

Portfolio Managers' Views


09 January 2023
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (2-6 January 2023) & Our Managers' Views

- 1 Natural Gas:** Natural gas prices fell from \$7/mbtu to \$3.6/mbtu (-48%). These are levels not seen since the Russia-Ukraine war broke out in Feb-22. The decline came after expectations of a gas shortage subsided as countries are experiencing a warmer than expected winter season. The lower prices will help curb inflation as natural gas is commonly used in industrial activity and agriculture for power generation and as a precursor to fertiliser respectively.
- 2 Crude Oil:** During the week, Brent Oil price declined by 8% to \$79/bbl. According to a Bloomberg article, the weakness can be attributed to recession worries in developed markets, oil traders exacerbating downward momentum and resurgence of China's covid cases. At this juncture, we maintain our \$90/bbl average for 2023, supported by further OPEC production cuts and US-driven demand to replenish oil reserves.
- 3 Plantation:** Based on a broker's report, merger and acquisition activities will increase as the valuations of small and medium-sized planters are lower than the average replacement costs of old palm oil plantations. As the plantation companies we are invested in are in net cash position, they are more likely to target the acquisition of smaller planters in order to increase their earnings and dividends. Meantime, our holdings offer above-market dividend yields.
- 4 China Reopening:** One of the key pivots in our recent regional strategy materialised after China reopened its borders for travel. With travel restrictions in other Greater China (i.e. Hong Kong and Macau) and South East Asian countries relaxing as well, we expect travel and consumer-related sectors to do well. Our regional funds are invested in a range of travel technology, leisure and consumer services and product stocks that will benefit from the reopening.
- 5 US Interest Rates:** The Institute of Supply Management services index fell 6.9 pct-pt to 49.6 in Dec-22 from 56.5 in Nov-22. The Dec reading was the first time that the index fell into contractionary territory (below the 50-point threshold) since May-20. This points to peak US interest rates cycle and was positive for US markets last Friday. Peak to lower interest rates going forward will benefit growth sectors like technology. Our regional portfolios are positioned in this sector across the region.
- 6 Valuation:** KLCI valuations decreased WoW due to fear of recession. We maintain our view that the KLCI continues to remain cheap at a 2023 price-earnings ratio ("PER") of 14.4x (-1.0 standard deviation, below its 5Y average of 16.1x). Price-to-book ratio and dividend yields are also attractive at 1.4x (below the 5Y average of 1.55x) and 4.3% (above its 5Y average of 3.6%).

MALAYSIA MARKET REVIEW

Fear of recession weighed on the local market

Exhibit 1: KLCI vs Shariah Index

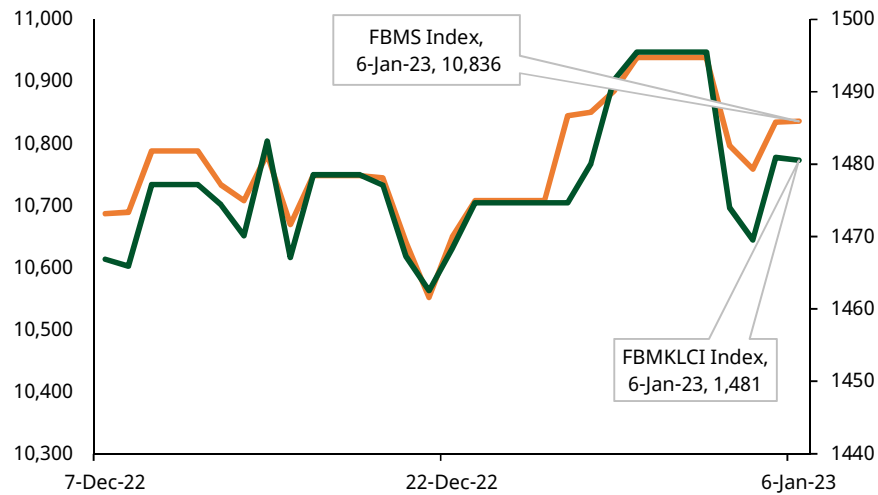


Exhibit 2: USDMYR

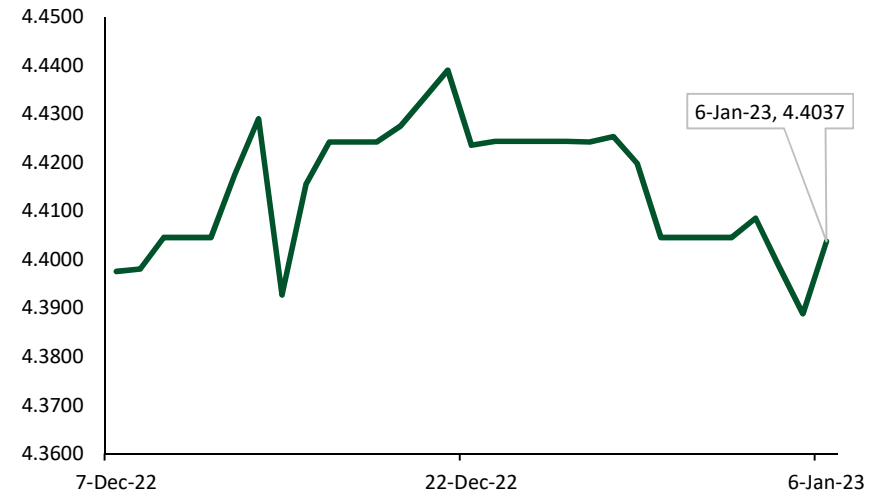


Exhibit 3: Sector Performances Week-to-Date (%)

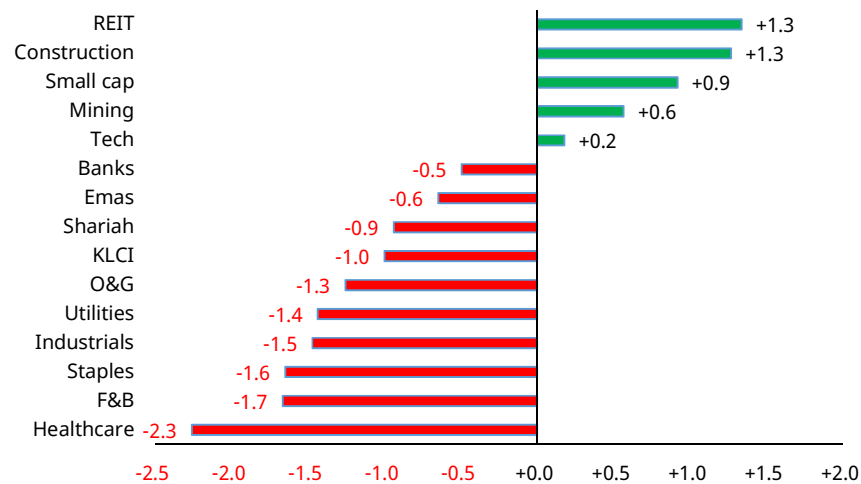


Exhibit 4: Sector Performances Year-to-Date (%)



MALAYSIA VALUATIONS

Malaysia remains in BUY territory

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

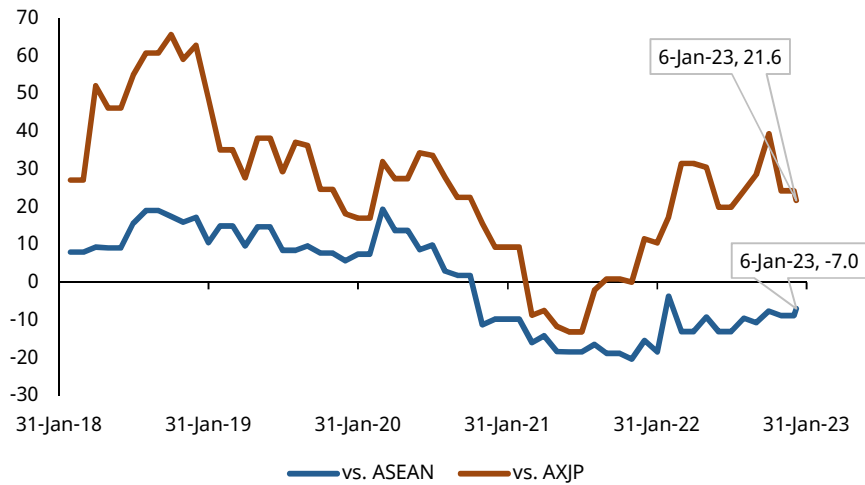


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

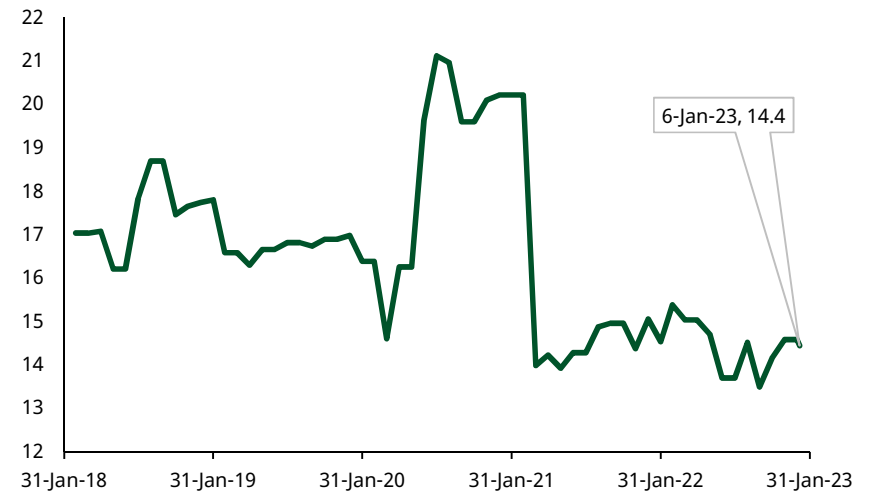


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

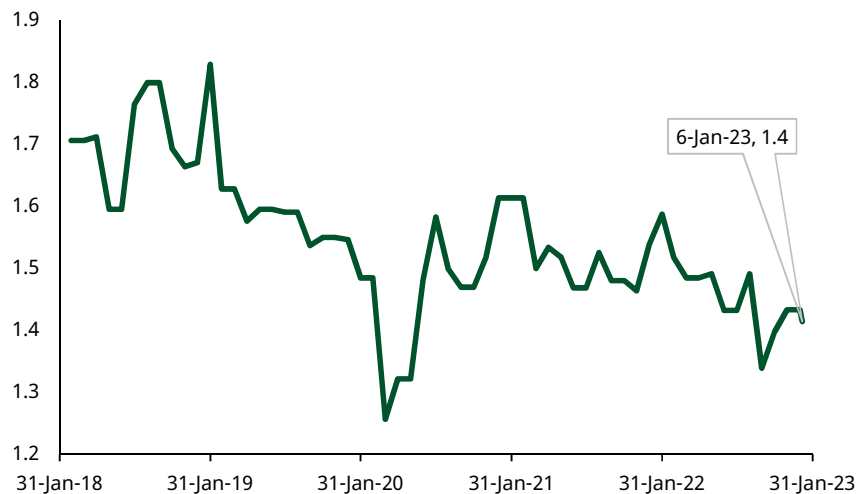
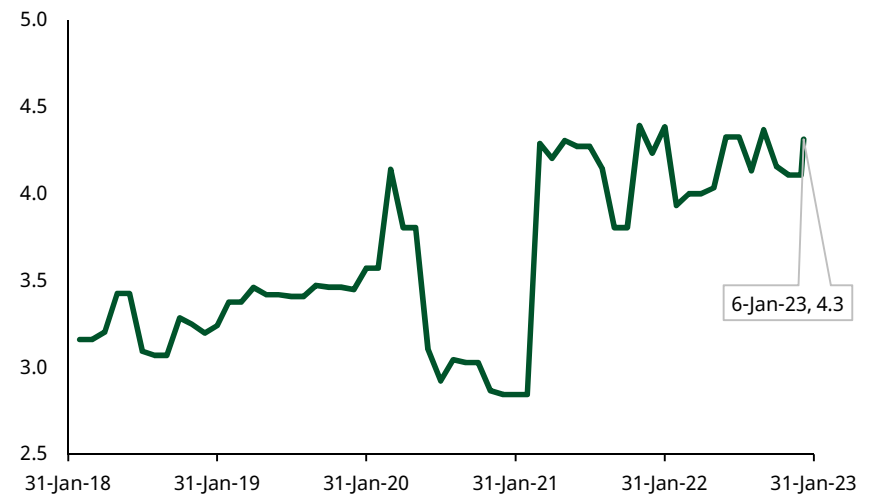


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

The China reopening theme drove regional markets higher

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

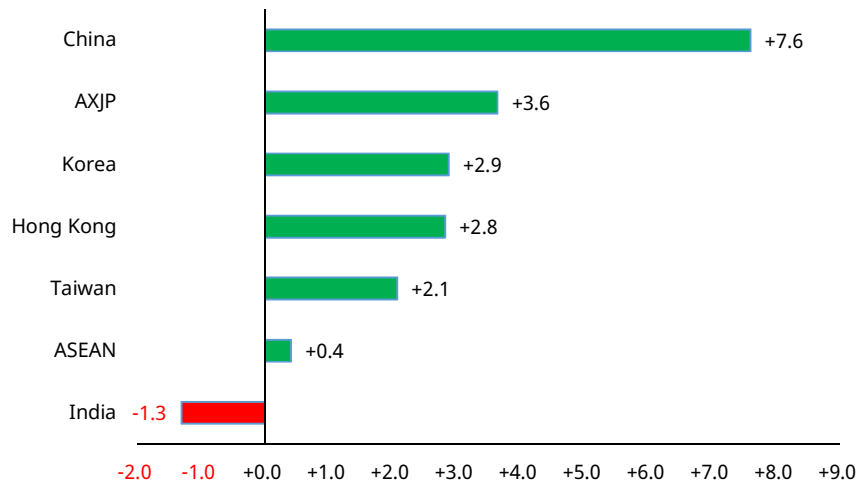


Exhibit 2: Country Performances Year-to-Date (%)

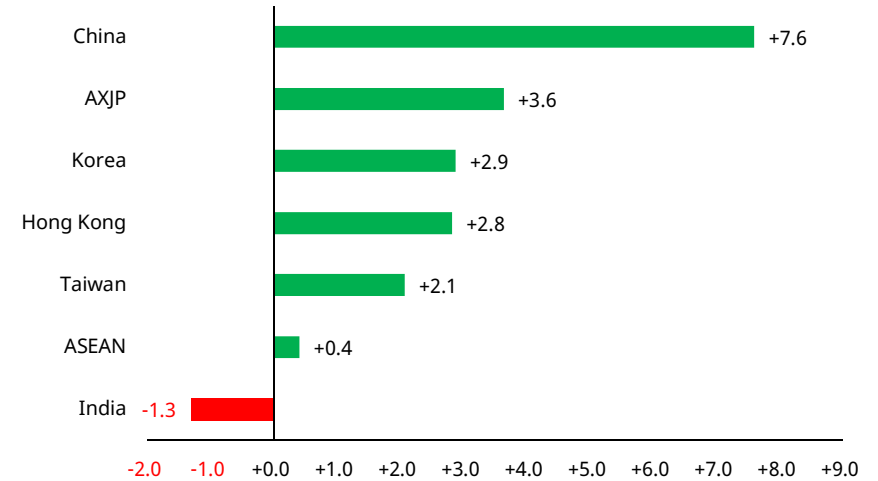


Exhibit 3: Sector Performances Week-to-Date (%)

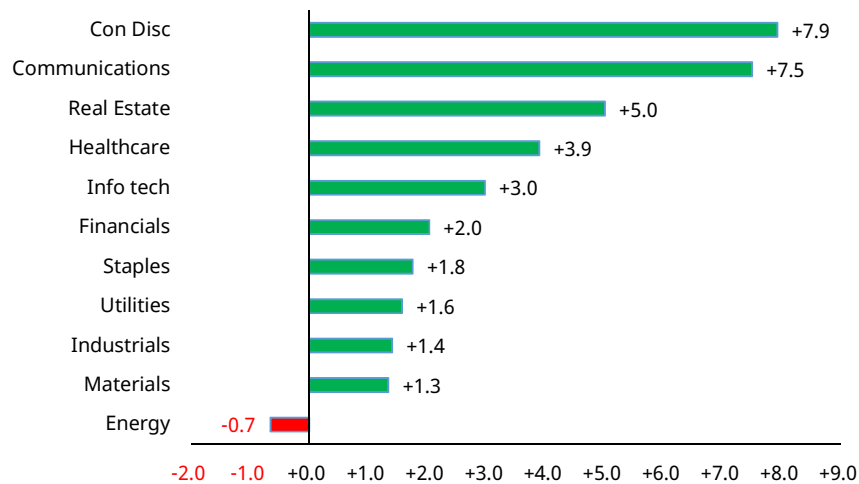
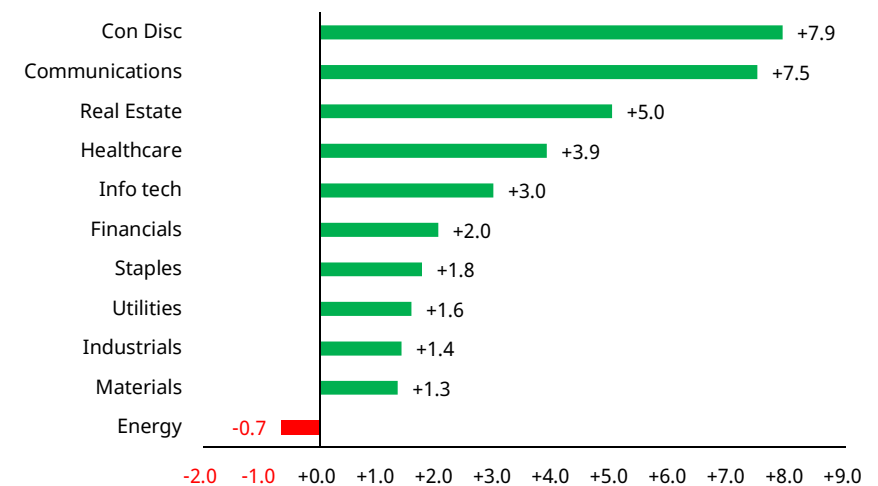


Exhibit 4: Sector Performance Year-to-Date (%)



REGIONAL VALUATIONS

Asian valuations remain attractive despite the recent rally

Exhibit 5: Regional Price-Earnings Ratio (x)

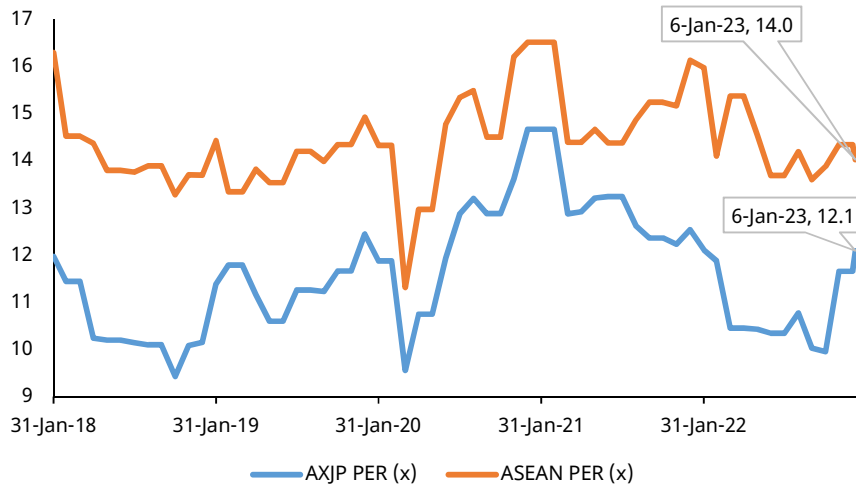


Exhibit 6: Regional Price-to-Book Ratio (x)

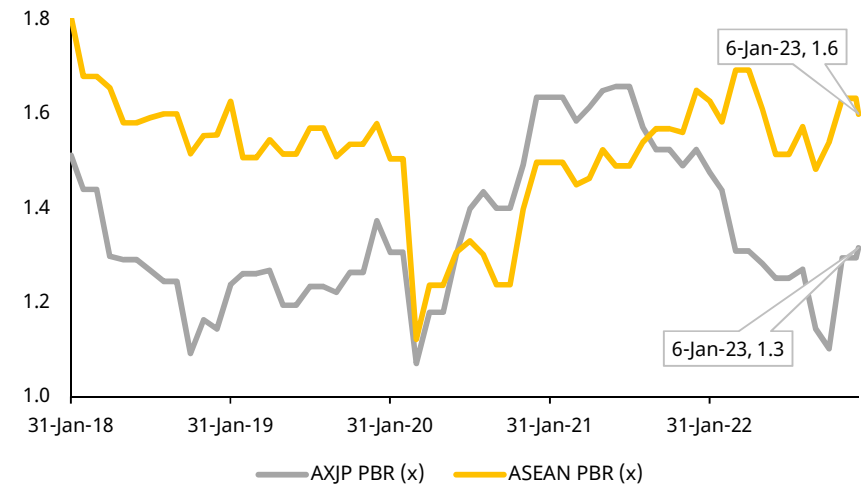


Exhibit 7: Regional Dividend Yield (%)

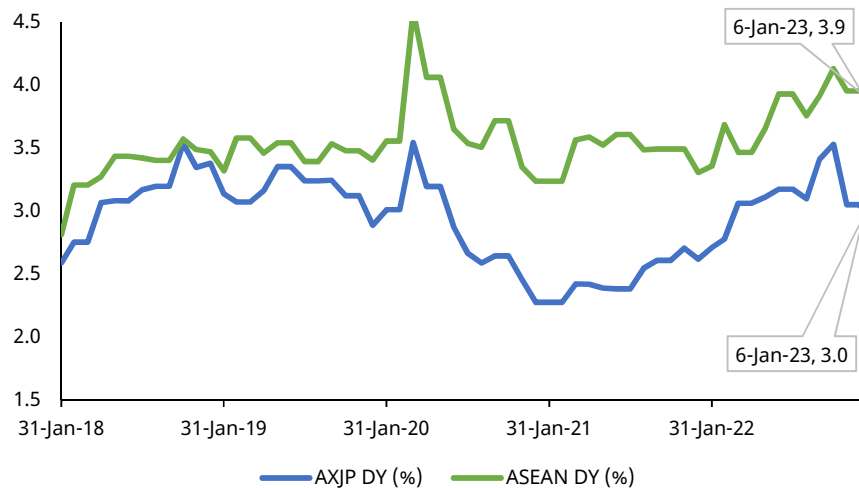
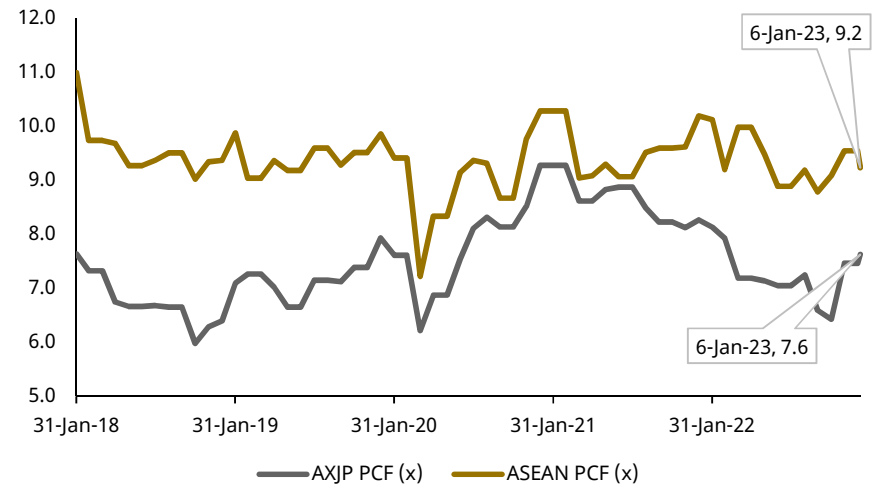


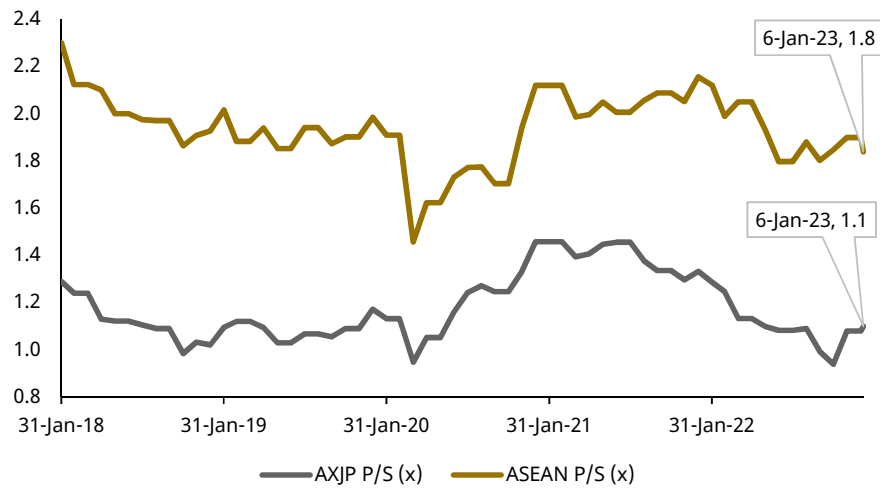
Exhibit 8: Regional Price-to-Cash Flow (x)



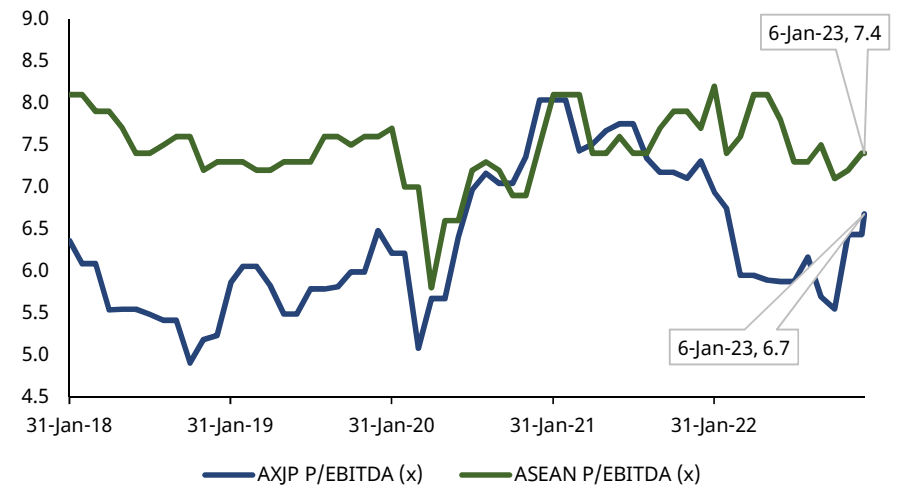
REGIONAL VALUATIONS

Within Asia ex-Japan, North Asian equities are more compelling

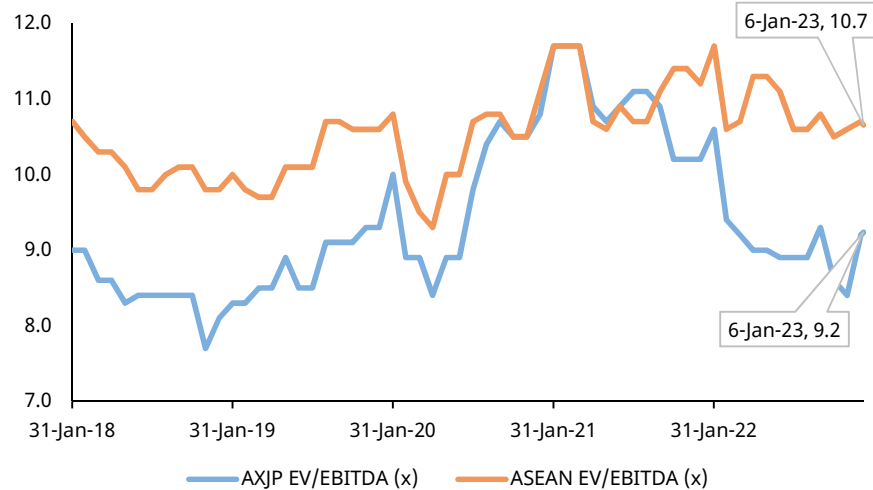
Regional Price-to-Sales Ratio (x)



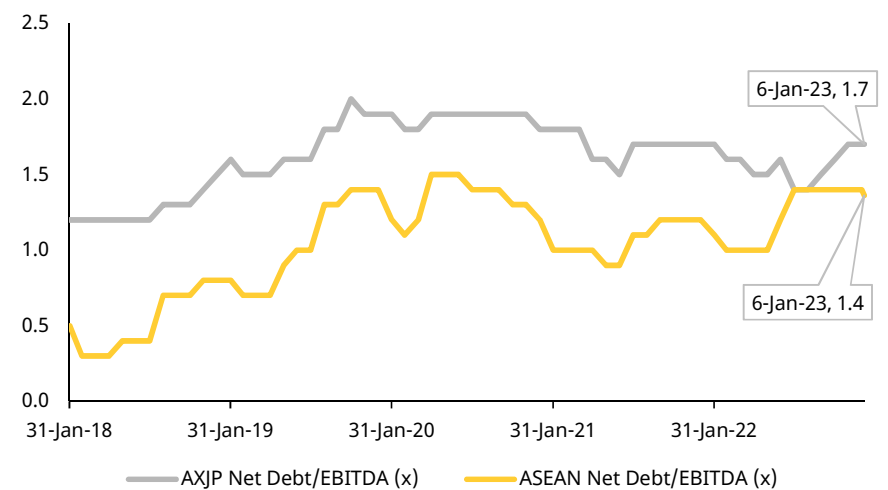
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)



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