

# Portfolio Managers' Views

  
**10 April 2023**  
FUND MANAGEMENT DEPARTMENT

# 1.0 MALAYSIA & REGIONAL

## The Week in Review (3-7 April 2023) & Our Managers' Views

- 1 Tight Oil Markets Positive for Hibiscus:** OPEC+ and Russia announced a surprise output cut of 1.16mbpd, bringing the total since last October to 3.66 mbpd (3.7% of global oil demand). This resulted in oil prices rallying by 7% WoW to \$85/bbl. This signals OPEC's commitment to keep oil prices supported as the cuts were made in anticipation of slowing global demand for oil. We are invested in beneficiaries of higher oil prices, namely Hibiscus, a local oil & gas producer, and CNOOC.
- 2 Remain Invested in Tomei on strong gold price momentum:** Gold prices hit an all-time high of \$2,000/oz on Tuesday after the US reported lower job openings and factory orders, signalling an impending slowdown in its economy. Gold prices typically have a negative correlation with interest rates. We believe gold prices will likely increase further once the Fed starts to cut rates. We are invested in Tomei, a local gold retailer that will benefit from rising gold prices.
- 3 Holding On to High Dividend Yields Banks:** Bank Negara Malaysia (BNM) reported that the February loan growth was 5.2% YoY, but the CASA growth is only 0.2% YoY. This indicates that the banks have to use funds with a higher cost to support loan growth, which leads to net interest margin (NIM) compression. However, we still expect banks to achieve positive earnings growth in 2023 due to positive loan growth and the removal of the prosperity tax despite NIM compression.
- 4 Riding the Tailwinds of China Reopening:** We joined a briefing with travel data experts, Dragon Trail and ForwardKeys. Based on their analysis on China tourists, Sanya is their top destination locally, while Singapore is one of their top 10 destinations internationally. We are invested in Hainan Meilan Airport which indirectly owns the main airport in Sanya. We are also invested in Genting Singapore which owns Resort World Sentosa that will benefit from the return of Chinese tourists.
- 5 Potential revival of High-Speed Rail (HSR) Project to Benefit Building Materials:** Recently, our Trade Minister reiterated that the government is in support of its revival if the project is privately funded. We are seeing increased commentary on the project's revival and believe that it has garnered renewed interest by private companies to take up the project. We are invested in building materials such as Cement and Steel that will benefit if this mega project is revived.
- 6 Valuations:** KLCI valuations are trading at very attractive levels. For instance, its 2023 price-earnings ratio ("PER") of 13.1x is well below the bottom of its 12-year range of approximately 15x PER. Similarly, its dividend yields are trading at 4.5%, above its 10-year high of 4.3% seen in 1Q of 2021. Price-to-book ratios are also attractive at 1.3x, which are levels last seen only during the market bottom for Covid in Mar-20. Hence, we are optimistic for the prospects of the Malaysian markets moving forward.

# 1.1 IDEA OF THE WEEK

## Brewers: Accumulate on Cheap Valuations and Positive Earnings Catalysts

### 1 Local Brewers' Valuations Are Cheap

Local brewers' 2023 price-earnings ratios (P/E) are trading at a nearly 5-year low of 19x, which we deem a relatively cheap valuation (Exhibit 1). By comparison, the regional brewers are trading at an average P/E of 21x, but local brewers only trade at 19x. Moreover, local brewers offer dividend yields (DY) of roughly 5%, which is higher than the Asian regional brewers' DY of 3% (Exhibit 2). Thus, in local and regional funds, we favour local brewers more than their regional peers.

### 2 Positive Outlooks for Local Brewers

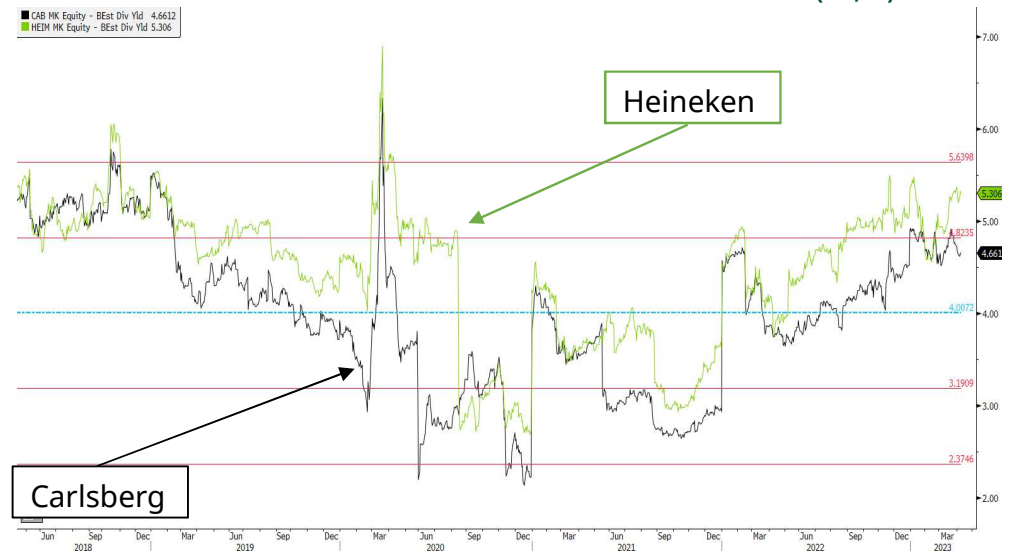
Few positive catalysts will drive brewers' earnings in the future. Firstly, we expect the demand for beer to increase due to the return of tourists, especially China tourists. Secondly, we expect the production costs to decline following the decrease in commodity prices. Thirdly, brewers started to penetrate the Muslim market by introducing non-alcoholic drinks, which created a new income stream for the brewers to support their long-term growth further.

Exhibit 1: Local Brewers' 5 Years Consensus Price-Earnings Ratios (P/E, x)



Source: Bloomberg

Exhibit 2: Local Brewers's 5 Years Consensus Dividend Yields (DY, %)



Source: Bloomberg

# 2.0 MALAYSIA MARKET REVIEW

KL Industrial Products Index rose 11.2% WTD led by PChem and Press Metal

Exhibit 1: KLCI vs Shariah Index

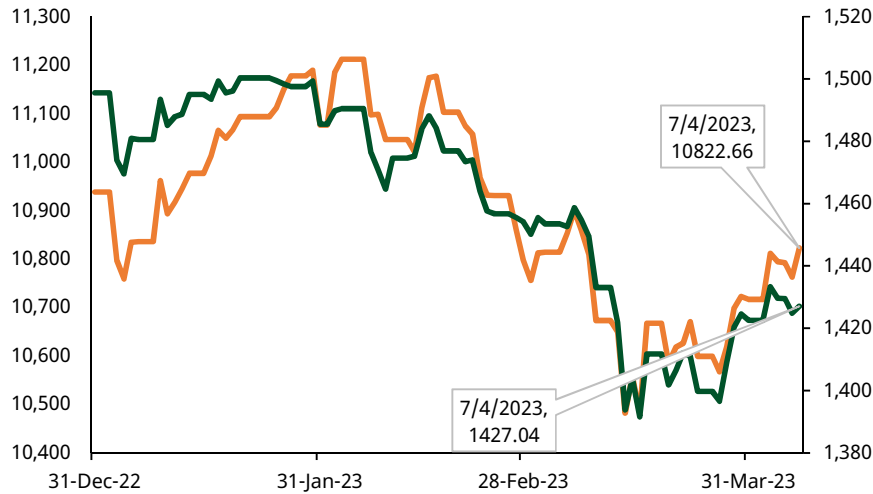


Exhibit 2: USDMYR

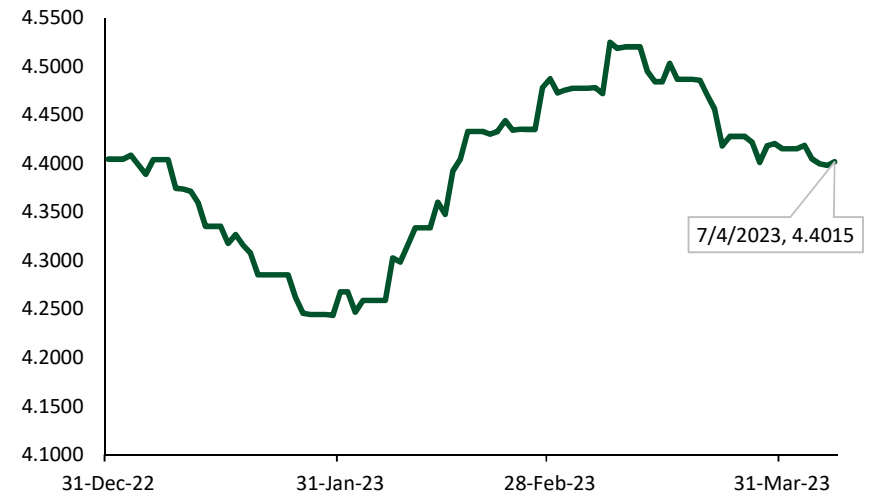


Exhibit 3: Sector Performances Week-to-Date (%)

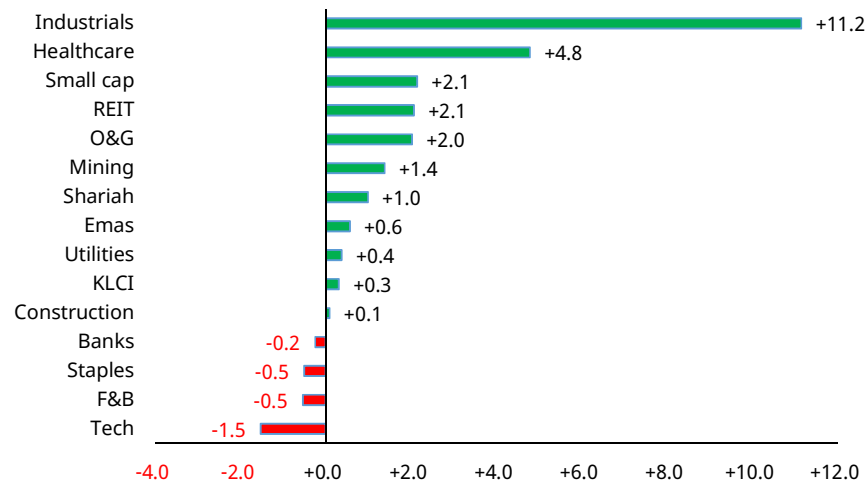
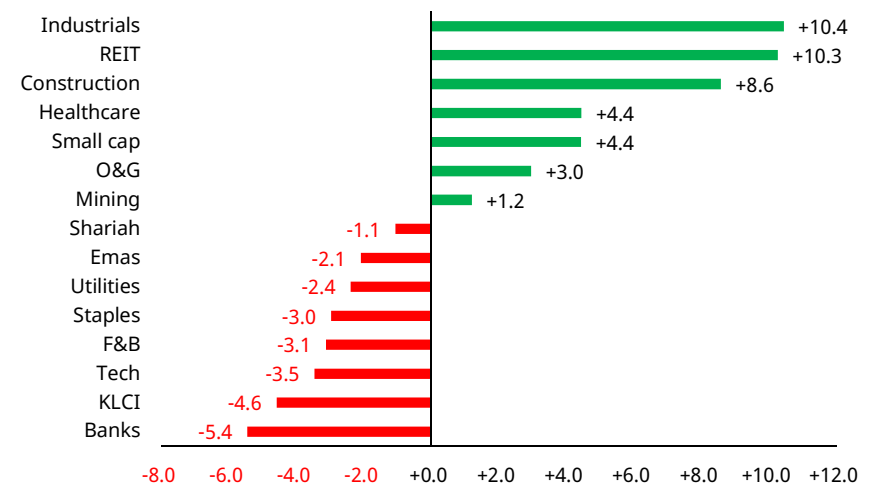


Exhibit 4: Sector Performances Year-to-Date (%)



Source: Bloomberg

# 2.1 MALAYSIA VALUATIONS

## Valuations remain at Historical Bottoms - BUY Territory

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

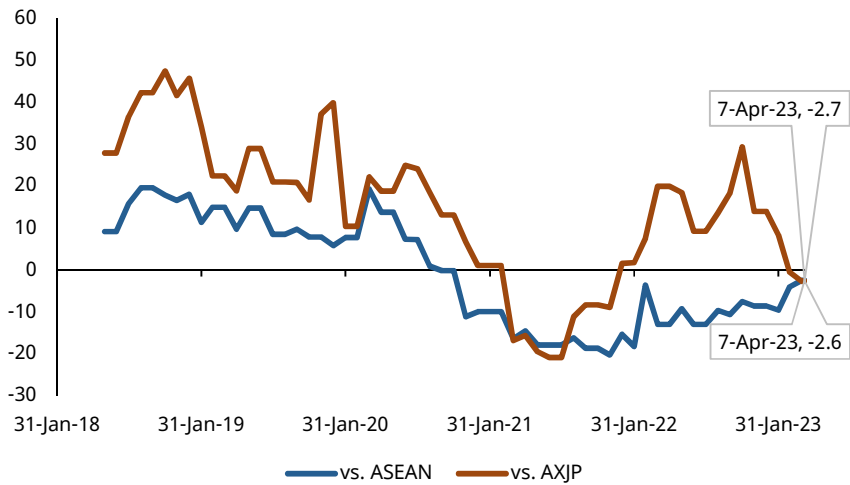


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

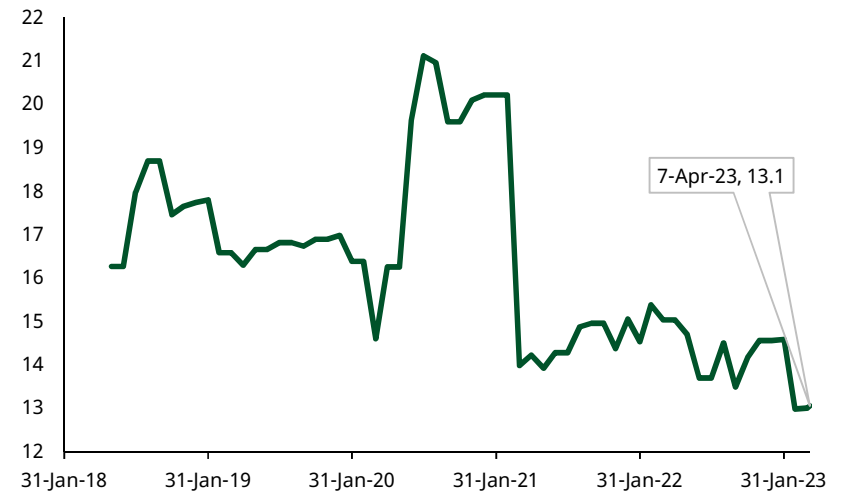


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

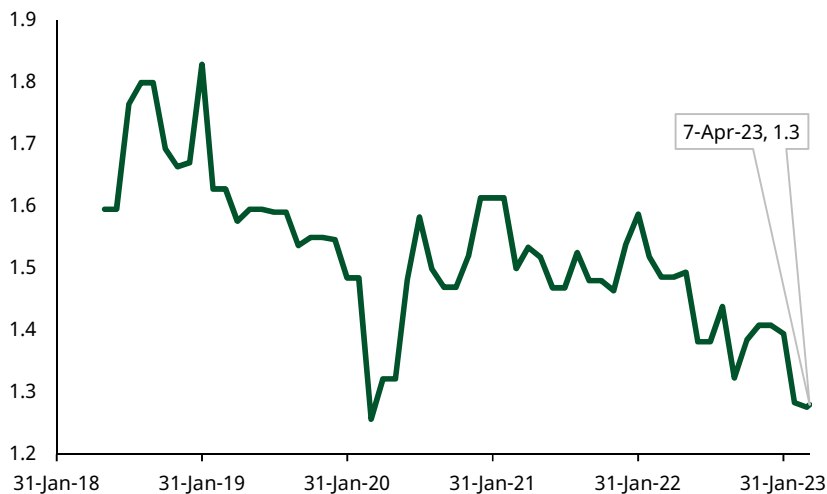
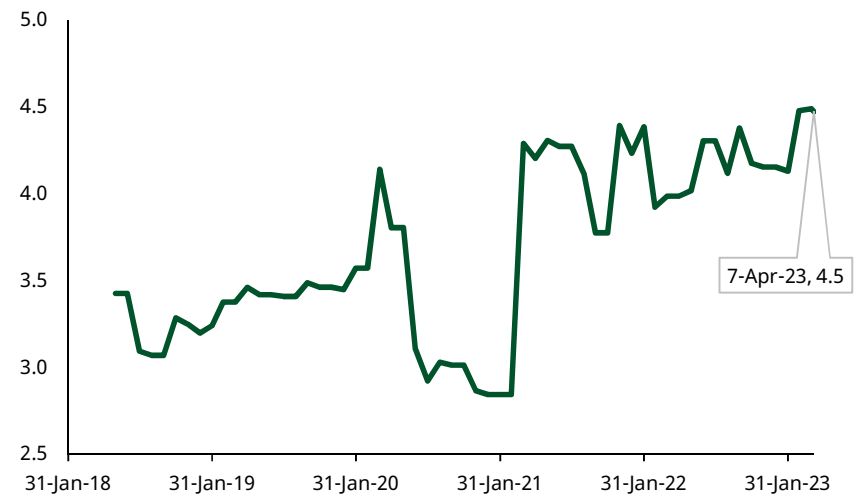


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

# 3.0 REGIONAL MARKETS REVIEW

Mixed performances amidst a holiday-shortened week

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

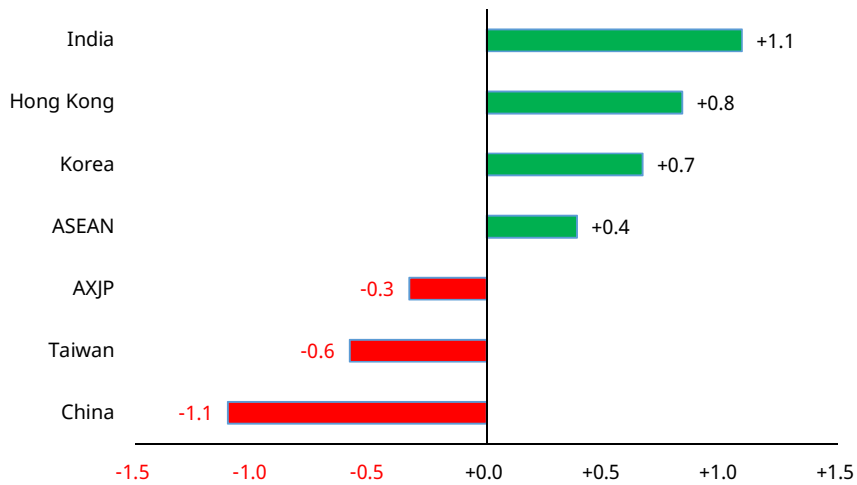


Exhibit 2: Country Performances Year-to-Date (%)

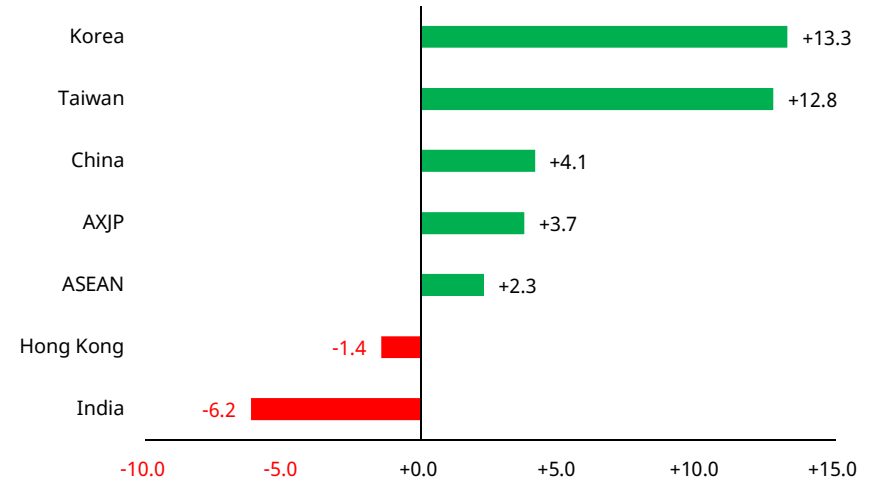


Exhibit 3: Sector Performances Week-to-Date (%)

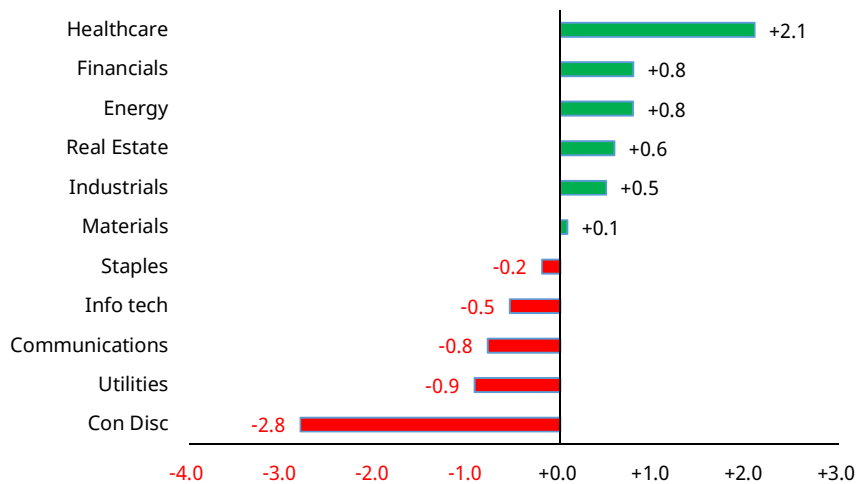
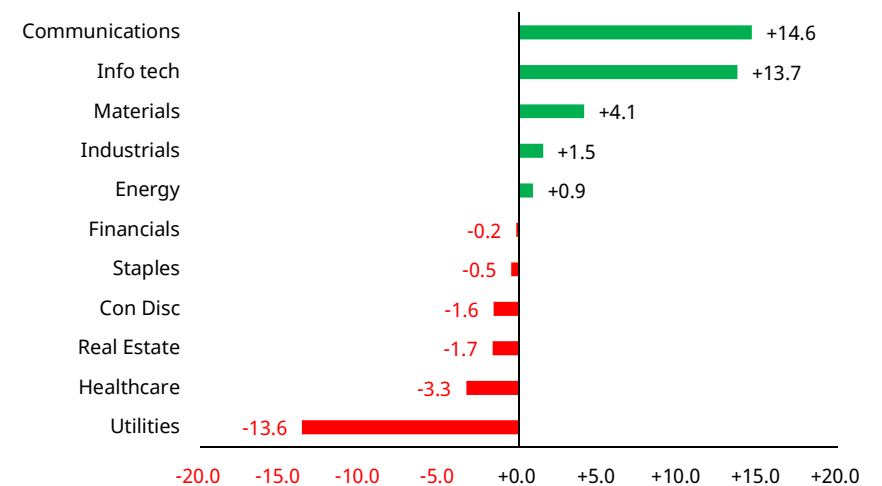


Exhibit 4: Sector Performance Year-to-Date (%)



# 3.1 REGIONAL VALUATIONS

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

Exhibit 5: Regional Price-Earnings Ratio (x)

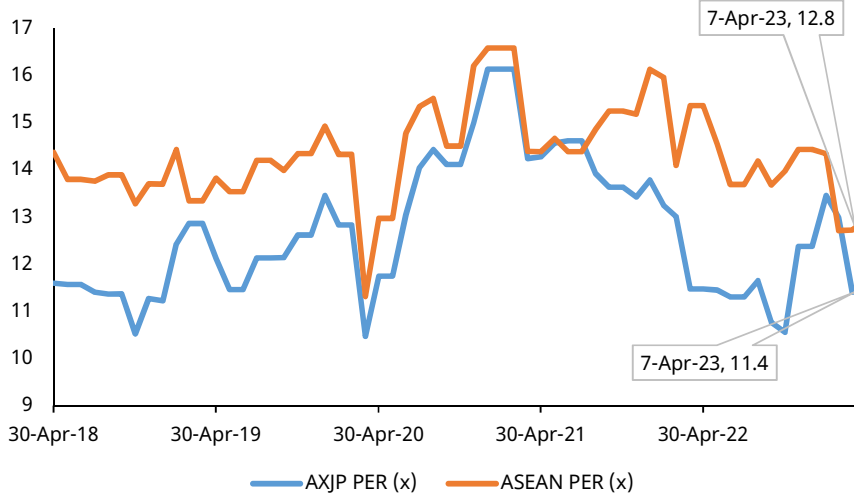


Exhibit 6: Regional Price-to-Book Ratio (x)

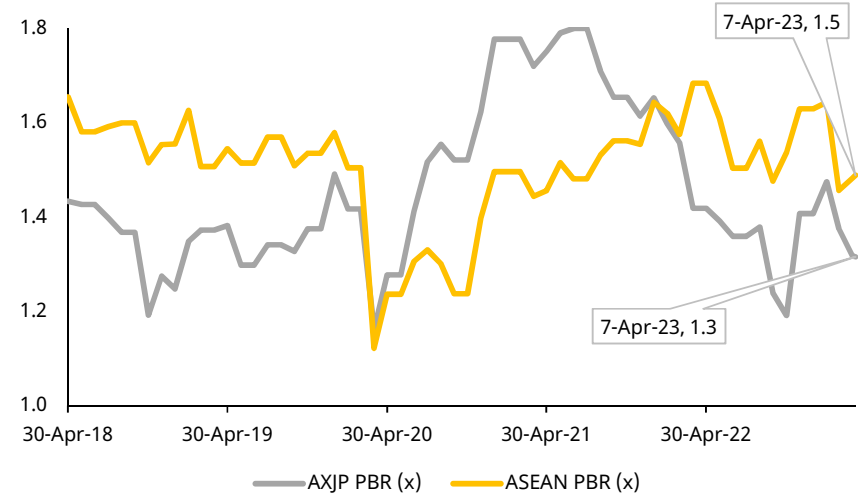


Exhibit 7: Regional Dividend Yield (%)

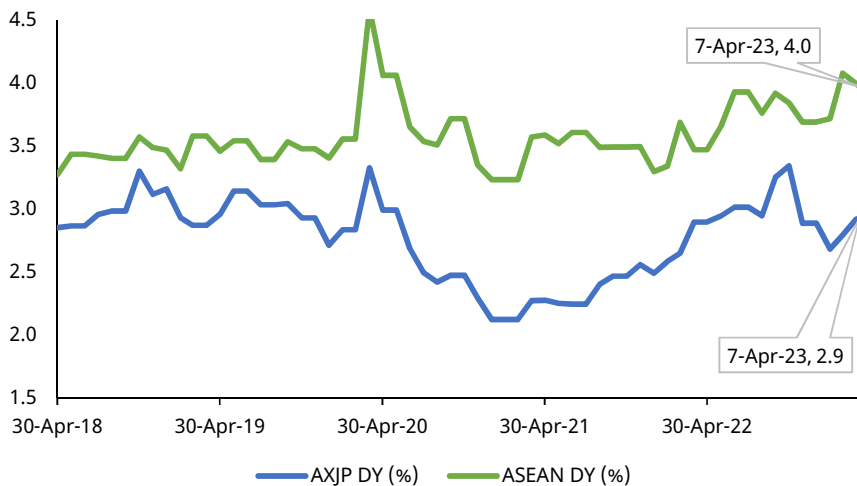
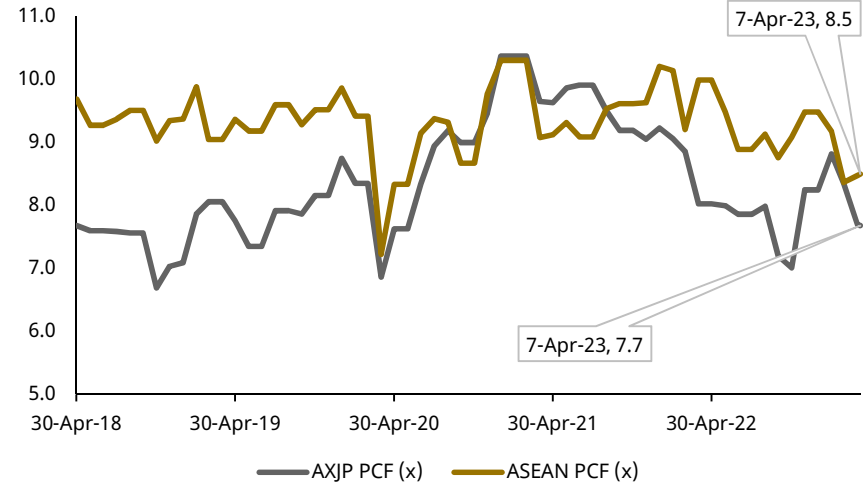


Exhibit 8: Regional Price-to-Cash Flow (x)

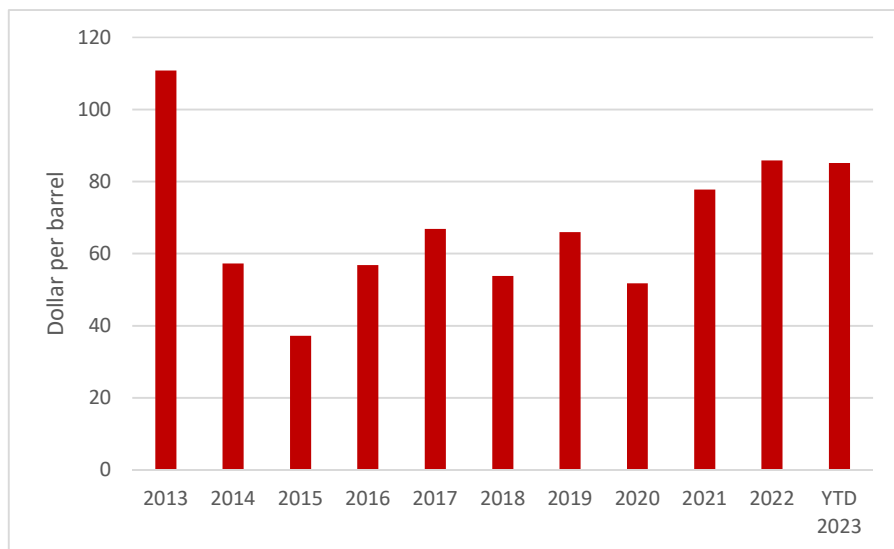


Source: Bloomberg

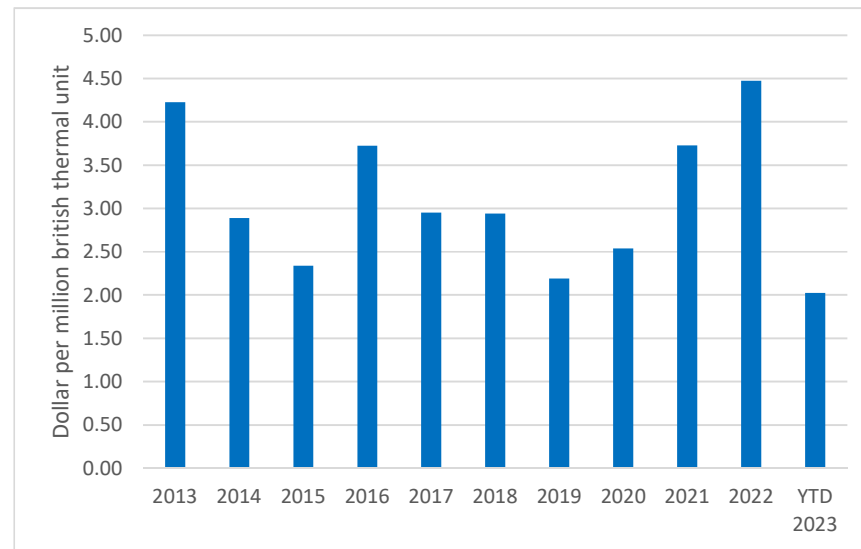
# 4.0 Energy Annual Prices

## Energy Prices Weighed by Global Macro Uncertainties

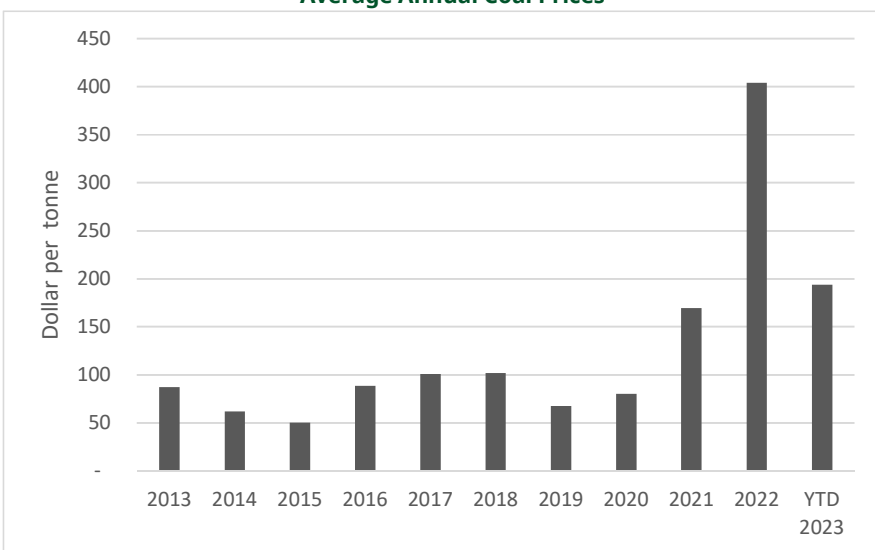
### Average Annual Brent Oil Prices



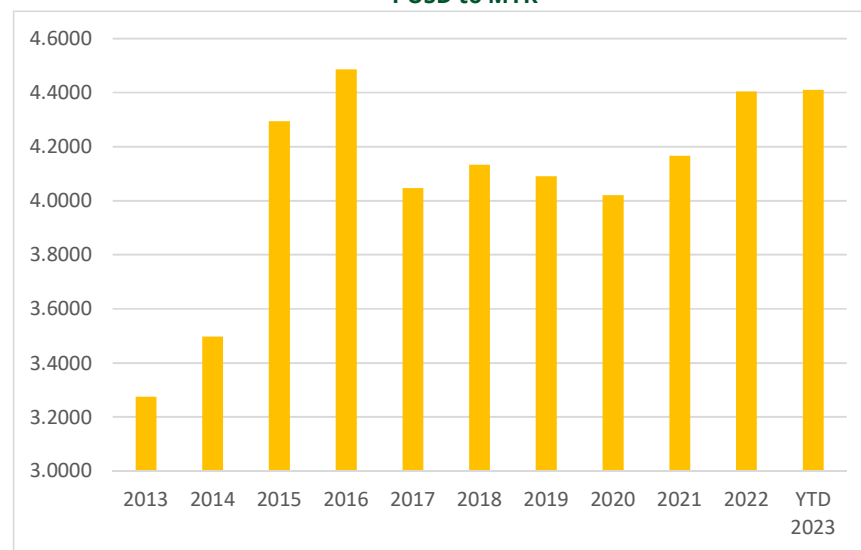
### Average Annual Natural Gas Prices



### Average Annual Coal Prices



### 1 USD to MYR



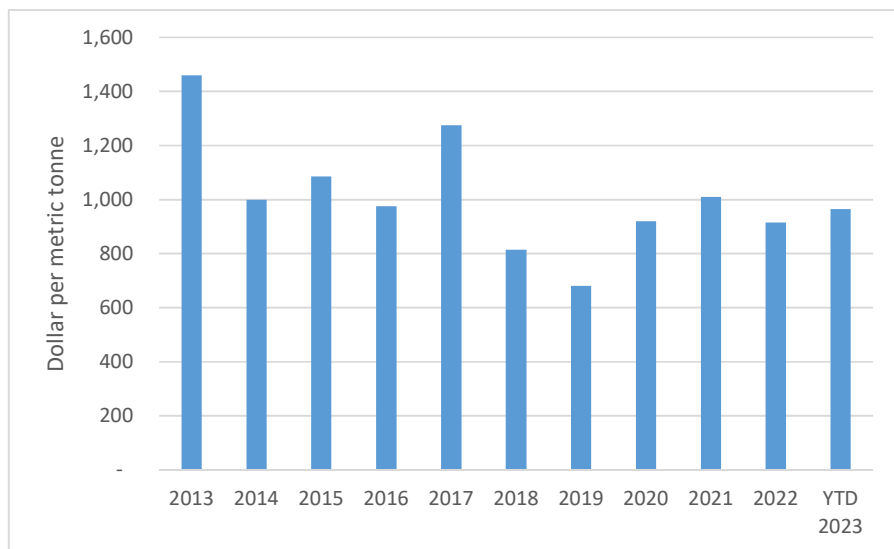
Source: Bloomberg



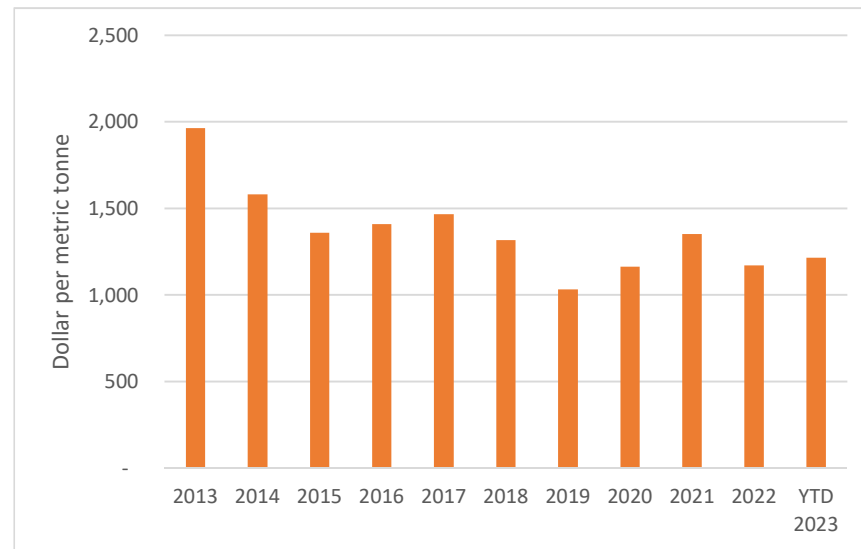
# 4.1 Petrochemical Annual Prices

## Modest price increase on China's reopening demand

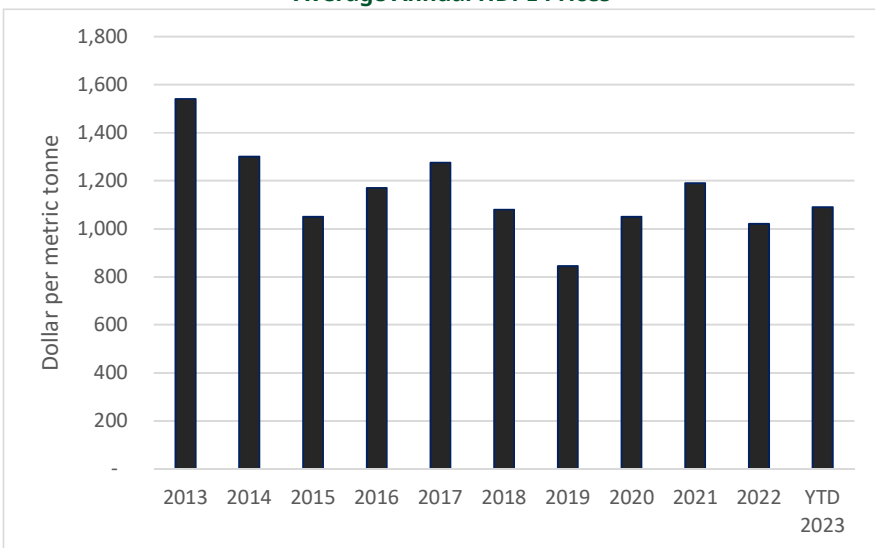
Average Annual Ethylene Prices



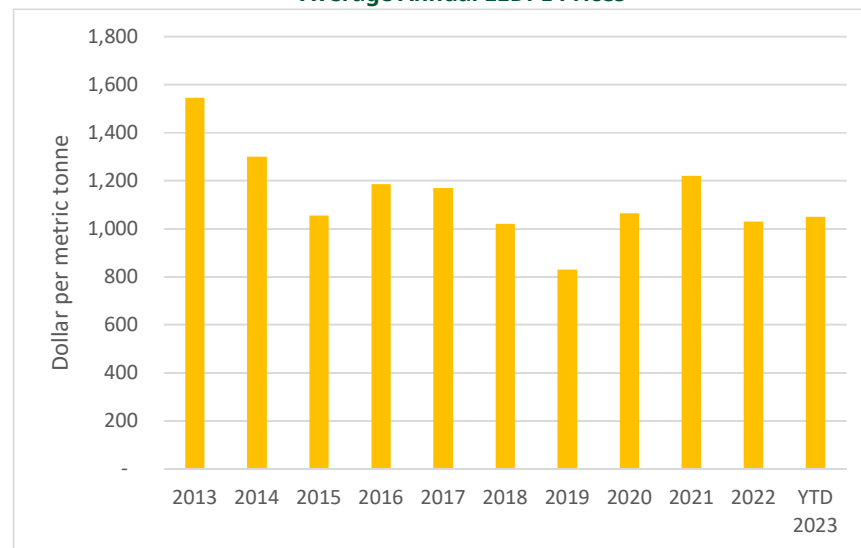
Average Annual Polyethylene Prices



Average Annual HDPE Prices



Average Annual LLDPE Prices

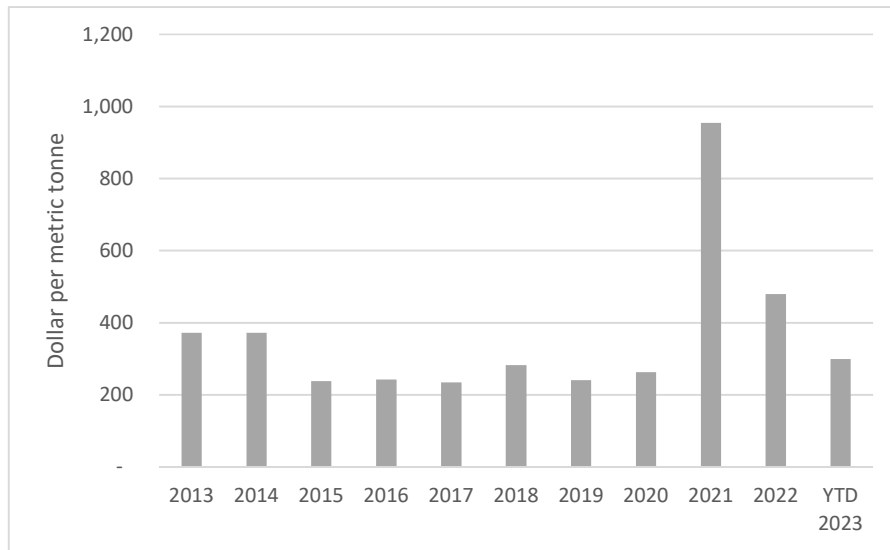


Source: Bloomberg

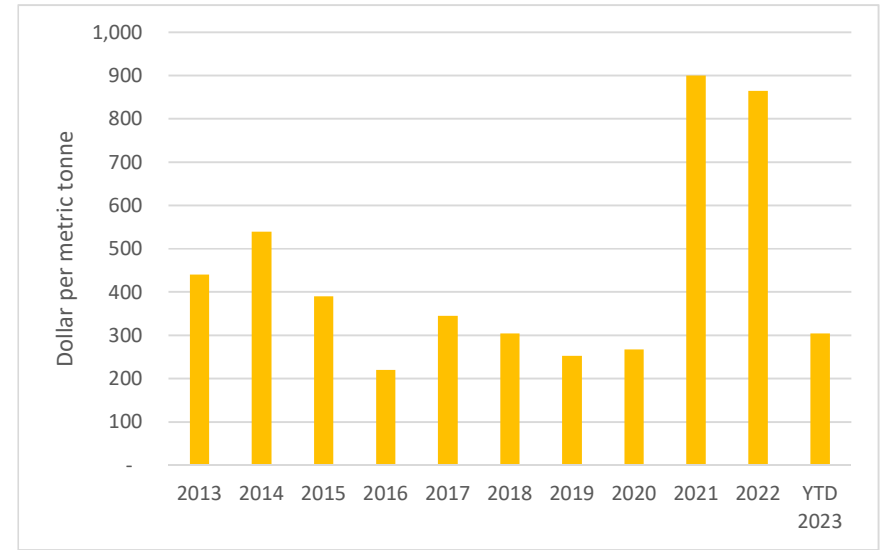
# 4.2 Fertiliser Annual Prices

## Ammonia & Urea Prices Returned to Pre-Covid Price Range

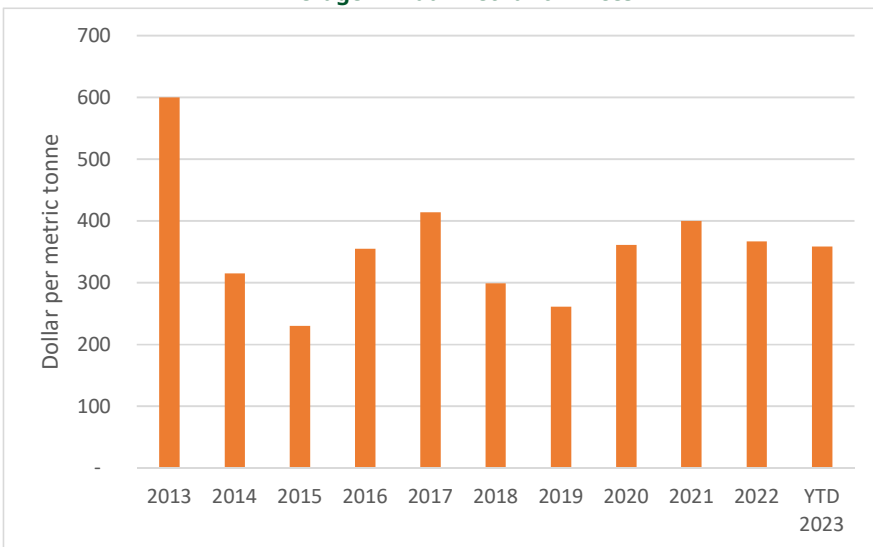
Average Annual Urea Prices



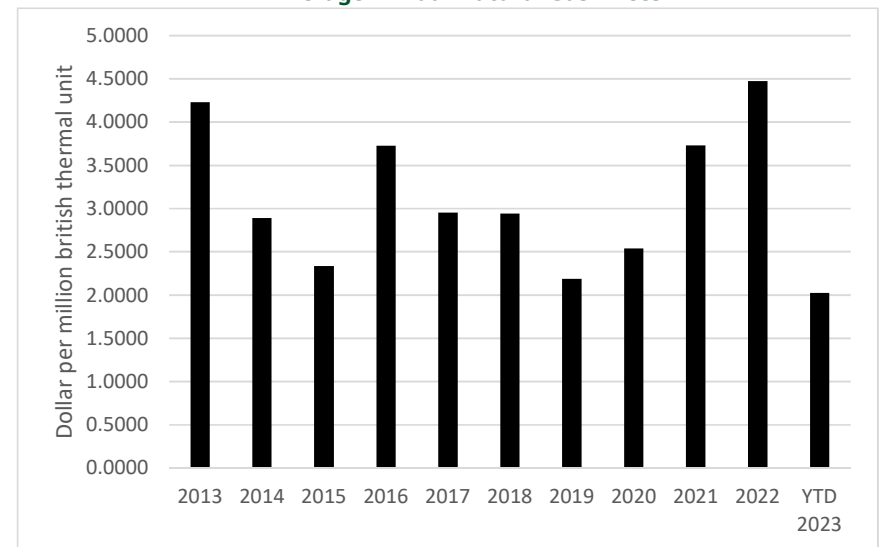
Average Annual Ammonia Prices



Average Annual Methanol Prices



Average Annual Natural Gas Prices

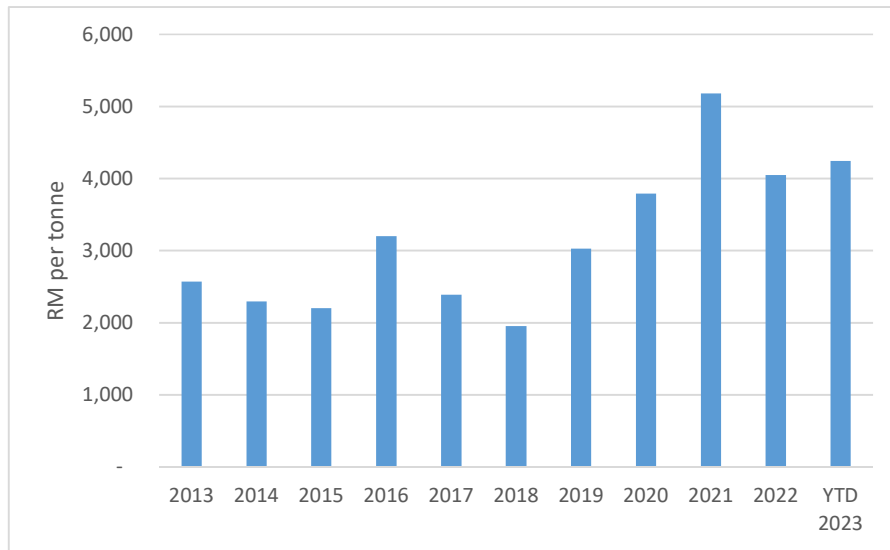


Source: Bloomberg

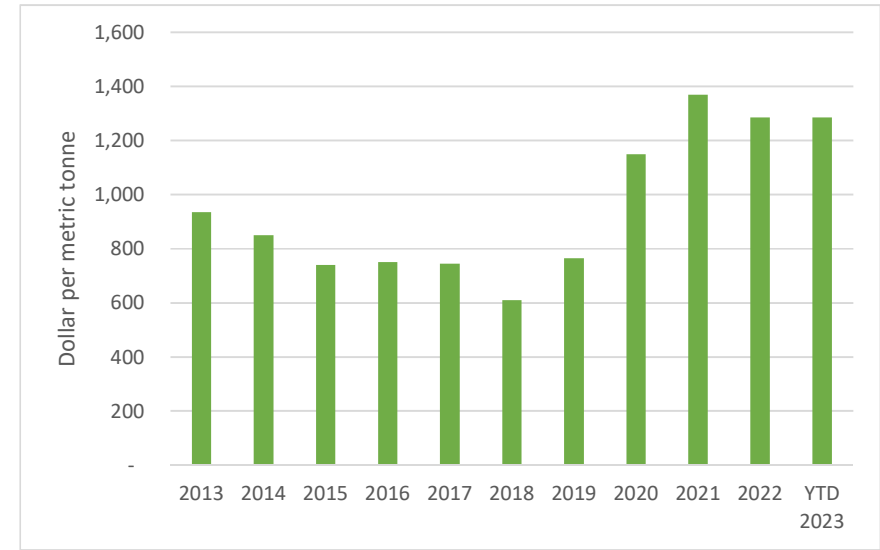
# 4.3 Agricultural Annual Prices

## Prices to Trade Rangebound

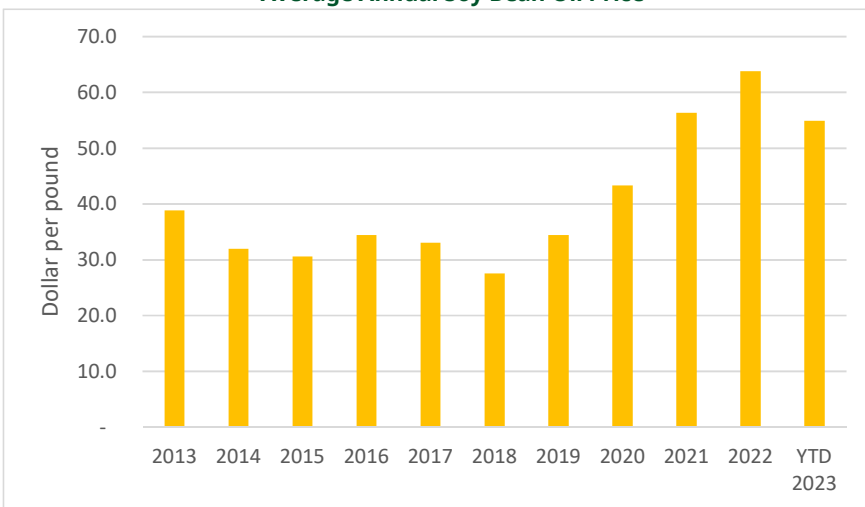
Average Annual Palm Oil Prices



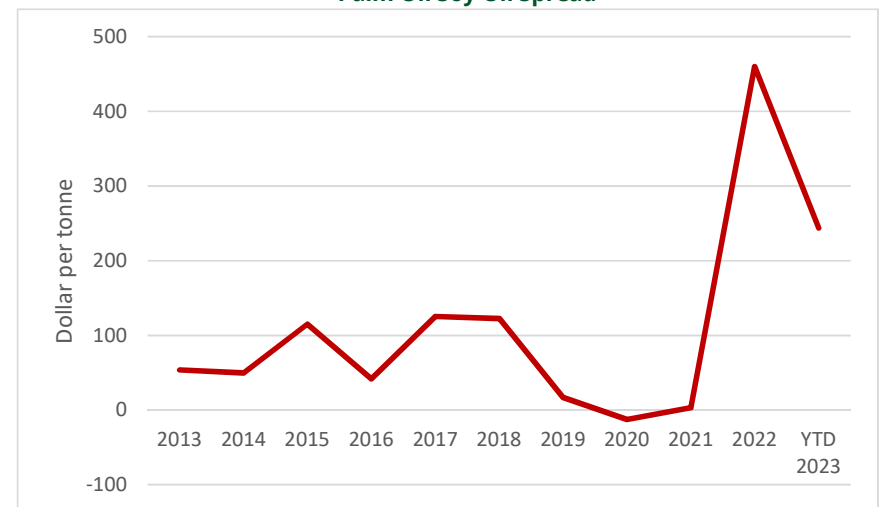
Average Annual Sunflower Oil Prices



Average Annual Soy Bean Oil Price



Palm Oil Soy Oil Spread



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