

Portfolio Managers' Views



20 June 2023
FUND MANAGEMENT DEPARTMENT

1.0 MALAYSIA & REGIONAL

The Week in Review (12 - 16 June 2023) & Our Managers' Views

- 1 US CPI continued to trend lower. Pause in US Fed Fund Rate signals downward trajectory in 2024:** The US consumer price index (CPI) for May 2023 rose just 0.1% MoM and 4% YoY. The YoY rate was the slowest rise in two years, and the US Fed Fund futures market continue to imply peak US interest rates in 2023 and possible cuts in 2024. Going forward, lower US interest rates is positive for Asian currencies and markets, and sectors relating to gold.
- 2 The semiconductor industry is bottoming out:** TSMC's monthly revenue for April increased by 20% MoM to 176bil TWD dollars, showing an improving demand for chips. The higher sales reinforce our view of a sequential improvement in tech earnings in Q2 vs Q1, and this also supports our sectoral thesis that the trend in YoY sales decline will reach an inflection point which is likely to happen in 2H'23. Thus, we remain invested in the technology sector.
- 3 Bermaz Auto's (Bauto) offers high dividend yield and potential higher sales:** Bauto Q4'23 net profit increased by 22.4% QoQ, mainly driven by higher car sales. We invest in Bauto for its high backlog orders, which will require roughly 4 months to clear. Moreover, Bauto will likely maintain its high dividend payout as it has net cash of RM437.7mil and minimal capex. Thirdly, riding on the recent electric vehicle (EV) hype, Bauto is also looking to add a Chinese EV brand for distribution in Malaysia.
- 4 We invest in net cash plantation stocks that offer high dividend yields:** According to the Malaysian Palm Oil Board (MPOB), the May palm oil inventories increased by 13% MoM to 1.69mil ton due to higher production. We expect CPO prices to trade between RM3000 - 3500/ton due to the high production season, return of foreign labour and lack of demand drivers after Hari Raya. However, assuming El-Nino becomes severe, CPO prices will increase due to weaker edible oil production.
- 5 China's retail spending continued to outperform industrials:** China's online consumption of goods grew 12% YoY for the first 5 months of 2023. This is higher compared to the 10% YoY growth for 4M23. Sales growth of telecommunications, gold & jewelry, autos, clothes & textiles, and sports & entertainment outperformed, rebounding to 27%, 24%, 24%, 18%, and 14% respectively. Thus, we remain invested in consumption-related stocks.
- 6 Valuations:** FBMKLCI are trading at very attractive levels now. For instance, its 2023 price-earnings ratio ("PER") of 13.4x is the lowest levels its been in the last 13 years. Similarly, price-to-book ratios are also attractive at 1.2x, which are levels last seen only during the market bottom for Covid in Mar-20. Dividend yields are also trading at 4.5%, above the 10-year high of 4.3% last seen in Q1 of 2021. Hence, we remain optimistic for the prospects of the Malaysian markets.

2.0 MALAYSIA MARKET REVIEW

Technology Index rose by 4.1% WTD led by semiconductors manufacturers

Exhibit 1: KLCI vs Shariah Index

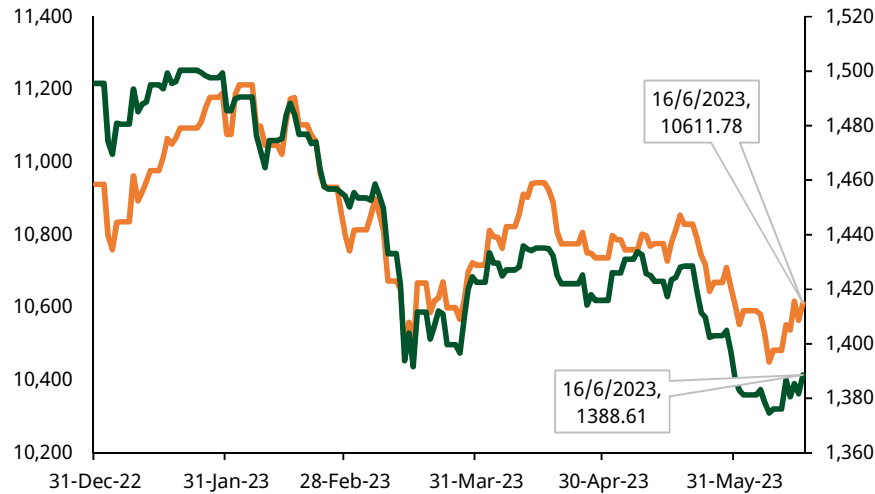


Exhibit 2: USDMYR

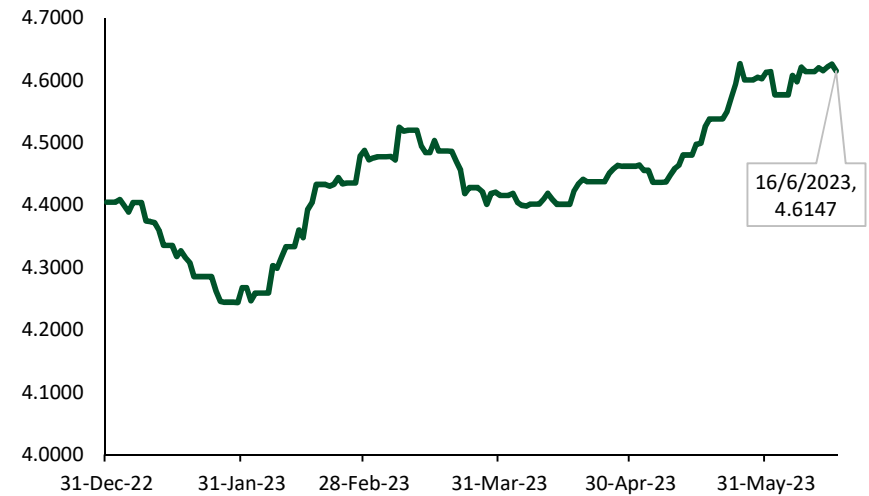


Exhibit 3: Sector Performances Week-to-Date (%)

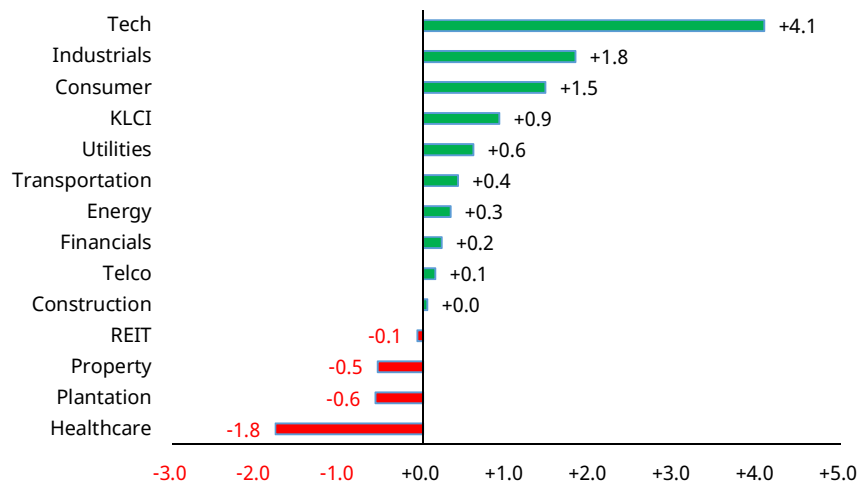
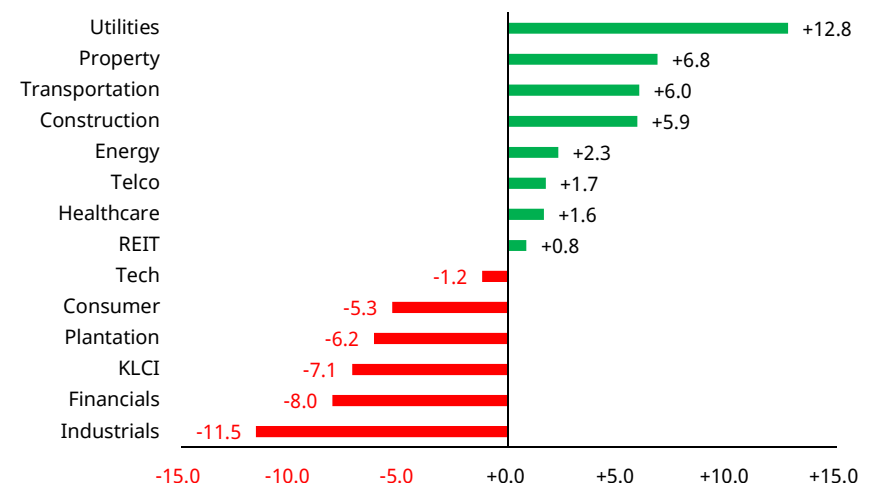


Exhibit 4: Sector Performances Year-to-Date (%)



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, %)

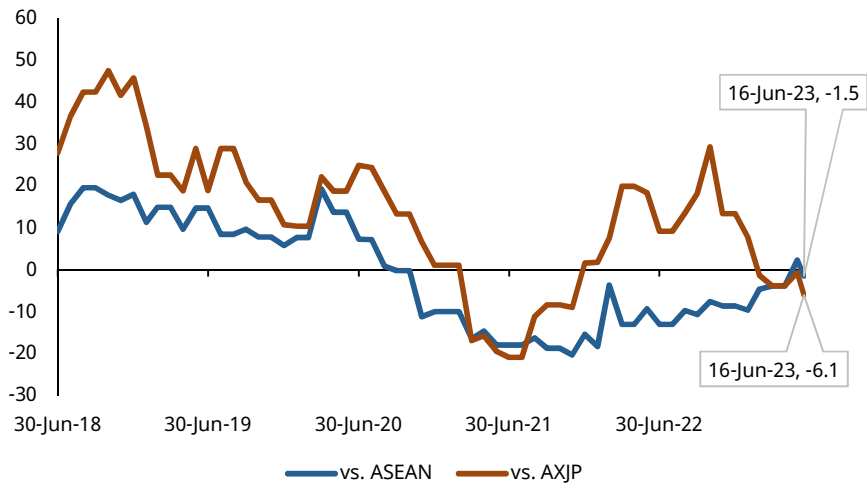


Exhibit 6: KLCI's Price-Earnings Ratio (PER, x)

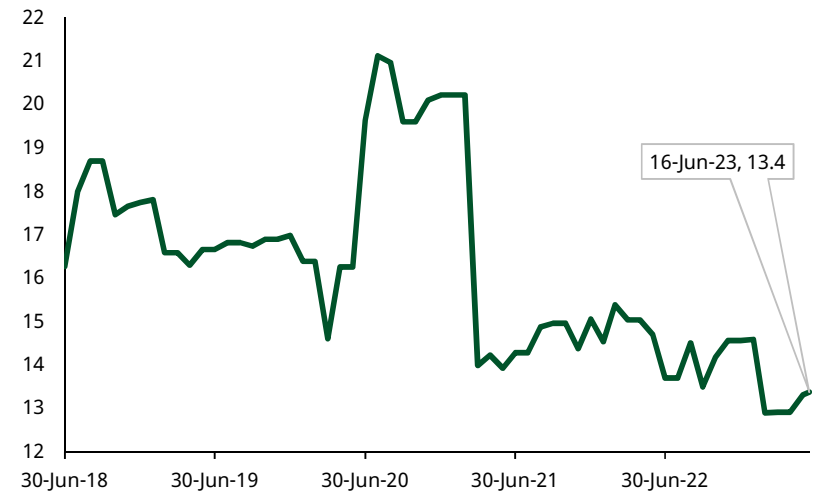


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

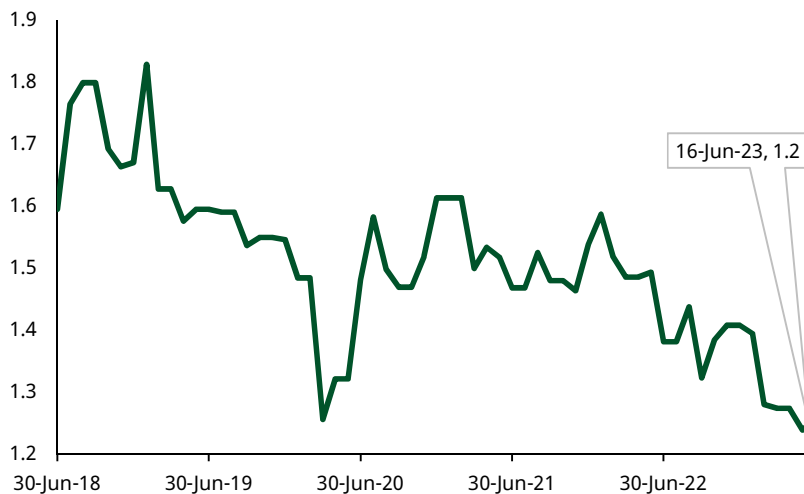
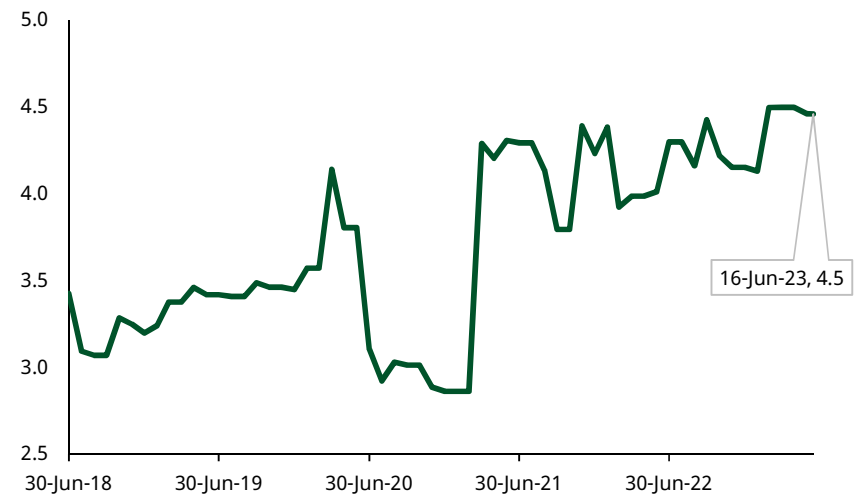


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

3.0 REGIONAL MARKETS REVIEW

HK & China Markets Rallied on Stimulus Measures Hopes

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

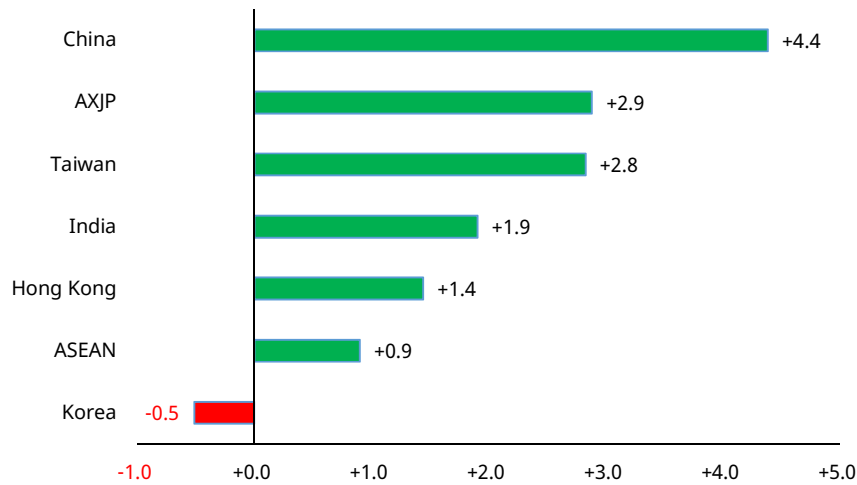


Exhibit 2: Country Performances Year-to-Date (%)

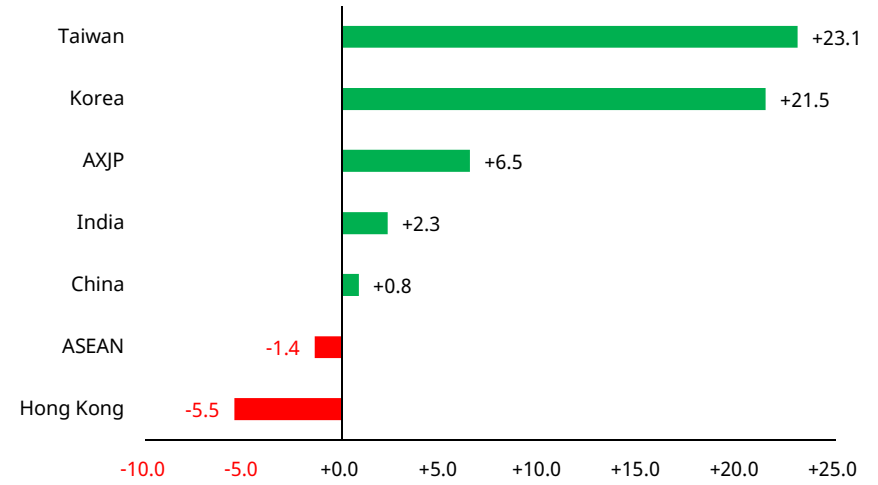


Exhibit 3: Sector Performances Week-to-Date (%)

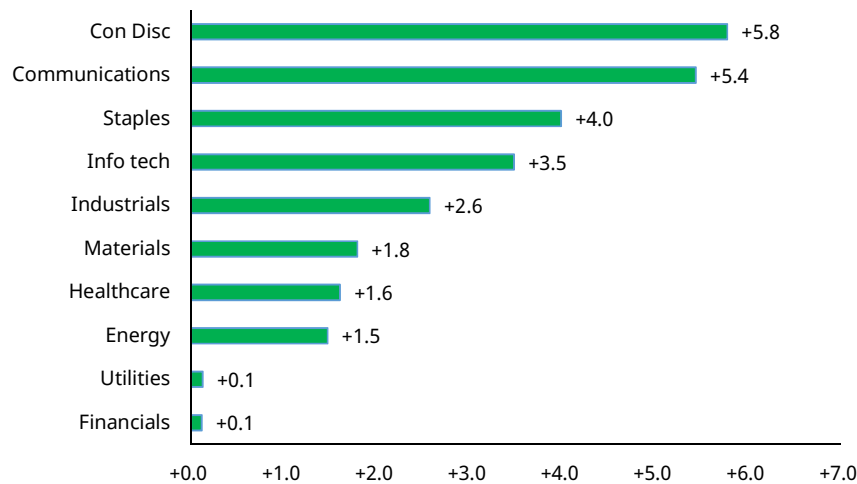
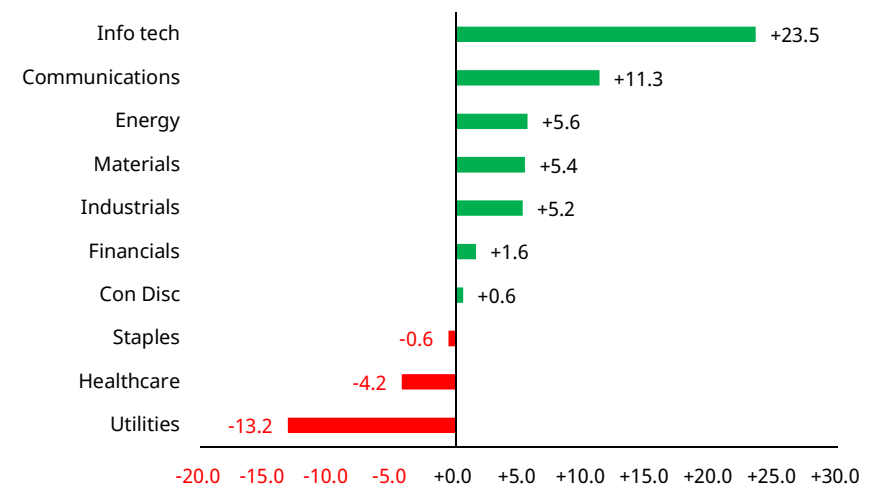


Exhibit 4: Sector Performance Year-to-Date (%)



Source: Bloomberg

3.1 REGIONAL VALUATIONS

We See The Market's Retracement As An Opportunity To Buy

Exhibit 5: Regional Price-Earnings Ratio (x)

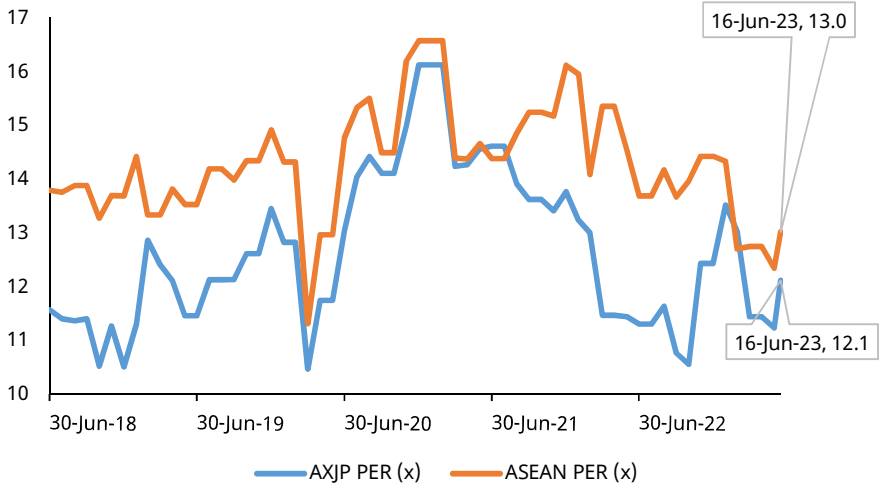


Exhibit 6: Regional Price-to-Book Ratio (x)

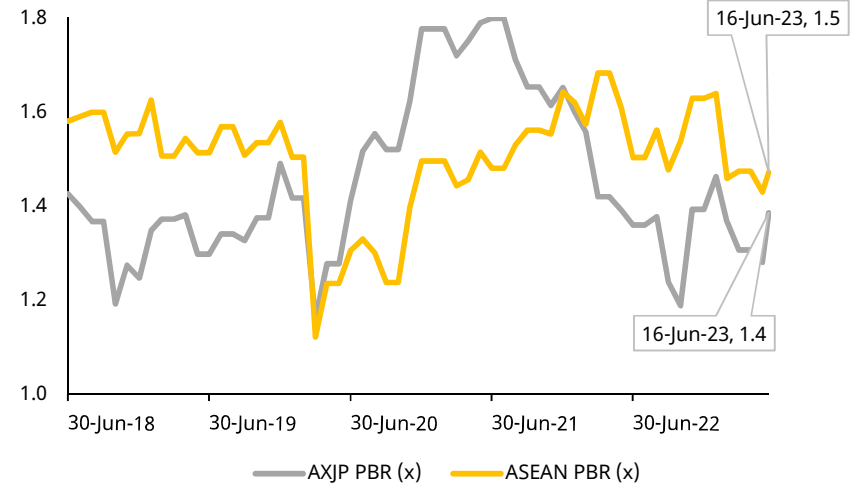


Exhibit 7: Regional Dividend Yield (%)

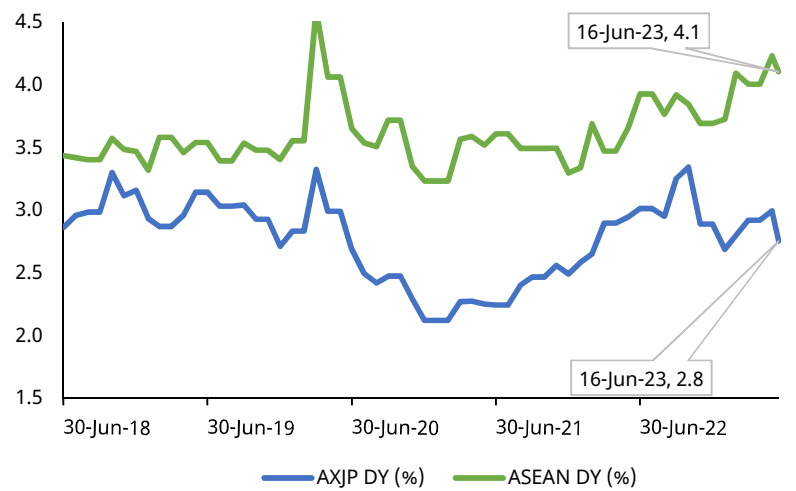
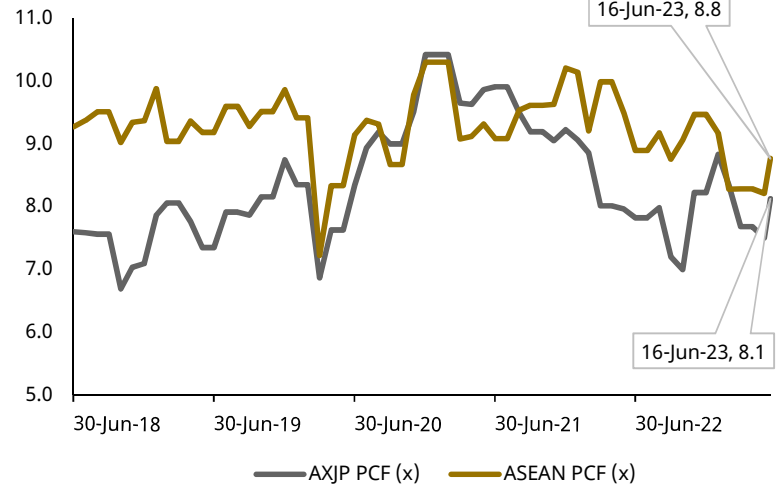


Exhibit 8: Regional Price-to-Cash Flow (x)



Source: Bloomberg

4.0 FOREIGN FUND FLOWS

Foreign Funds Were Net Buyers of Taiwan, India & South Korea since end-May

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

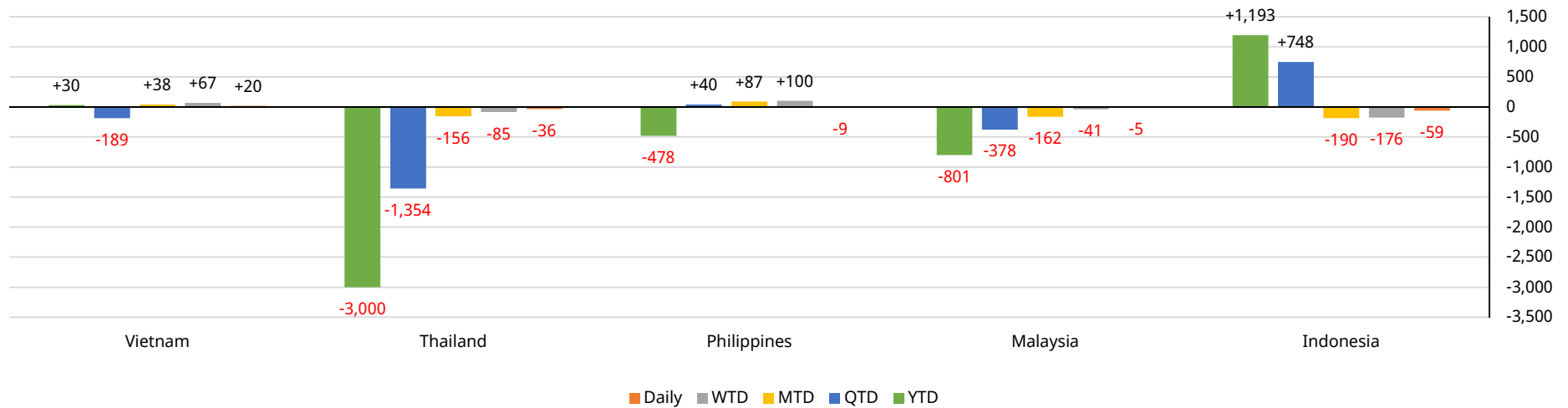
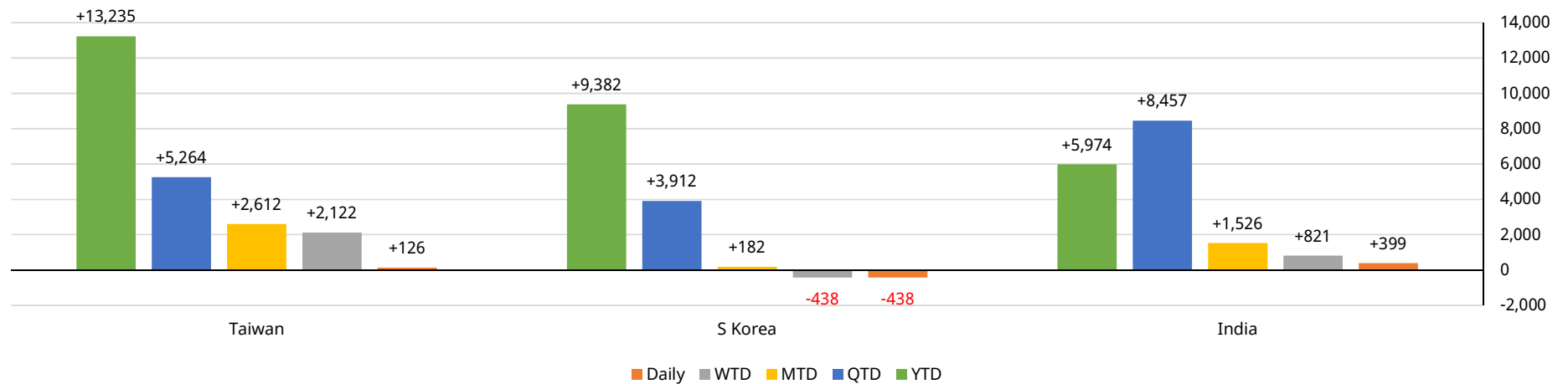


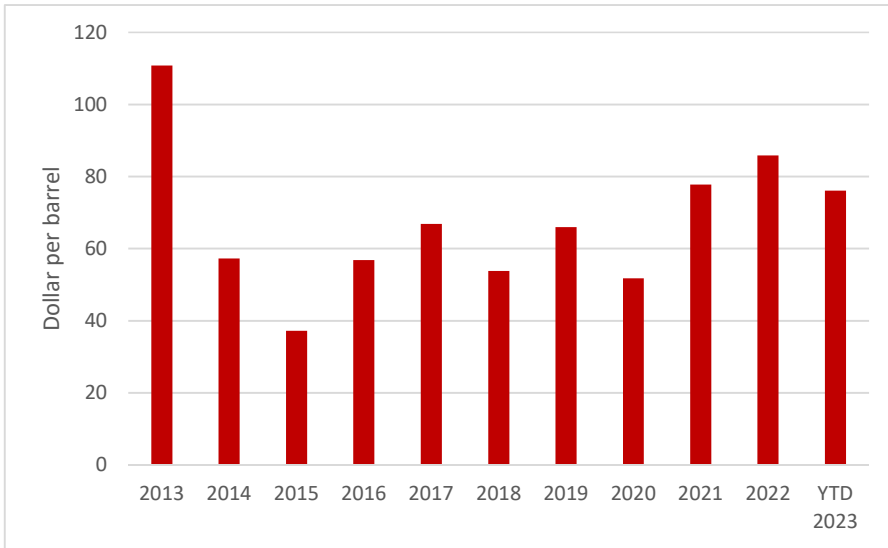
Exhibit 10: Selected North and West Asian Markets (Net USD mil)



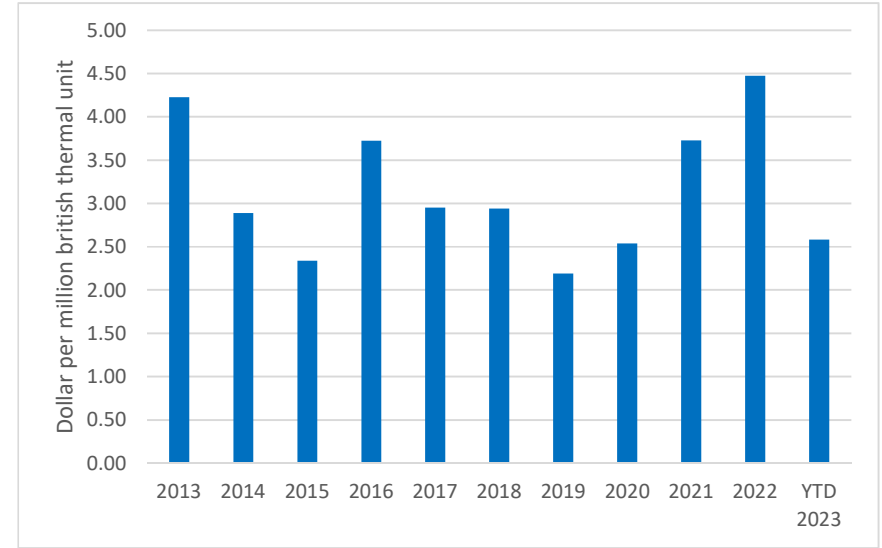
5.0 Energy Annual Prices

Energy Prices Weakened But Oil Remained Elevated Due To Tight Supply

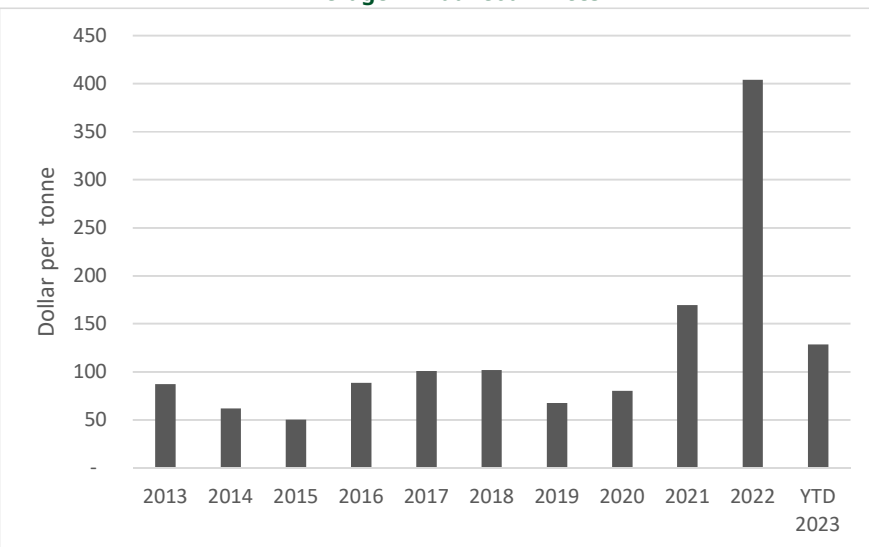
Average Annual Brent Oil Prices



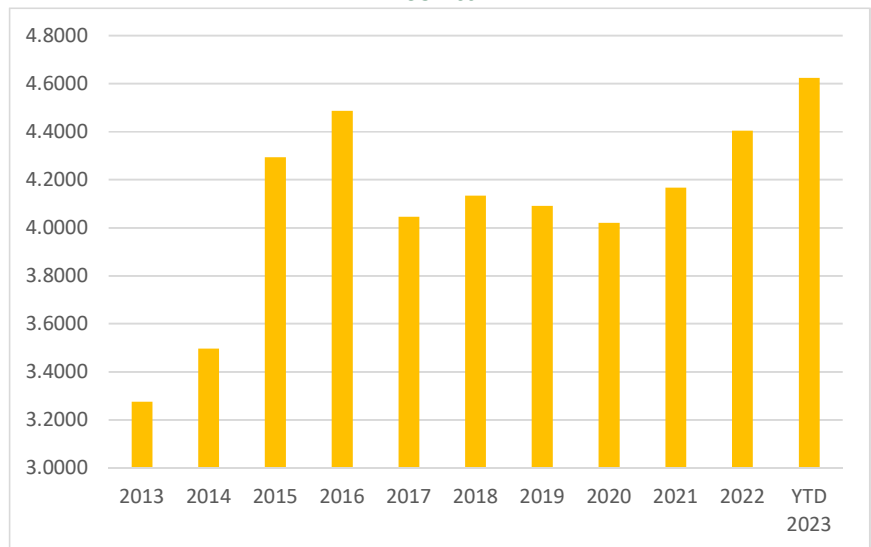
Average Annual Natural Gas Prices



Average Annual Coal Prices



1 USD to MYR

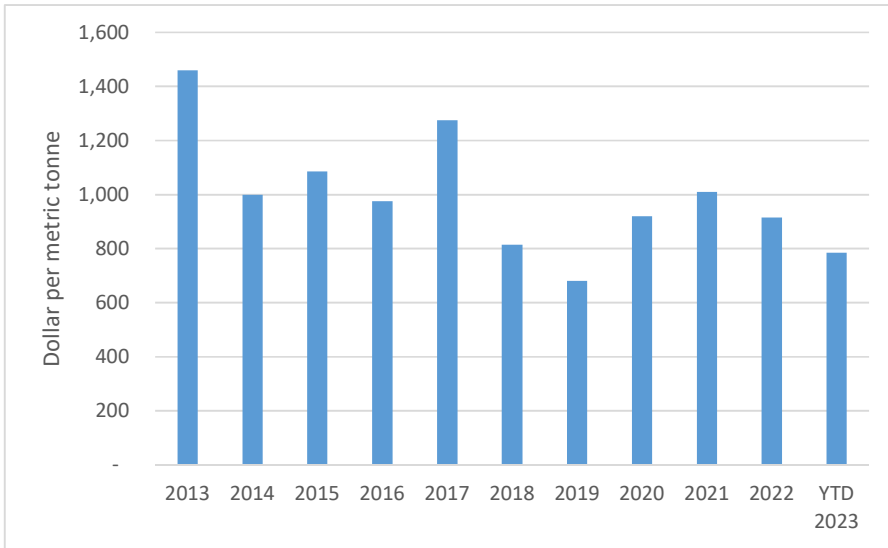


Source: Bloomberg

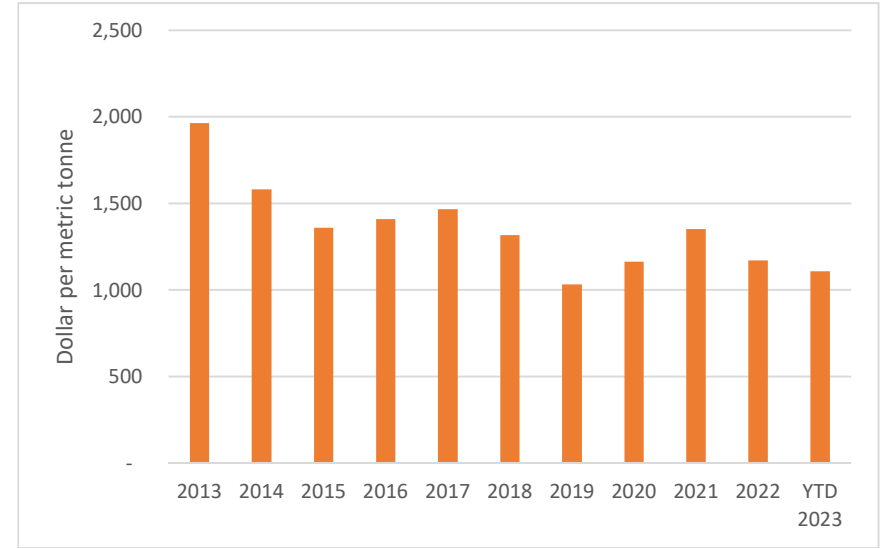
5.1 Petrochemical Annual Prices

Modest Price Increase On China's Reopening Demand

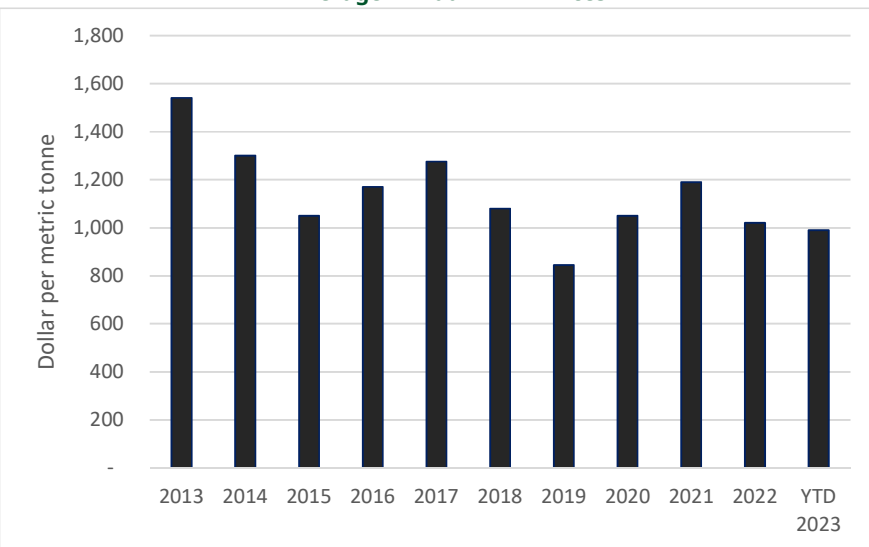
Average Annual Ethylene Prices



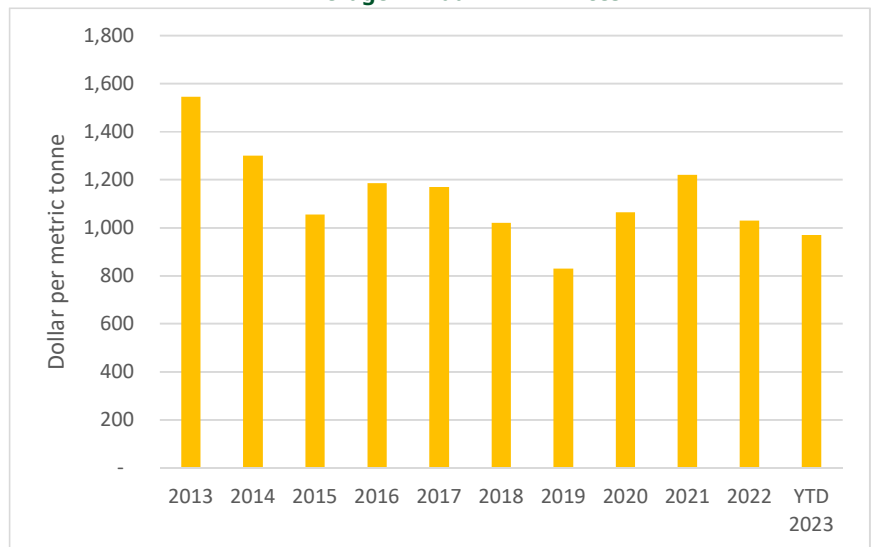
Average Annual Polyethylene Prices



Average Annual HDPE Prices



Average Annual LLDPE Prices

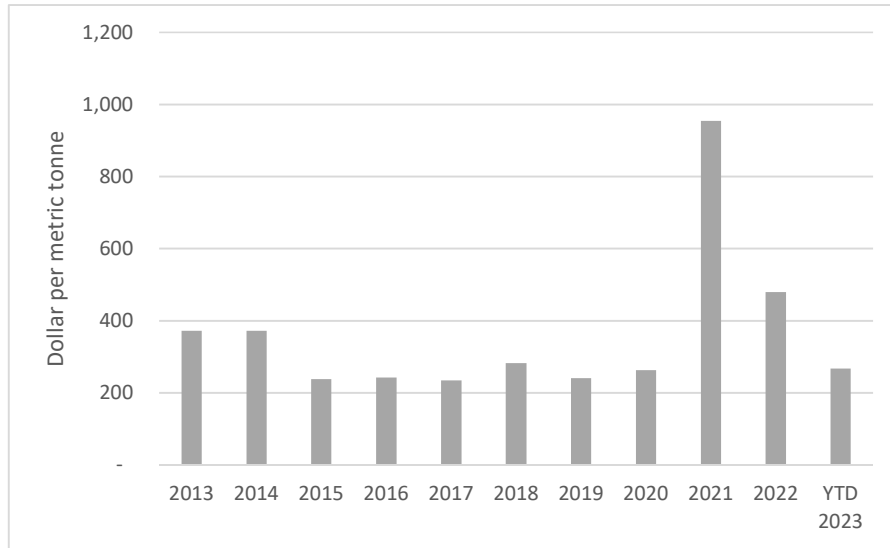


Source: Bloomberg

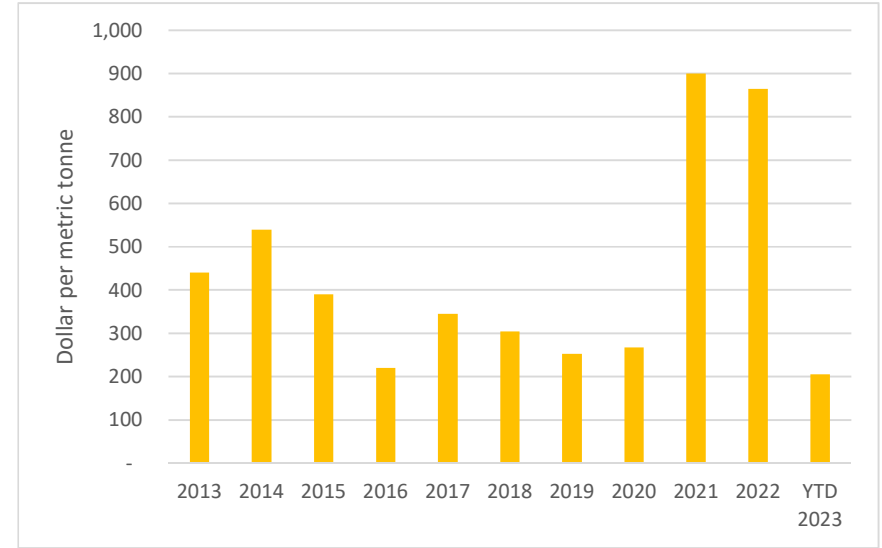
5.2 Fertiliser Annual Prices

Ammonia & Urea Prices Trend Lower, Tracking Natural Gas Prices

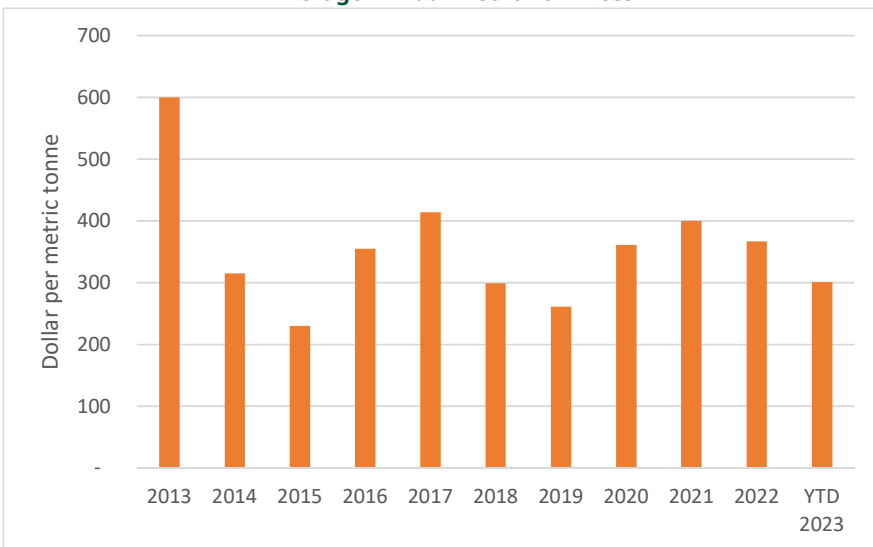
Average Annual Urea Prices



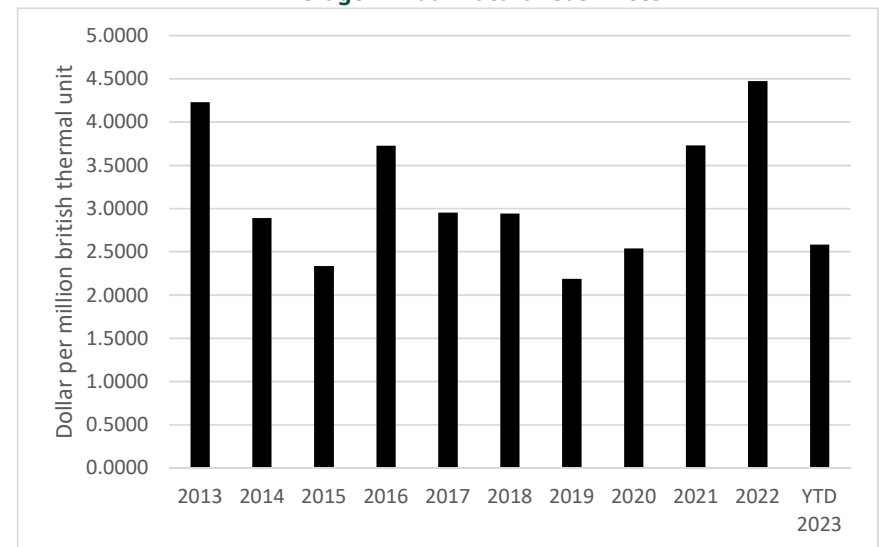
Average Annual Ammonia Prices



Average Annual Methanol Prices



Average Annual Natural Gas Prices

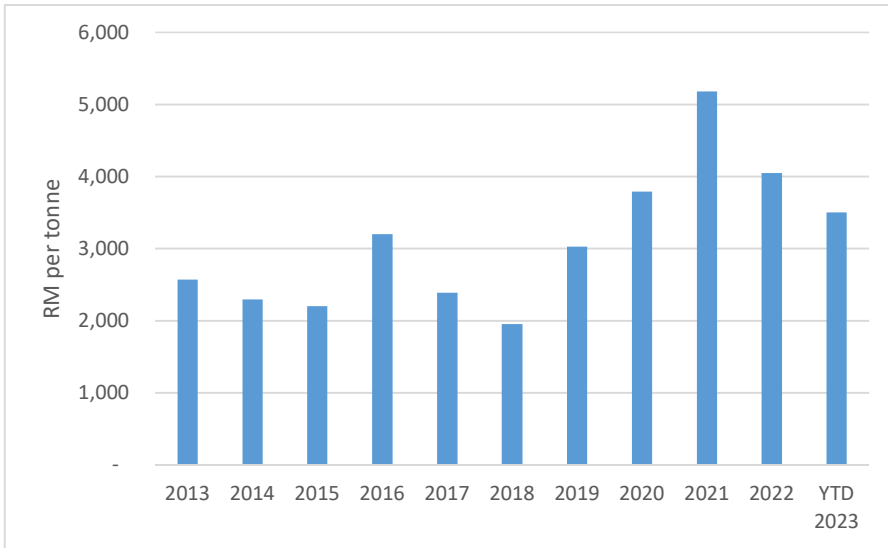


Source: Bloomberg

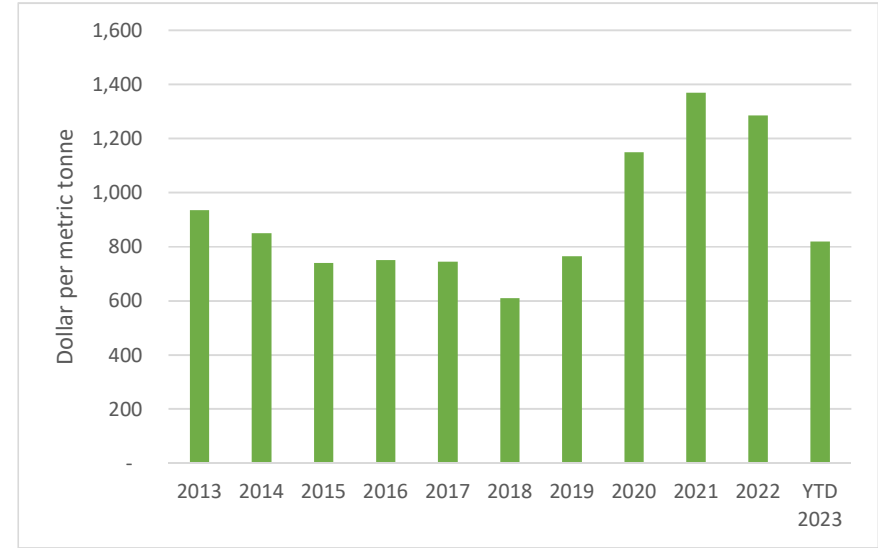
5.3 Agricultural Annual Prices

Palm Oil Prices Supported By Resilient Demand

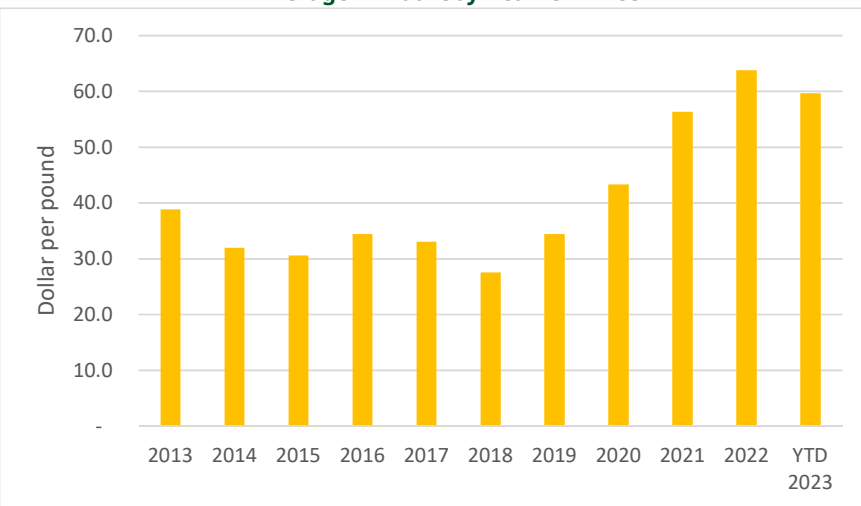
Average Annual Palm Oil Prices



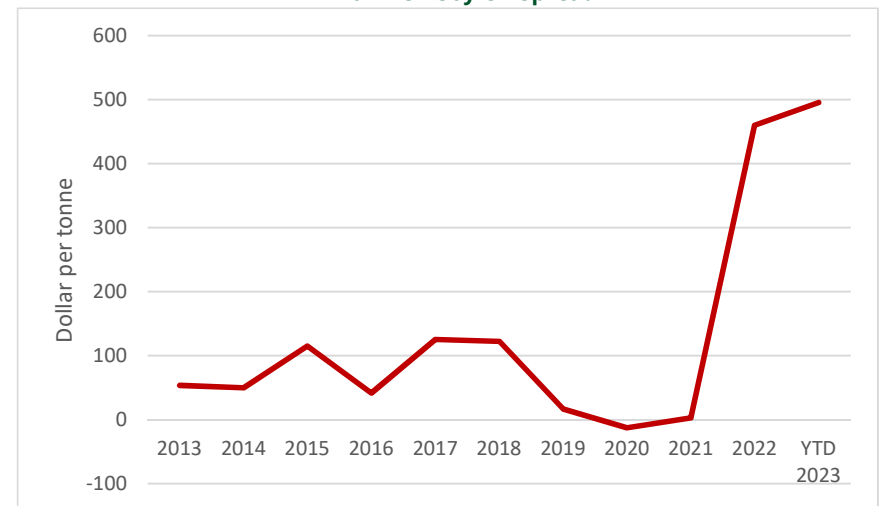
Average Annual Sunflower Oil Prices



Average Annual Soy Bean Oil Price



Palm Oil Soy Oil Spread



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