

Portfolio Managers' Views



20 March 2023
FUND MANAGEMENT DEPARTMENT

1.0 MALAYSIA & REGIONAL

The Week in Review (13-17 March 2023) & Our Managers' Views

1

Too big to fail?: Credit Suisse (CS), the 167-year-old Swiss bank, experienced deposit outflows after its largest investor, the Saudi National Bank, refused to inject more funds into CS due to regulatory hurdles. Instead, CS borrowed \$54bil from the Swiss central bank but this failed to prevent its collapse. Eventually, UBS offered \$3.2bil to takeover CS. The Swiss government allowed the takeover to take place without shareholders' approval to prevent one of the largest banking collapses since 2008.

2

Silicon Valley Bank (SVB): SVB was the 16th largest bank in the US and nearly half of its clients are venture-backed tech startups. SVB announced its capital raising caused customers to withdraw cash from SVB. Customers withdrew USD42bil (25% of its total deposits) from SVB forcing it to liquidate its investments to service the deposit withdrawals. However, the investments' value decreased due to increasing interest rates causing SVB to sell at a loss. Eventually, SVB turned insolvent.

3

Minimizing Contagion Risks: After SVB's incident, JPMorgan Chase and other banks injected \$30bil into First Republic Bank, a mid-size US bank that was on the brink of collapse due to a lack of liquidity caused by the withdrawal of deposits and losses on investments. Additionally, the Federal Reserve offered emergency liquidity to banks, known as the discount window. A total of \$153bil were withdrawn via this discount window which is higher than the \$112bil in the global financial crisis in 2008.

4

Lower Contagion Risk in Malaysia's Banking Industry: Long-term deposits are roughly 65% of local banks' total deposits. The long-term deposits are deemed to be more sticky as they mature one year later and customers tend to hold them for riskless interest incomes. Moreover, local banks have diversified depositor bases while half of SVB's deposits are from cash-burning tech startups. The impact of huge deposits withdrawal from one sector will have a lesser impact on local banks.

5

Lower Contagion Risk in Malaysia's Banking Industry: We believe Malaysian banks have a sufficiently diverse capital base to protect them against interest rate and liquidity shocks as (1) bond holdings represent roughly 25% of local banks' total assets on average and (2) Malaysia's Overnight Policy Rate hikes are less aggressive compared to the US' Fed Funds Rate hikes.

6

Loss-absorption bonds to mitigate shocks: Global and systemically-important banks issue bonds that can be written-off or converted into shares, subject to certain conditions in times of stress. They gained more prominence after the global financial crisis of 2008-10. Credit Suisse's decision to trigger the loss absorption features of US\$17bn worth of such bonds cushions, to some degree, the financial shocks, without first going to shareholders to raise additional capital.

1.0 MALAYSIA & REGIONAL (cont'd)

The Week in Review (13-17 March 2023) & Our Managers' Views

7

Valuation: KLCI's valuations became more attractive after a volatile week when the US Federal Reserves guided for more rate hikes, and for longer. We maintain our view that the KLCI continues to remain cheap at a 2023 price-earnings ratio ("PER") of 12.5x (-1.0 standard deviation, below its 5Y average of 16.1x). Price-to-book ratio and dividend yields are also attractive at 1.3x (below the 5Y average of 1.6x) and 4.7% (above its 5Y average of 3.6%).

2.0 MALAYSIA MARKET REVIEW

Global Macro Fears Spook Markets | Gloves Outperform on ASP Hike News

Exhibit 1: KLCI vs Shariah Index

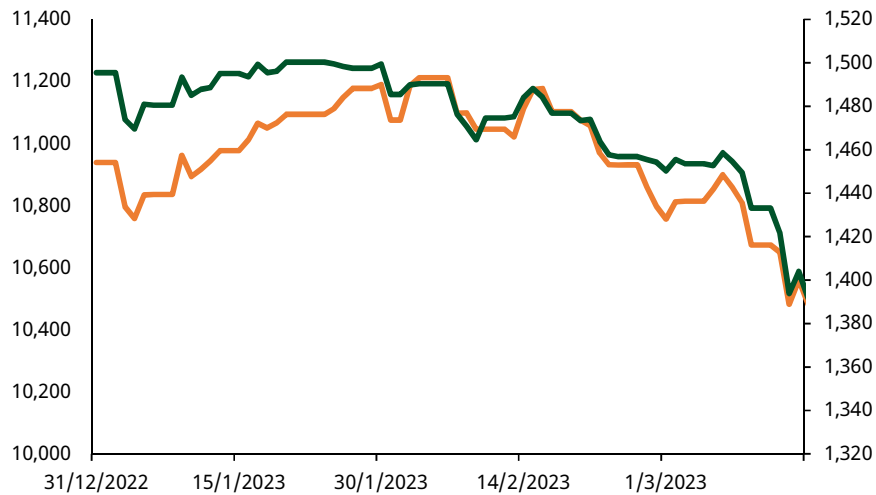


Exhibit 2: USDMYR

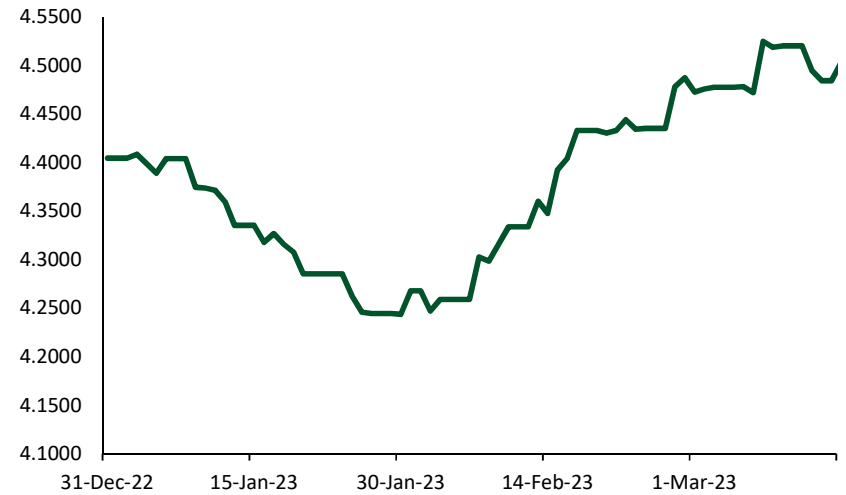


Exhibit 3: Sector Performances Week-to-Date (%)

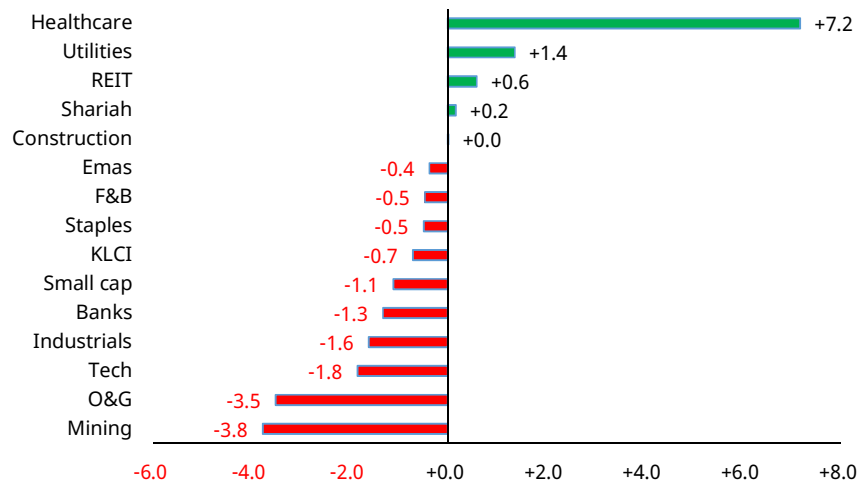
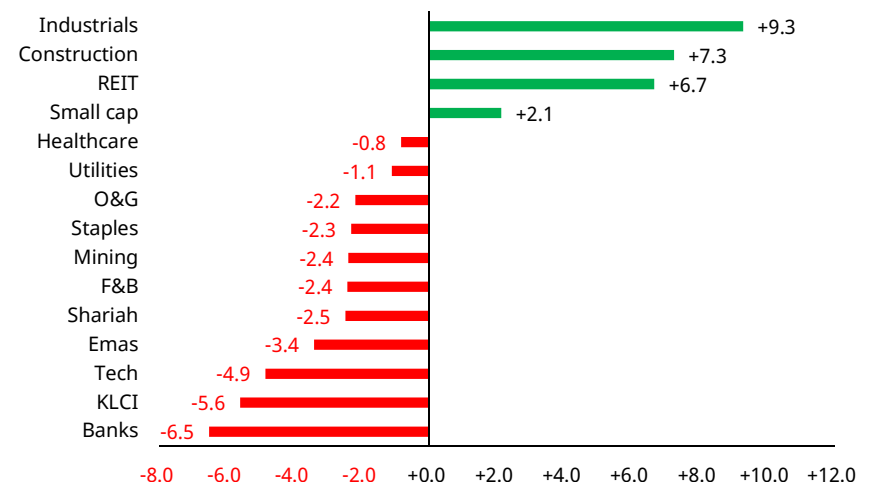


Exhibit 4: Sector Performances Year-to-Date (%)



2.1 MALAYSIA VALUATIONS

Malaysia remains in BUY territory

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

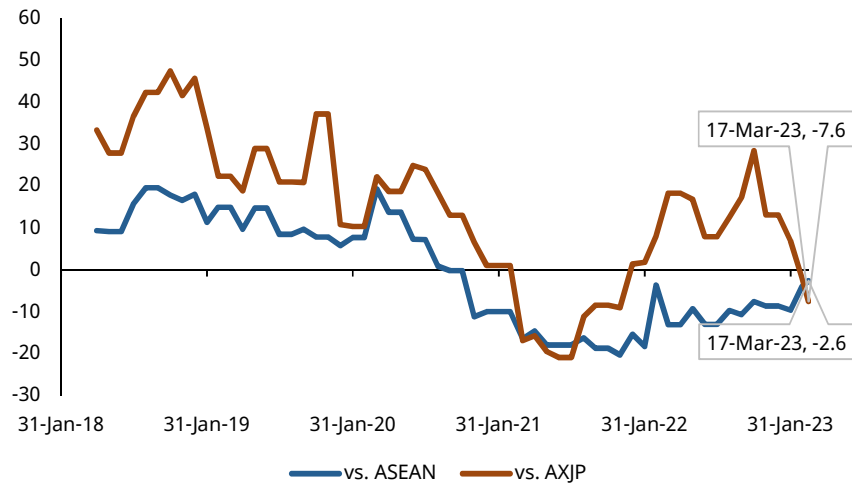


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

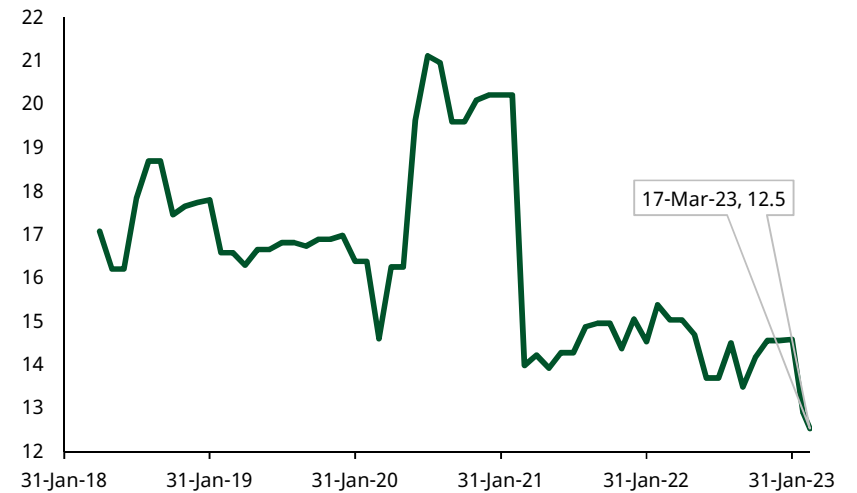


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

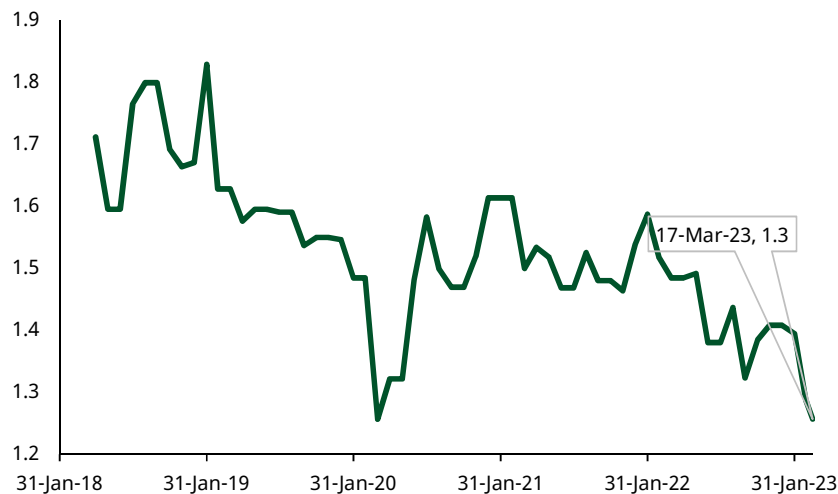
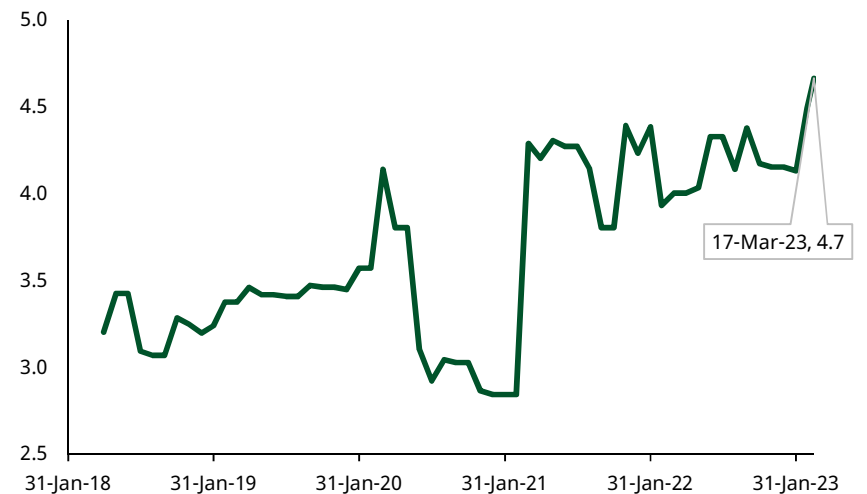


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

3.0 REGIONAL MARKETS REVIEW

Markets Weighed on Banking Sector Fears

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

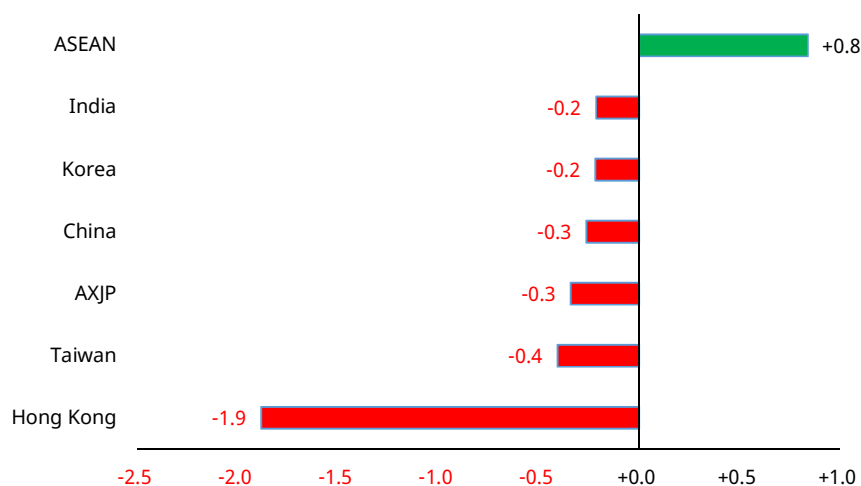


Exhibit 2: Country Performances Year-to-Date (%)

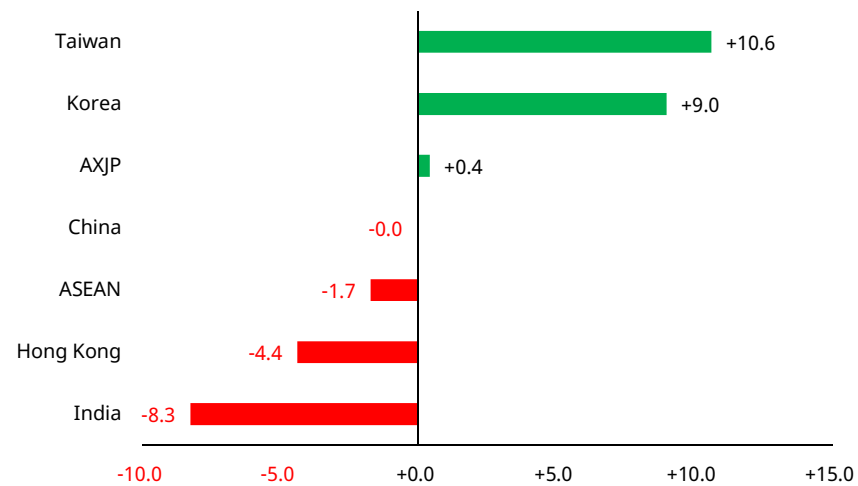


Exhibit 3: Sector Performances Week-to-Date (%)

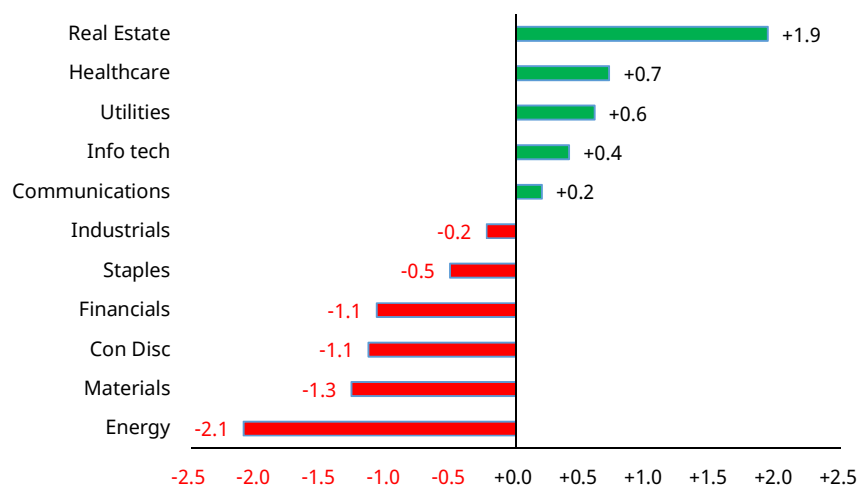
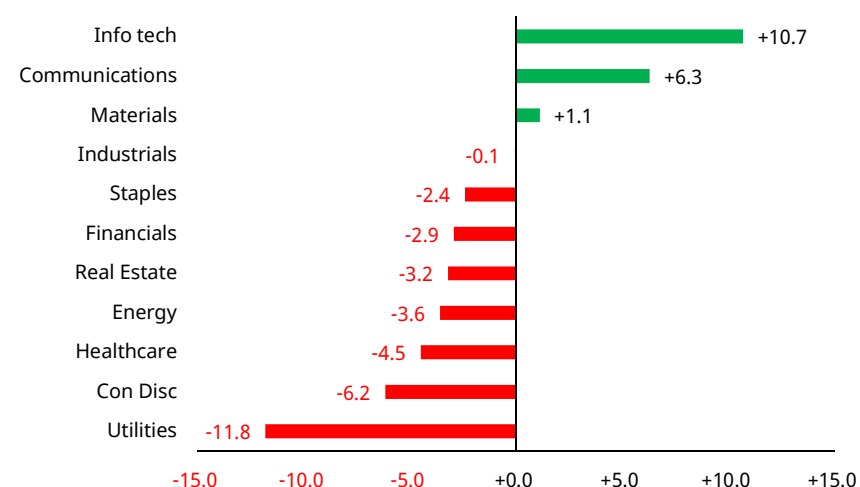


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

3.1 REGIONAL VALUATIONS

We see the market's retracement as an opportunity to buy

Exhibit 5: Regional Price-Earnings Ratio (x)

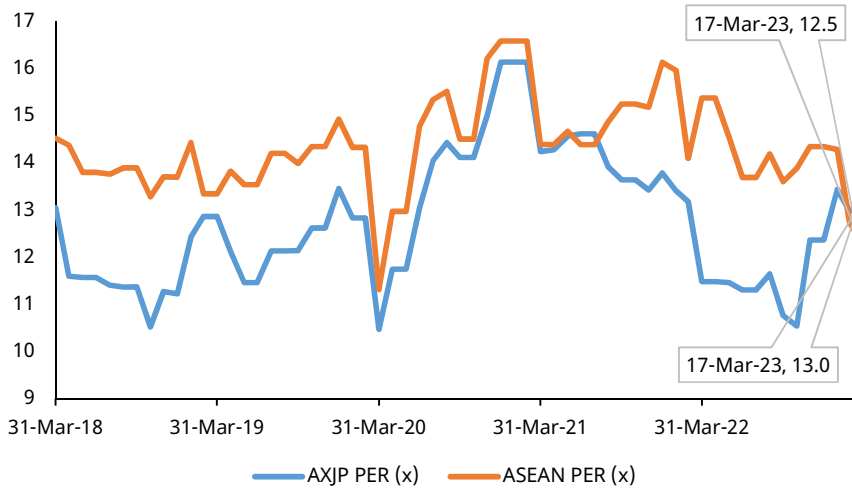


Exhibit 6: Regional Price-to-Book Ratio (x)

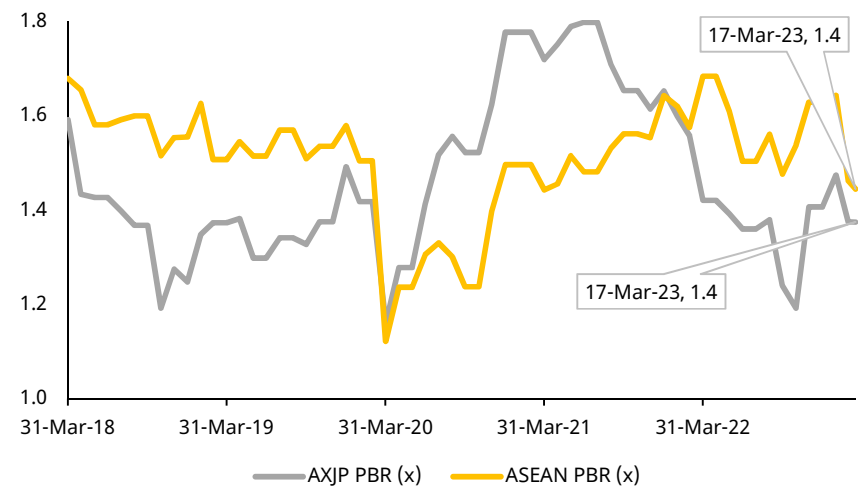


Exhibit 7: Regional Dividend Yield (%)

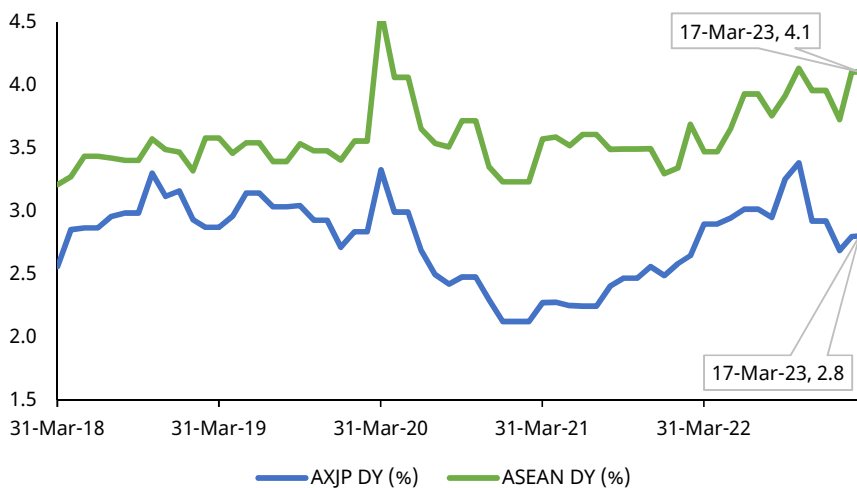
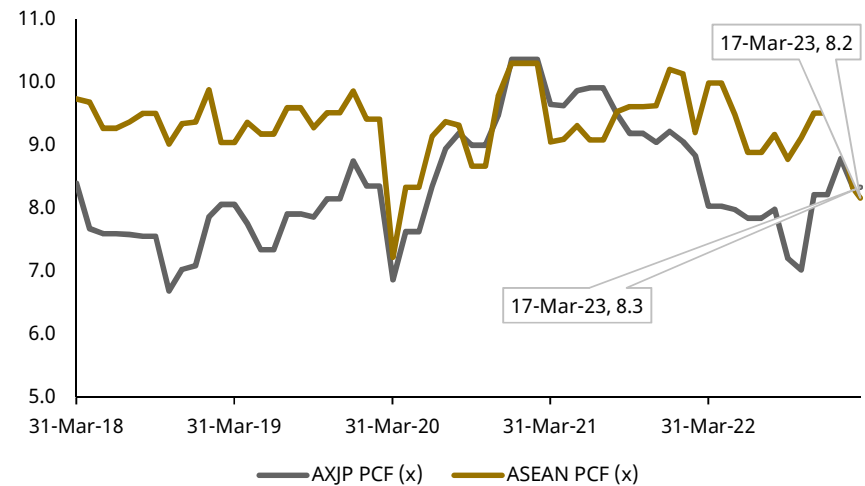


Exhibit 8: Regional Price-to-Cash Flow (x)

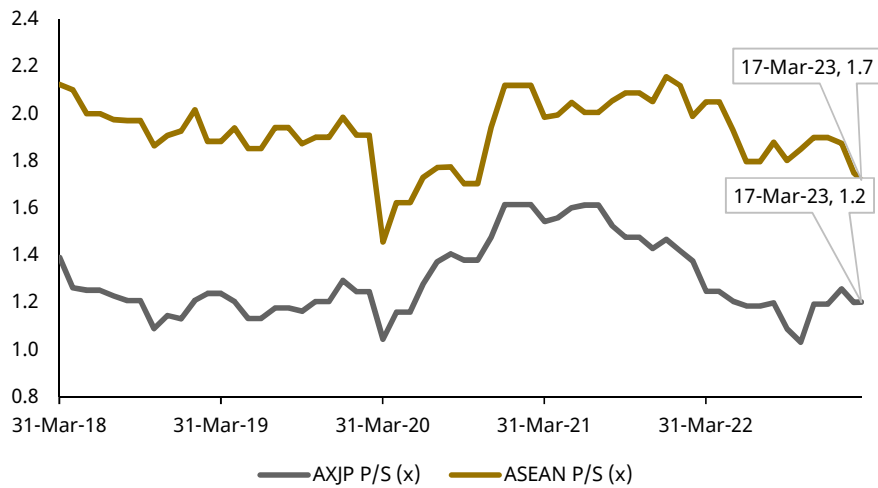


Source: Bloomberg

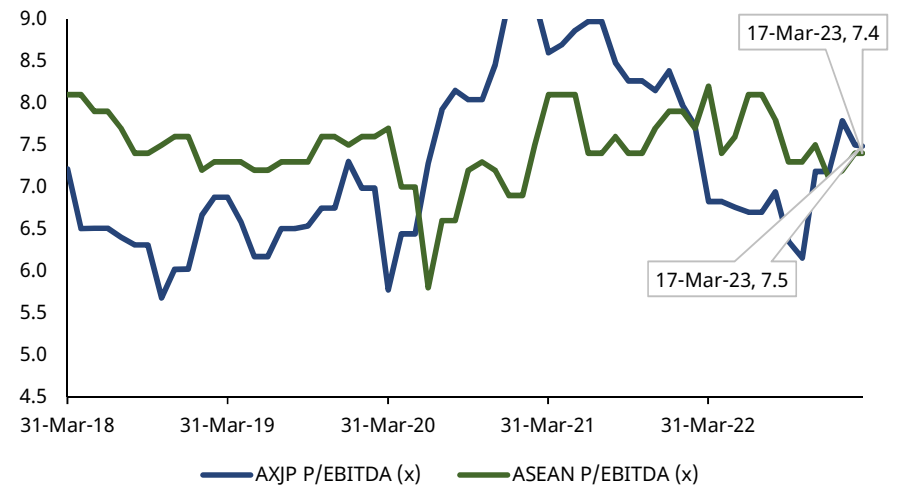
3.2 REGIONAL VALUATIONS

Asian valuations are looking more attractive with the recent price falls

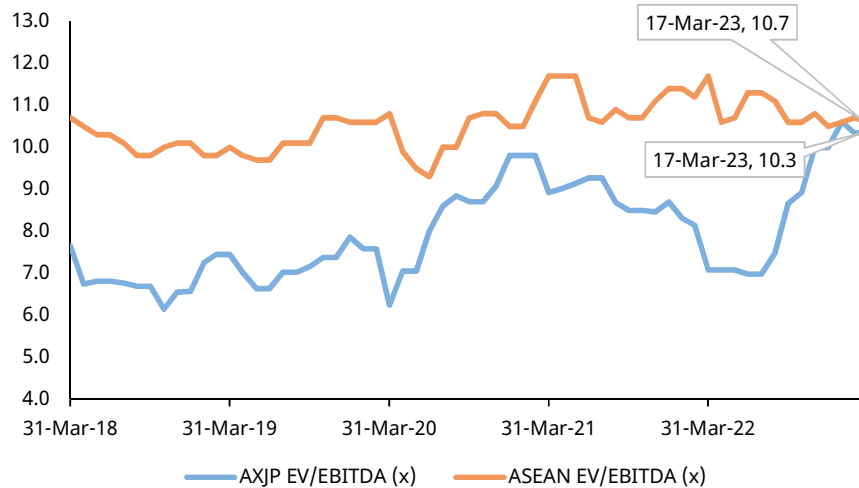
Regional Price-to-Sales Ratio (x)



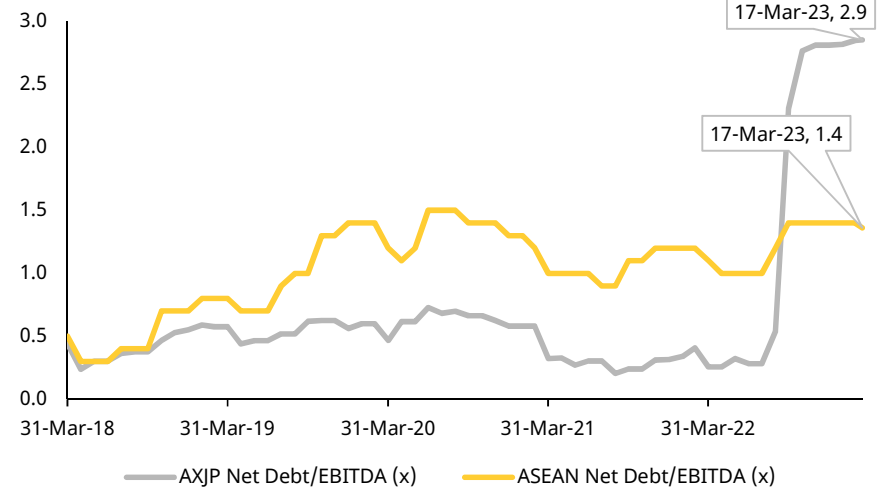
Regional Price-to-EBITDA (x)



Regional EV-to-EBITDA (x)



Regional Net Debt-to-EBITDA (x)



Source: Bloomberg

4.0 FOREIGN FUND FLOWS

Foreign funds have turned net sellers as uncertainties rise

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

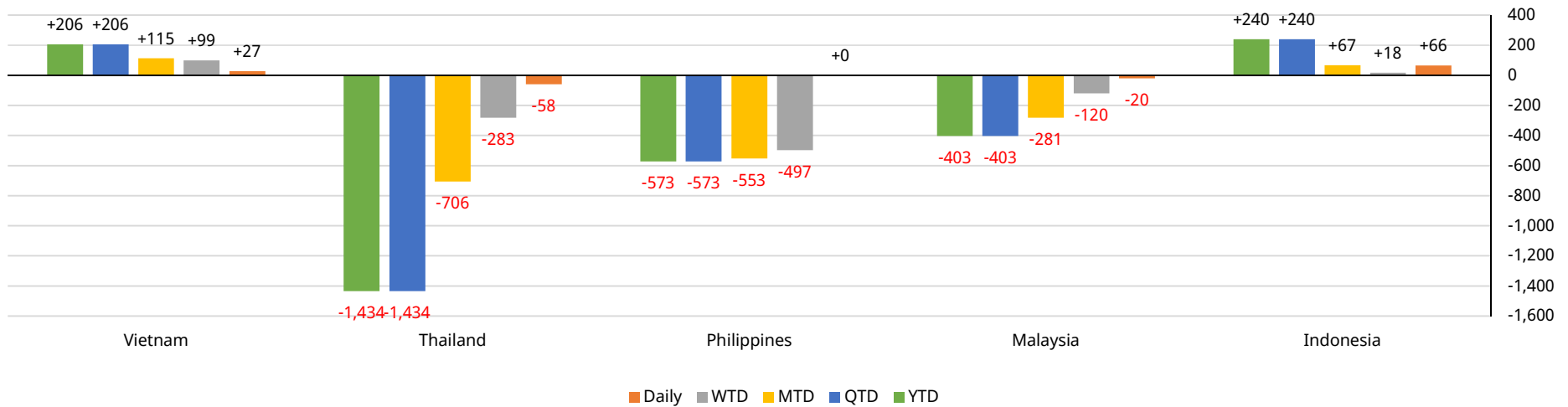
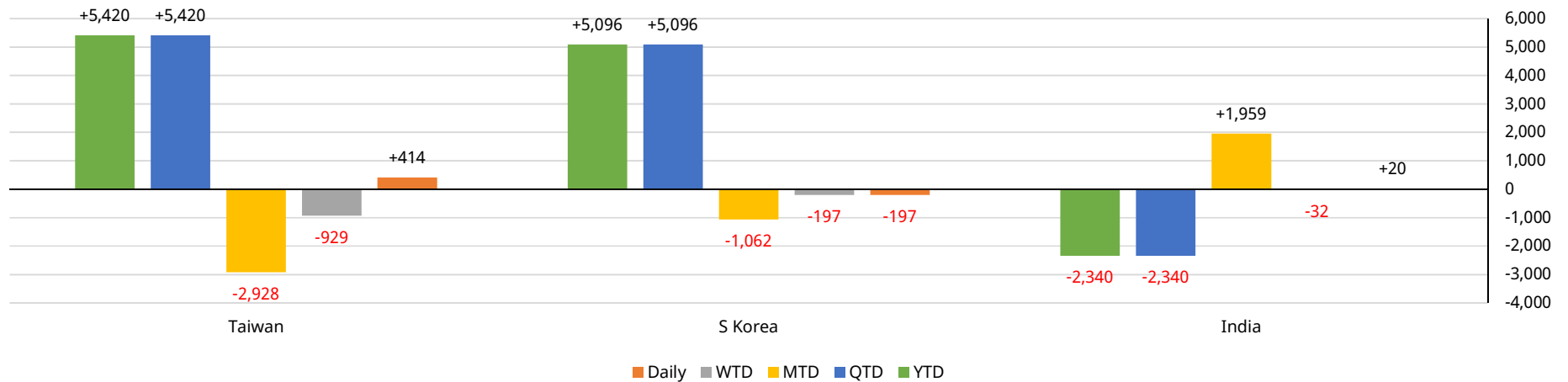


Exhibit 10: Selected North and West Asian Markets (Net USD mil)

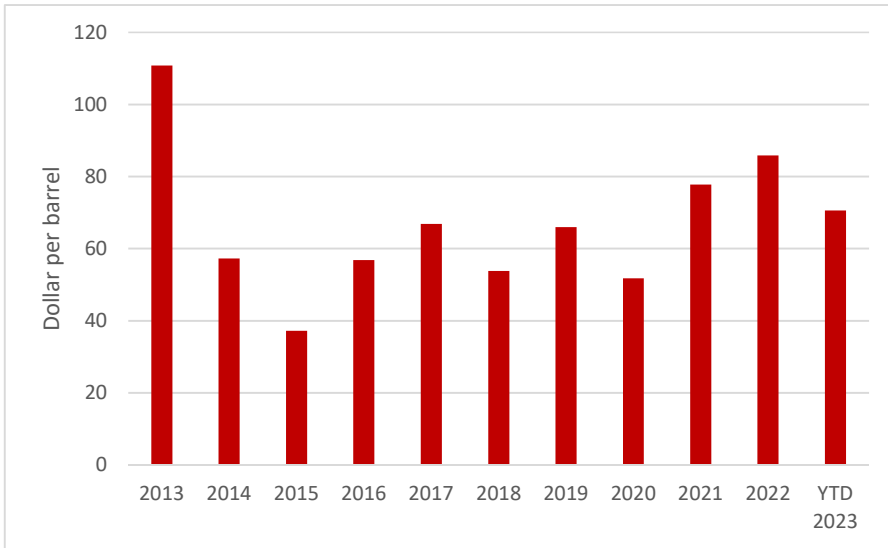


Source: Bloomberg

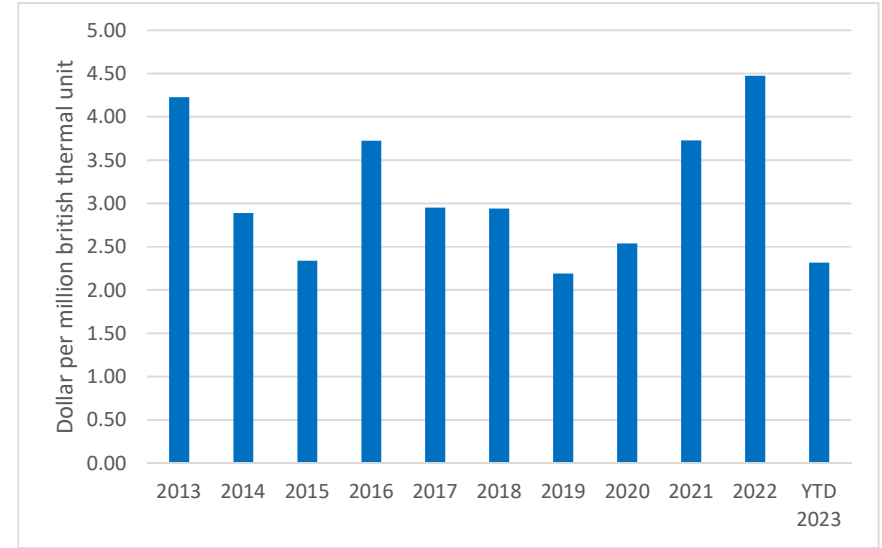
5.0 Energy Annual Prices

Energy Prices Weighed by Global Macro Uncertainties

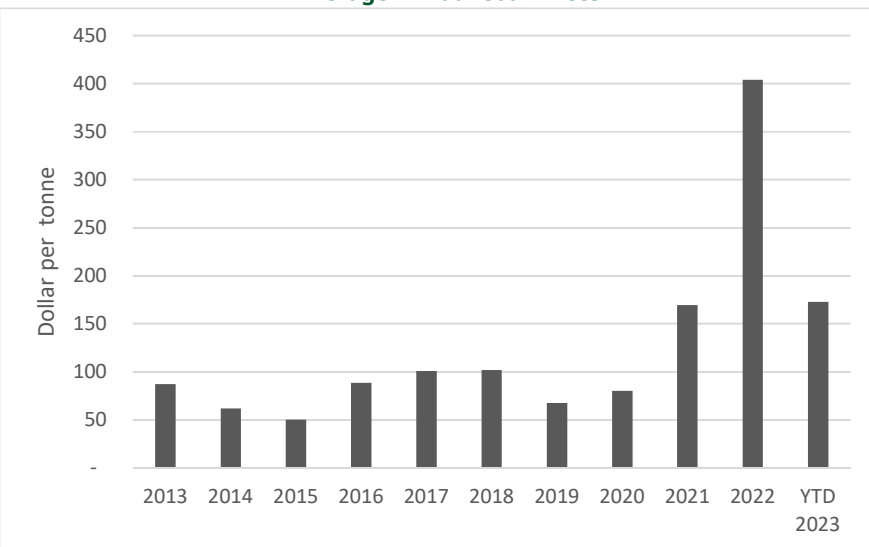
Average Annual Brent Oil Prices



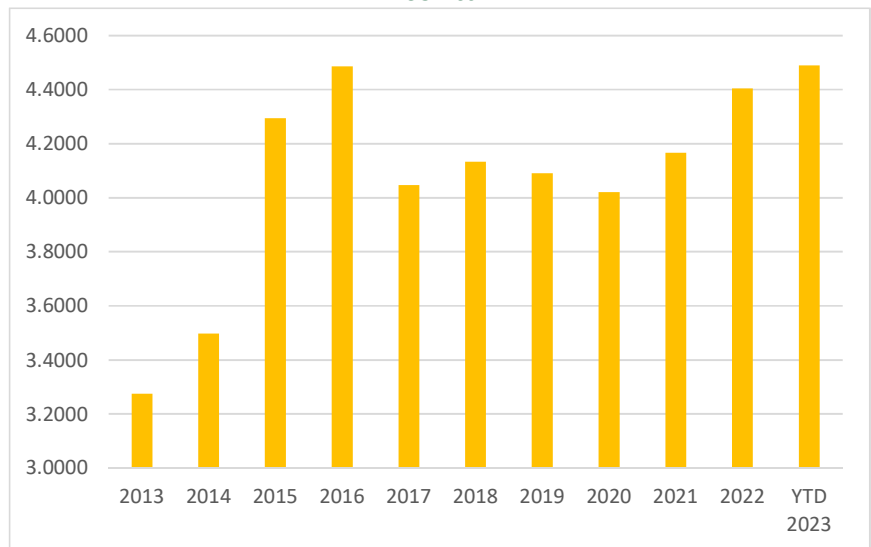
Average Annual Natural Gas Prices



Average Annual Coal Prices



1 USD to MYR

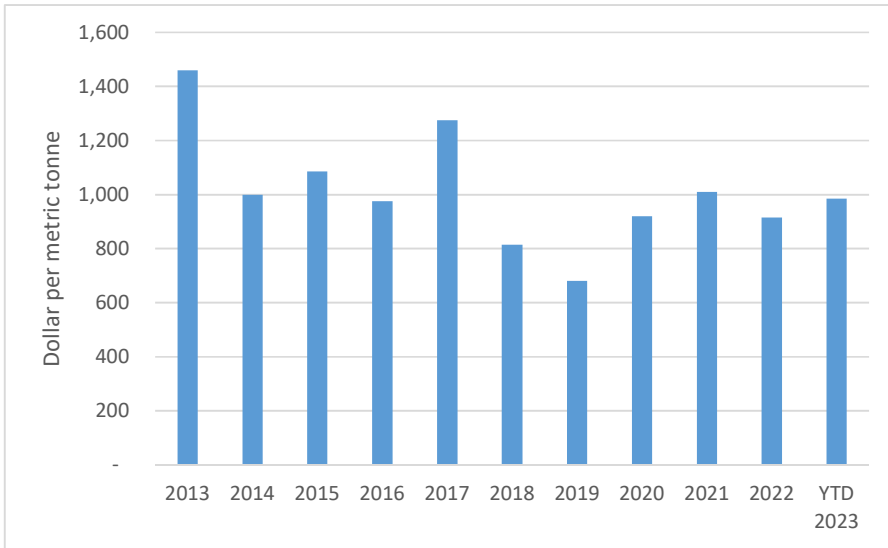


Source: Bloomberg

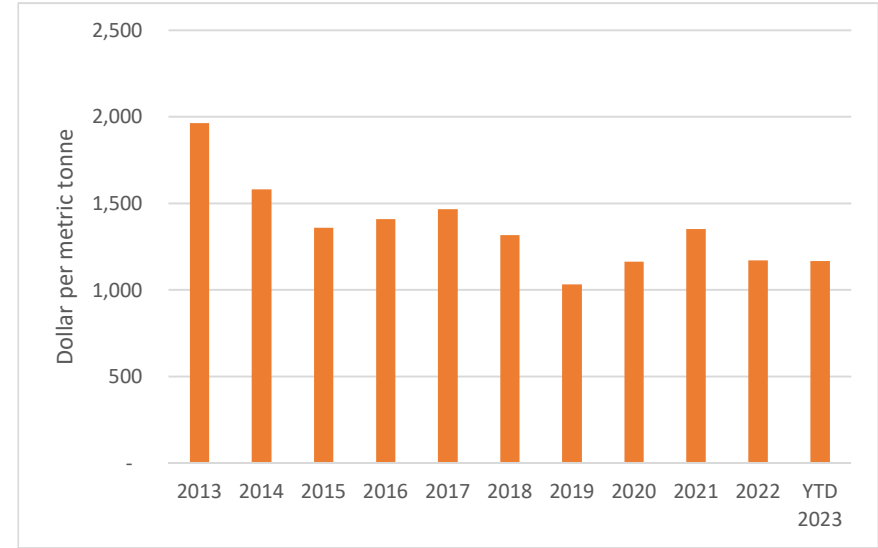
5.1 Petrochemical Annual Prices

Modest price increase on China's reopening demand

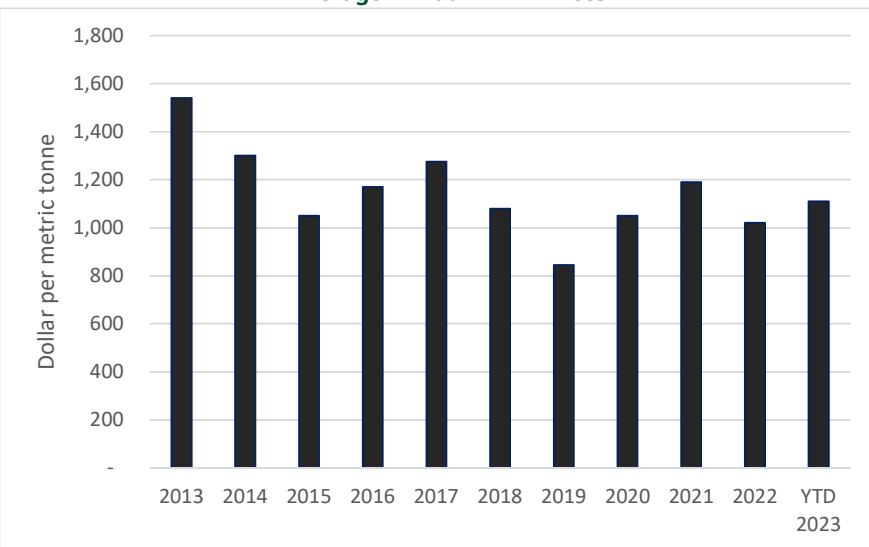
Average Annual Ethylene Prices



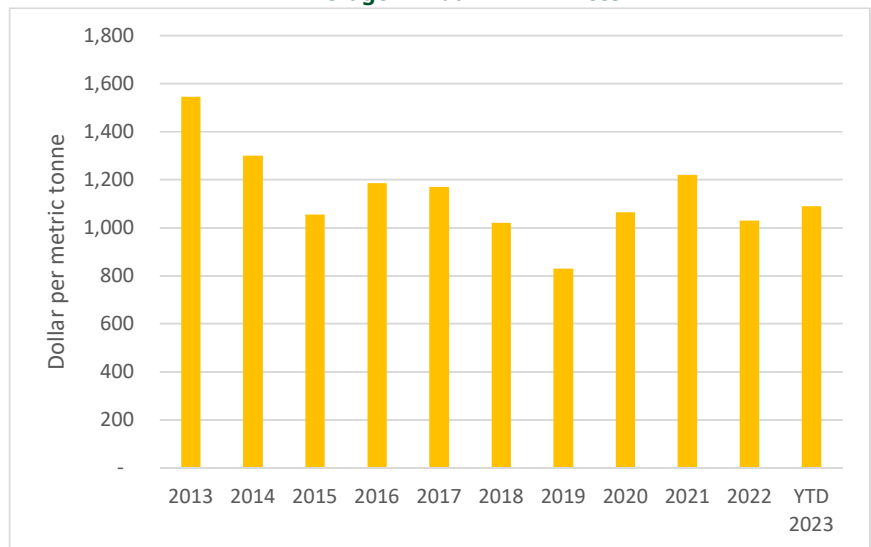
Average Annual Polyethylene Prices



Average Annual HDPE Prices



Average Annual LLDPE Prices

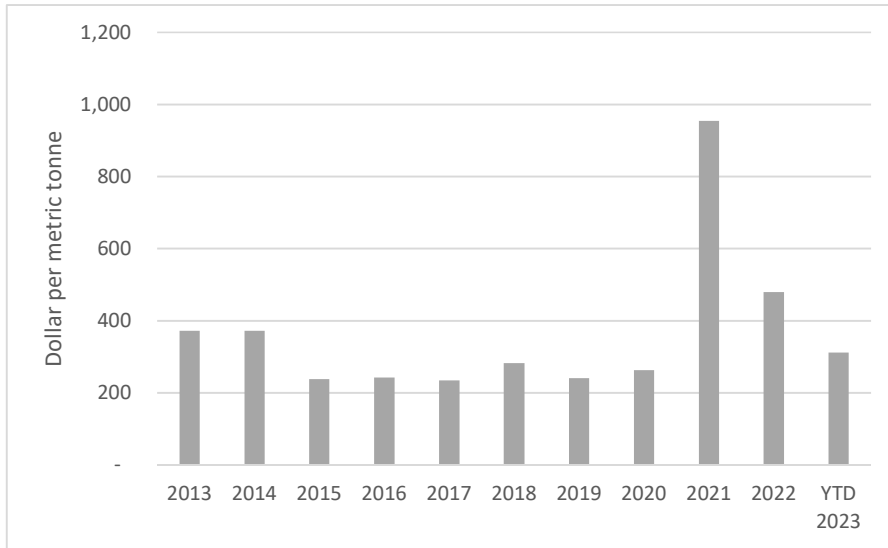


Source: Bloomberg

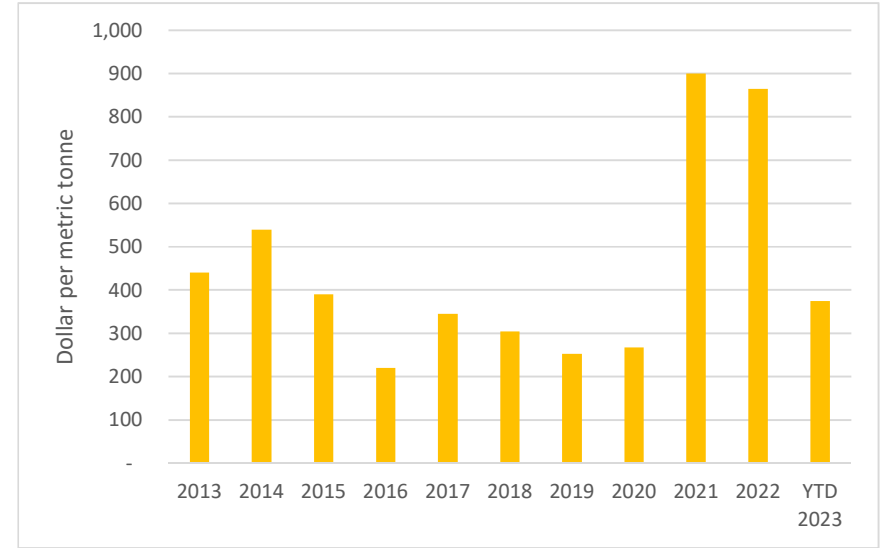
5.2 Fertiliser Annual Prices

Ammonia & Urea Prices Returned to Pre-Covid Price Range

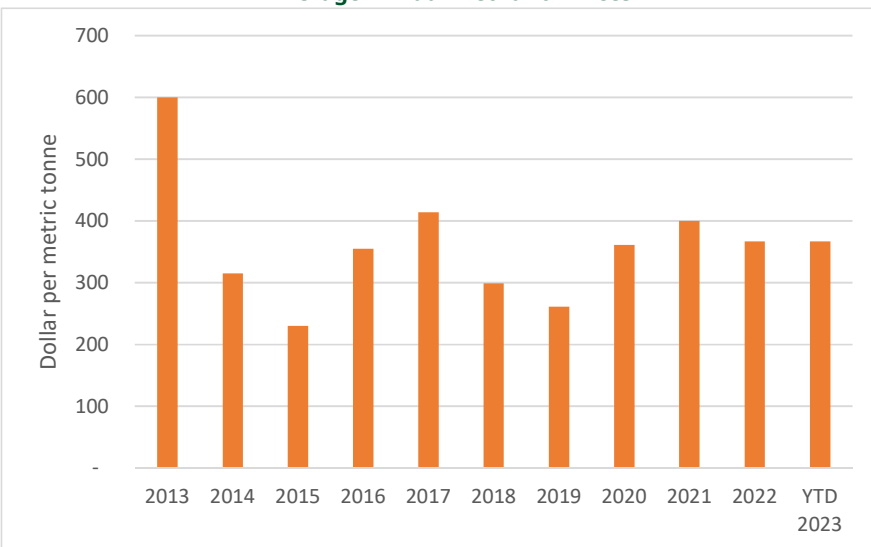
Average Annual Urea Prices



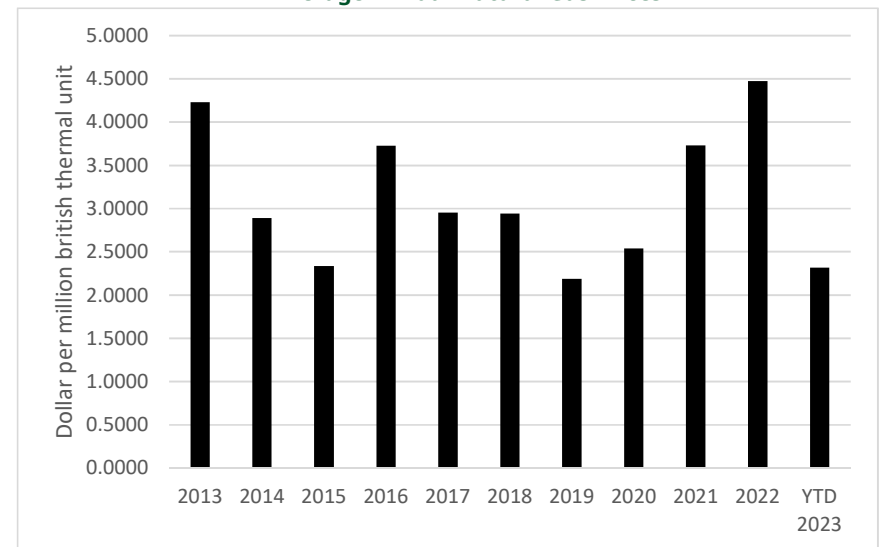
Average Annual Ammonia Prices



Average Annual Methanol Prices



Average Annual Natural Gas Prices

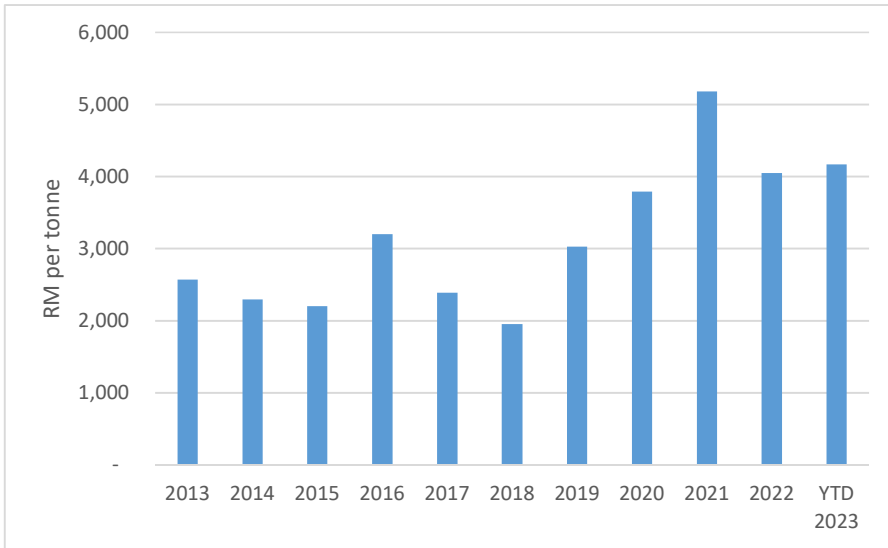


Source: Bloomberg

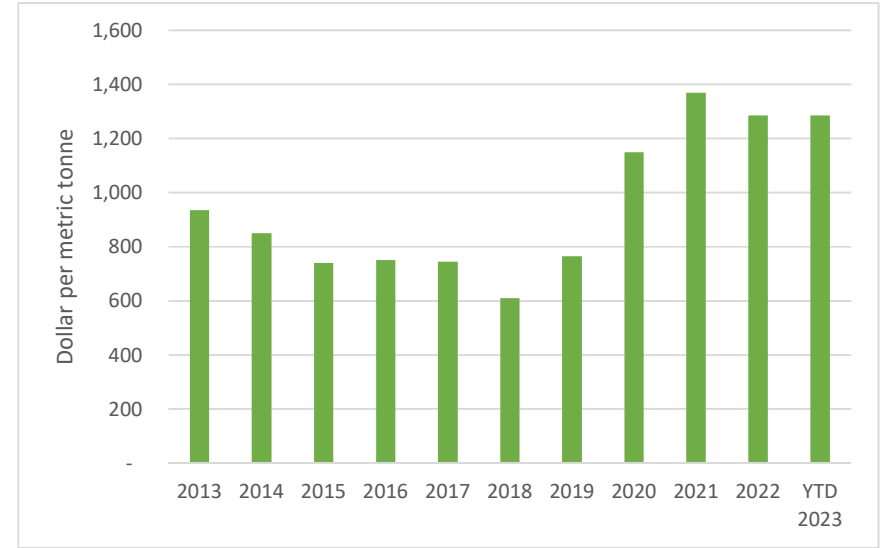
5.3 Agricultural Annual Prices

Price to Trade Rangebound

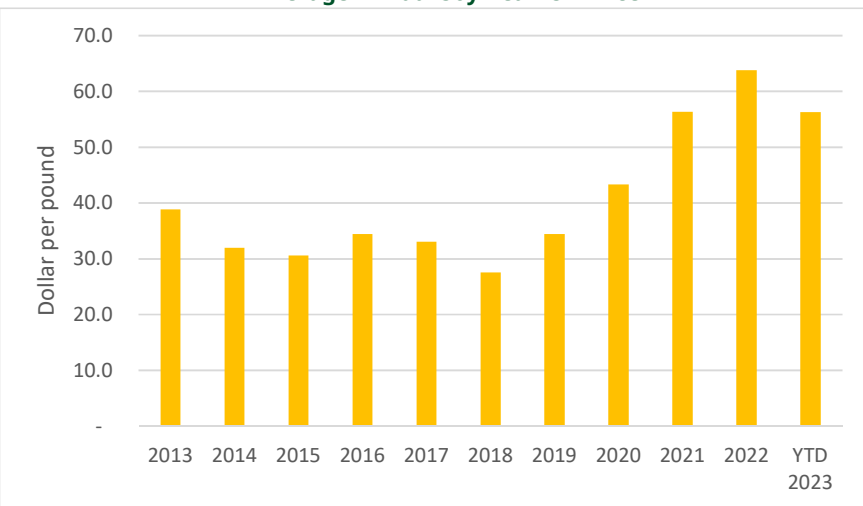
Average Annual Palm Oil Prices



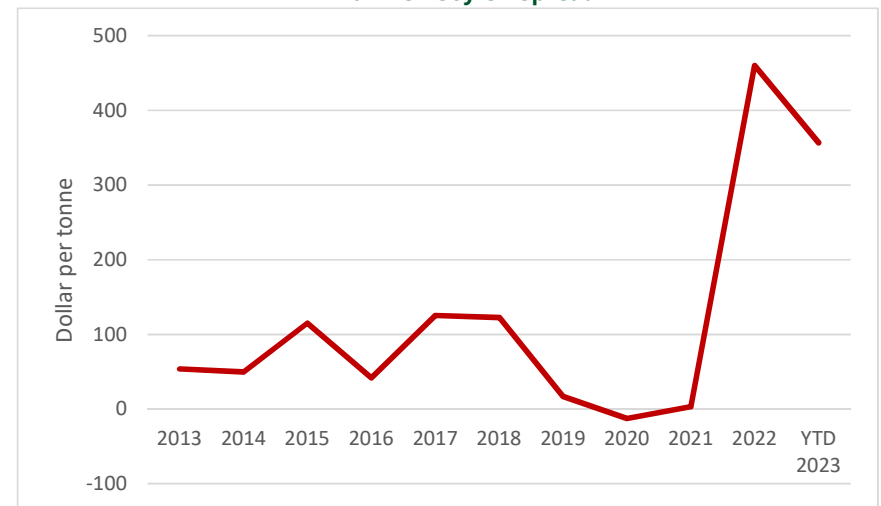
Average Annual Sunflower Oil Prices



Average Annual Soy Bean Oil Price



Palm Oil Soy Oil Spread



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