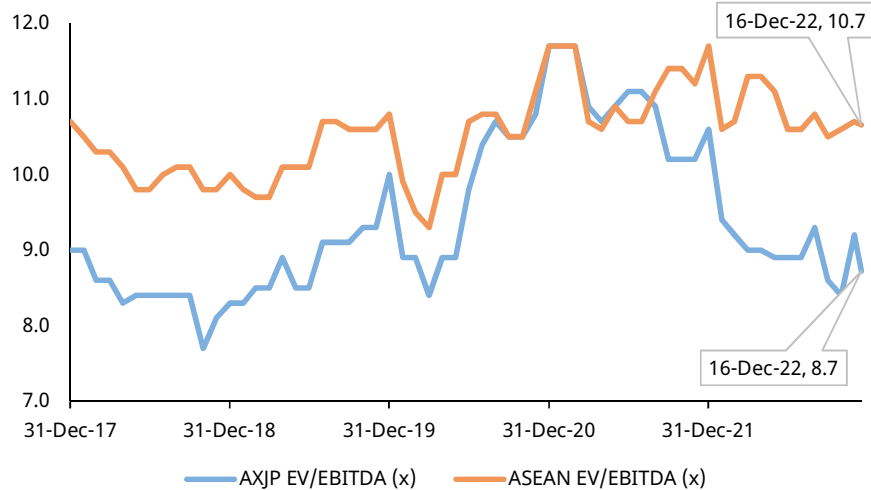
Regional Price-to-Sales Ratio (x)



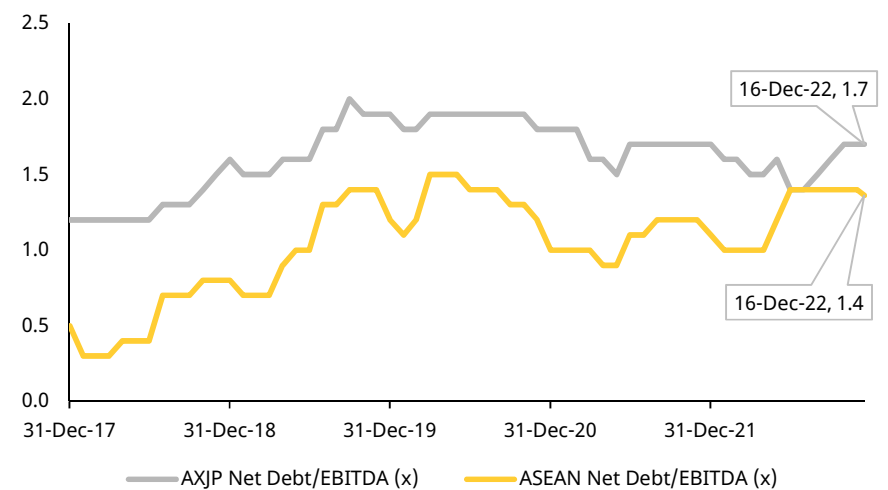
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)



Source: Bloomberg

FOREIGN FUND FLOWS

We see rotation from ASEAN to the North Asian markets

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

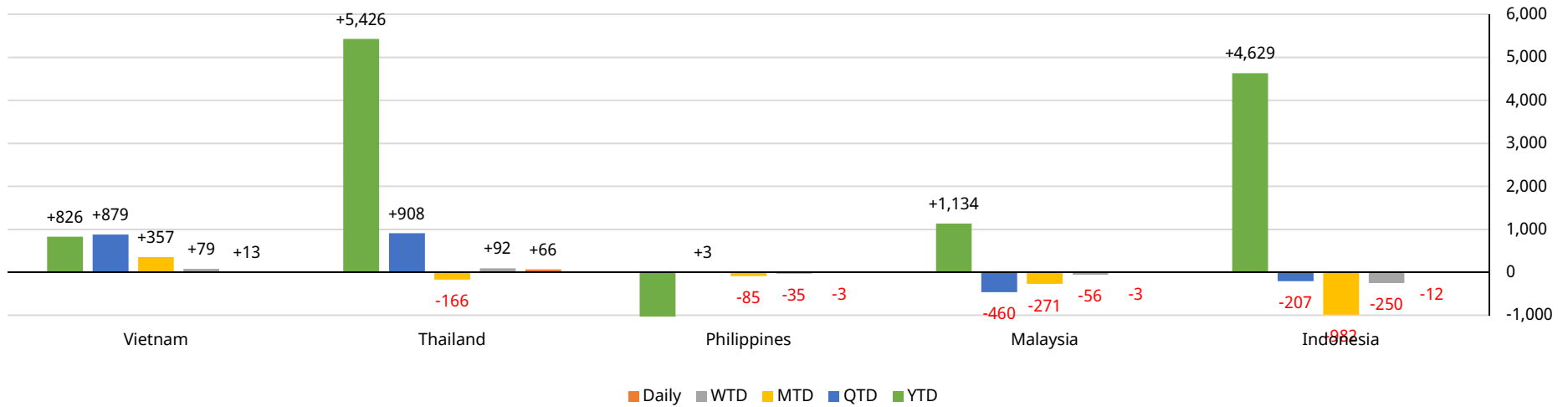
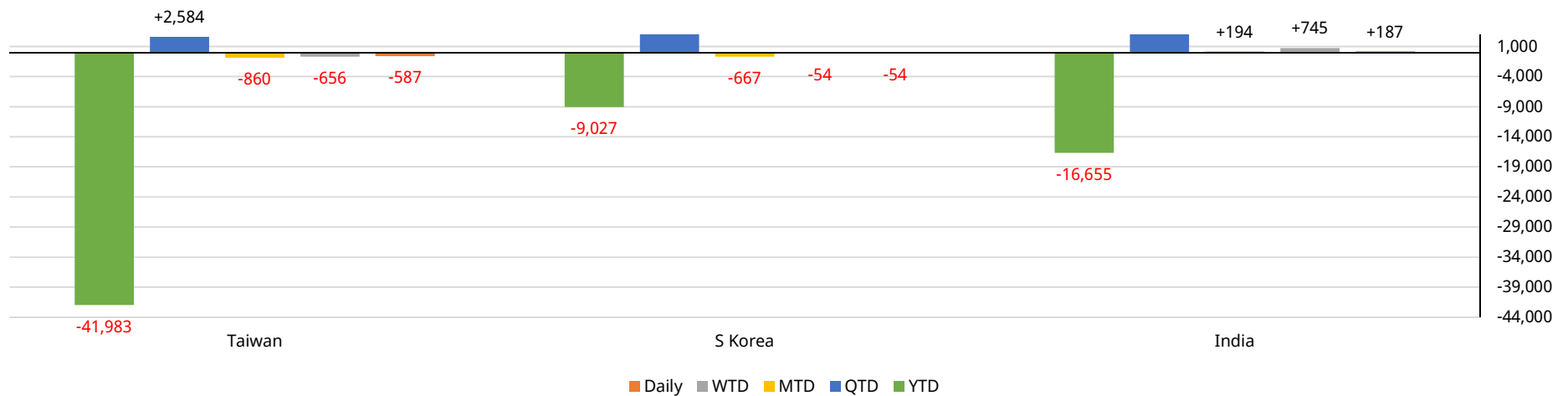


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



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