

Portfolio Manager's Views

Investment Department



28 November 2024

1. MALAYSIA & REGIONAL

- 1 The Trump administration is back.** The re-election of Trump and the Red Sweep of Congress has altered the outlook for markets. While US equity indices have rallied, the sentiment for the rest of the world (“ROW”) and particularly Asia has turned cautious.
- 2 FED Chair Jerome Powell’s statements were hawkish** on 7th Nov & 14th Nov. The Fed is signalling that they are *not* in a hurry to lower rates. The pace of US interest rate cuts are expected to be slower compared to initial expectations. Some economists predict that the terminal Fed Funds Rate at the end of 2025 will reach ~ 3.5% (now 4.75%). The cautious stance by the FED reflects the strong rally in US risk assets post the 5th November election, a resilient US labour market and October’s core CPI of 3.3% YoY.
- 3** The recent rebound of US 10Y bond yields to 4.40% (back to Jul-24 levels before the FED rate cut) has led to a resurgent USD. **This has resulted in the weakening of Asian currencies.** The latter will restrict the potential for interest rates to decline in some Asian economies. Furthermore, if Trump implements a 60% tariff on China and 10% to 20% on the ROW, GDP growth for Asia will be negatively affected. The attendant impact is a revision down in corporate earnings. Finally, a tariff hike on China will pressure the CNY to weaken which will drag down Asian currencies.
- 4 Domestic reforms and restructuring** will be key to mitigating the downside of the MYR and to improve the economy’s longer-term outlook. It is positive to note that, Budget 2025 commits to reducing the budget deficit to -3.8% of GDP in 2025 and to -3.0% of GDP by 2027 (2024E: -4.3% of GDP; 2023: -5.0% of GDP).
- 5 KLCI’s valuations are still reasonable** ie. 2024 PER of 15.0x (10Y range 12.5x to 21.7x), PBR of 1.4x (10Y range 1.2x to 2.1x) and 2024 forecast DY of 4.2% (10Y range 2.7% to 4.7%). Our strategy is to invest in well-managed companies which have potential catalysts, growth and/or decent dividend yield. While valuations are undemanding, we expect regional markets to face short-term headwinds as they brace for Trump’s imminent tariffs. In conclusion, we have turned cautious, are keeping a higher level of cash and will wait for better opportunities to buy.
- 6 Why do we own Spritzer?** We explain our thesis behind our holding in the largest mineral water brand in Malaysia.

2. MALAYSIA MARKET REVIEW

Malaysia has outperformed in 2024. Ringgit has corrected since Oct-24.

Exhibit 1: KLCI & Shariah Index

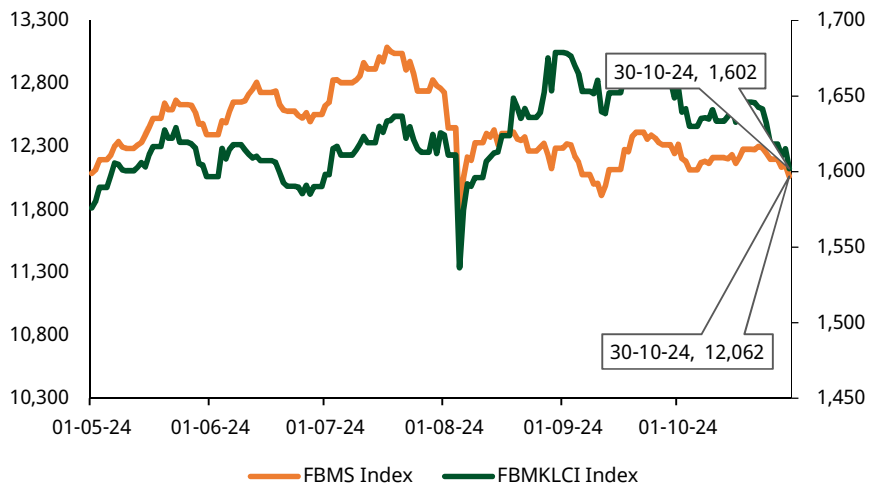
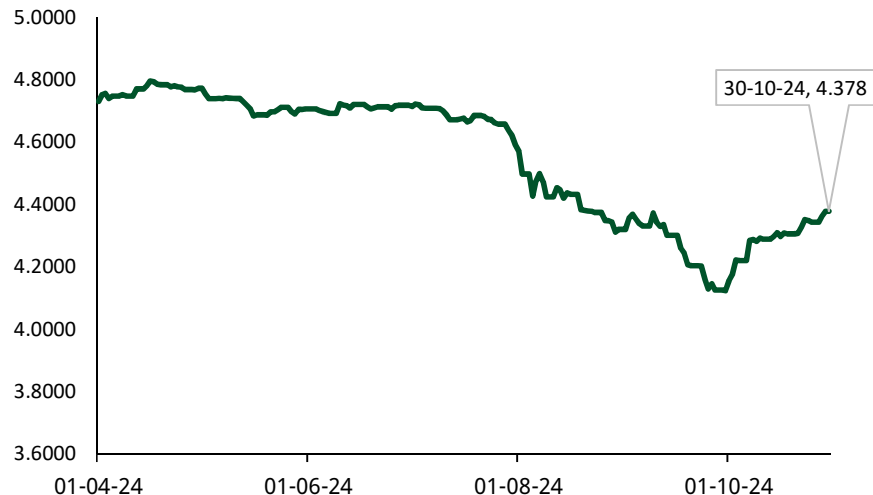


Exhibit 2: USDMYR



Construction and REIT rallied upon expectations of stronger GDP growth. Technology was adversely affected by MYR strengthening.

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

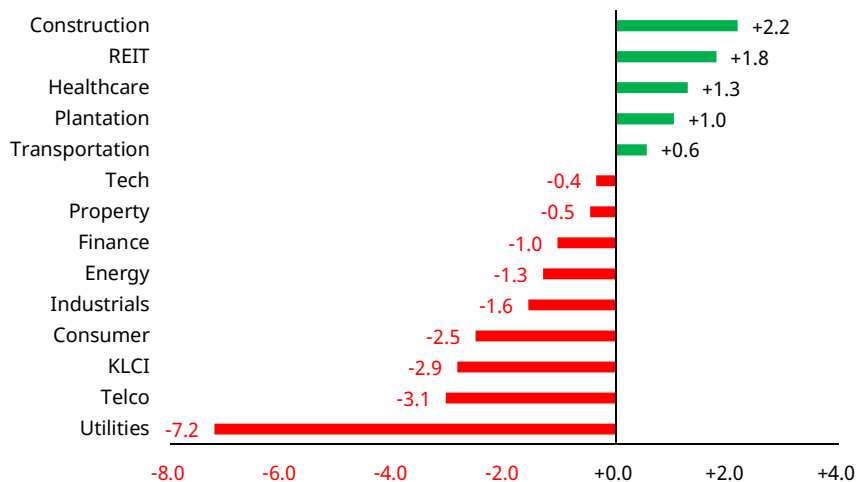
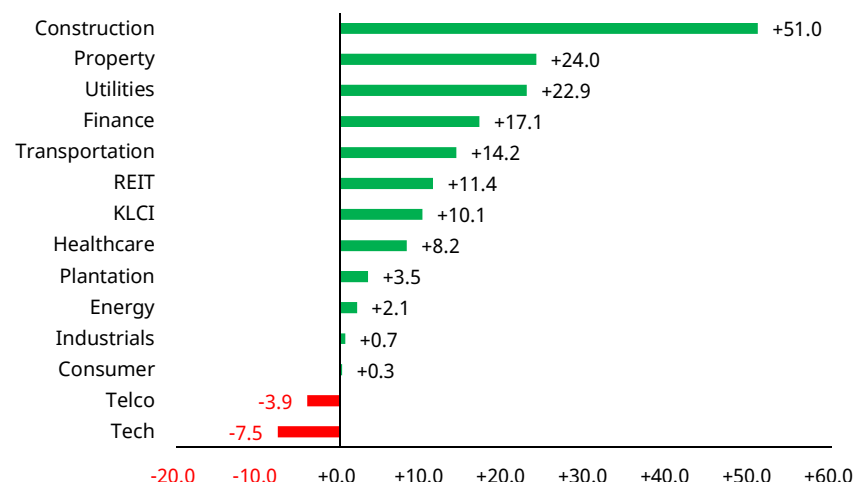


Exhibit 4: Sector Performances Year-to-Date (%)



3. MALAYSIA VALUATIONS

KLCI's valuations not as cheap as before.

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

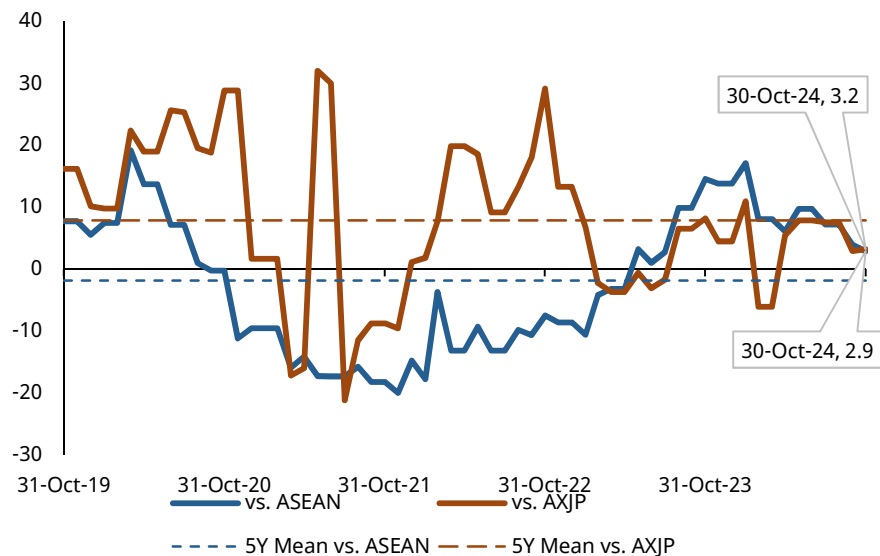


Exhibit 6: KLCI's 2024 PER (x)

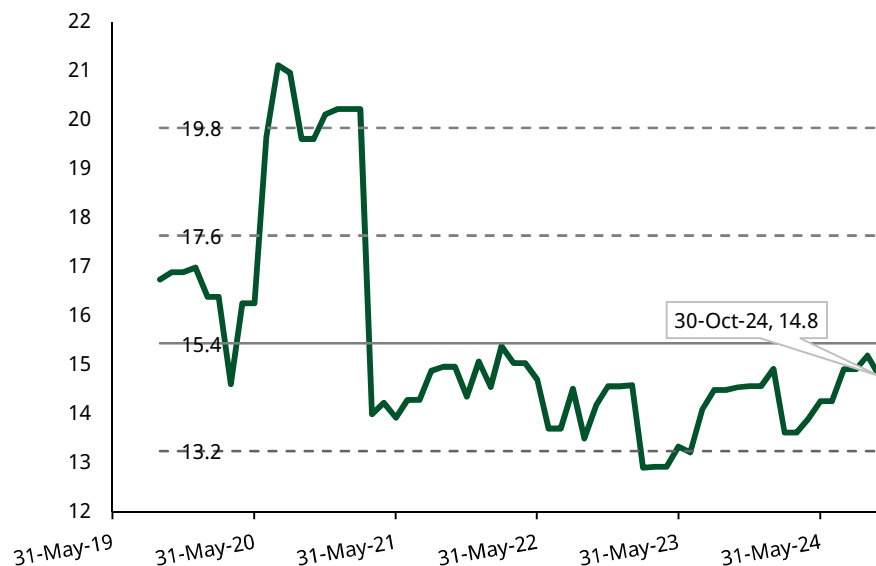


Exhibit 7: KLCI's 2024 PBR (x)

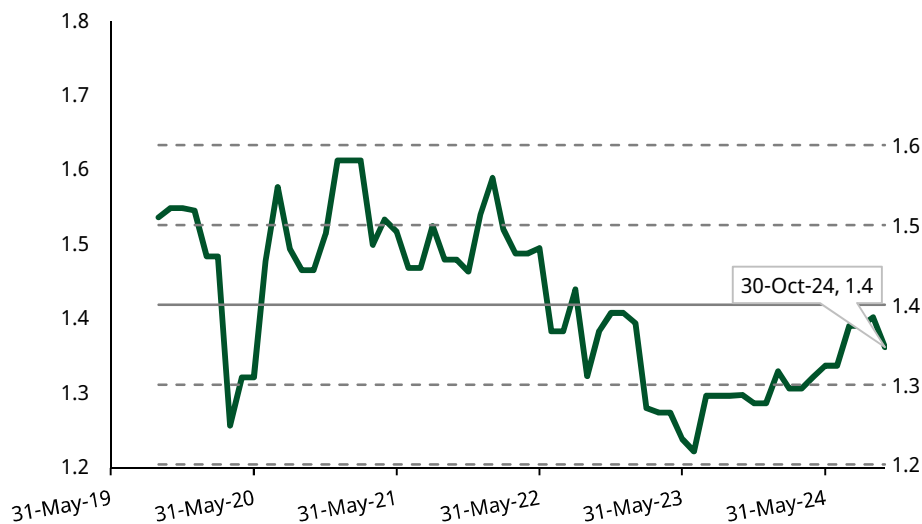
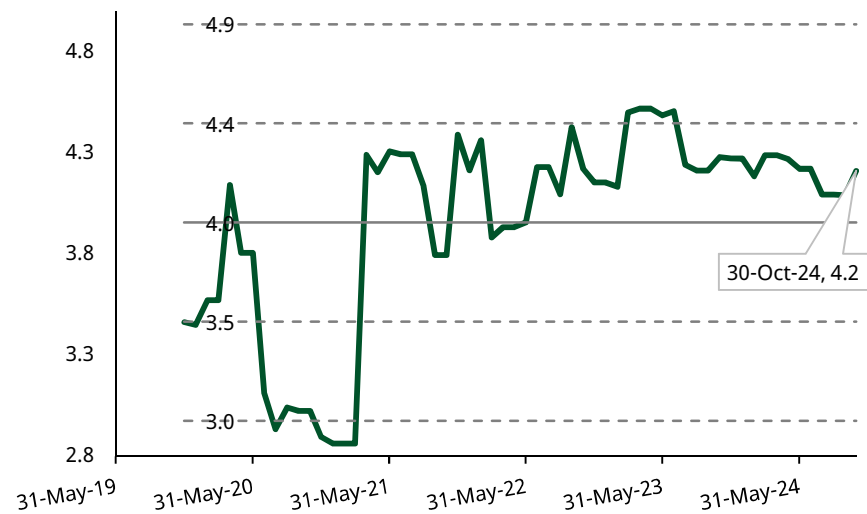


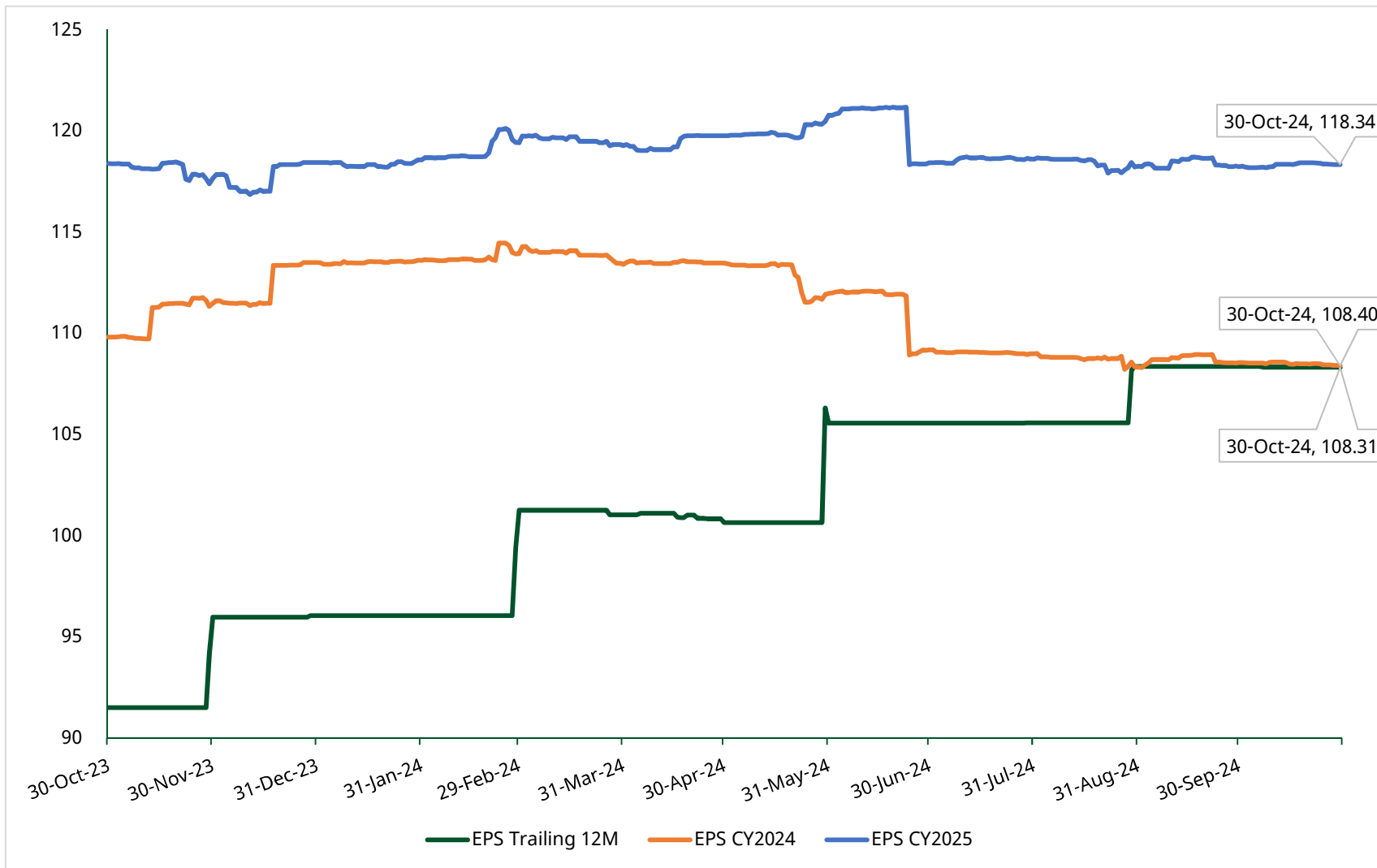
Exhibit 8: KLCI's 2024 DY (%)



4. CONSENSUS EPS

KLCI earnings have been steady.

Exhibit 9: 12M Trailing & 2024 & 2025 EPS

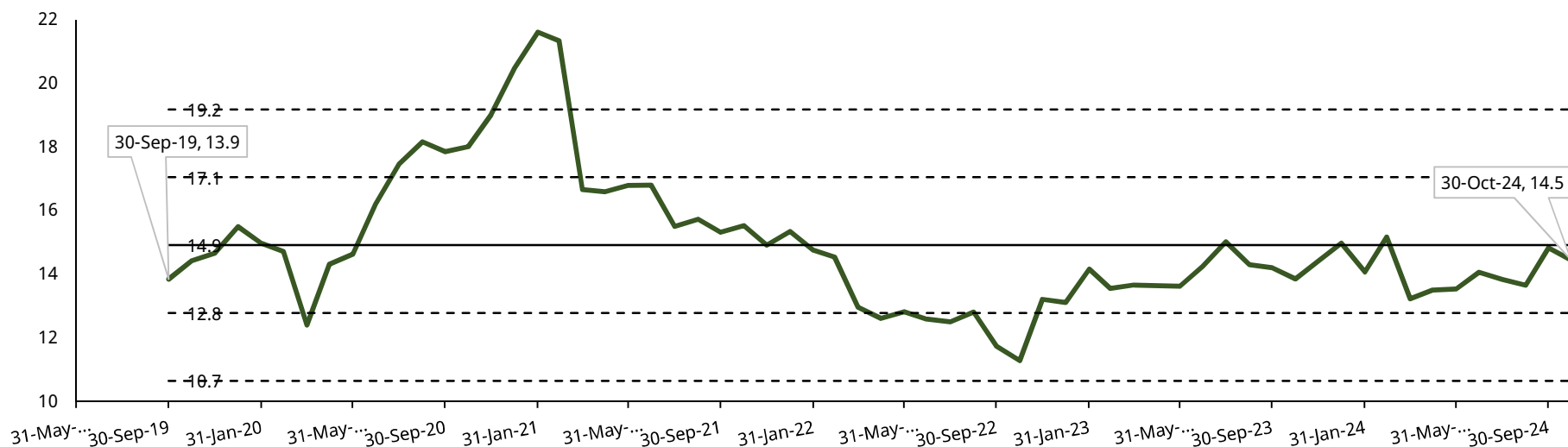


Source: Bloomberg

5. MSCI ASIA EX JAPAN PER & USD

Asia ex Japan is trading near historical averages.

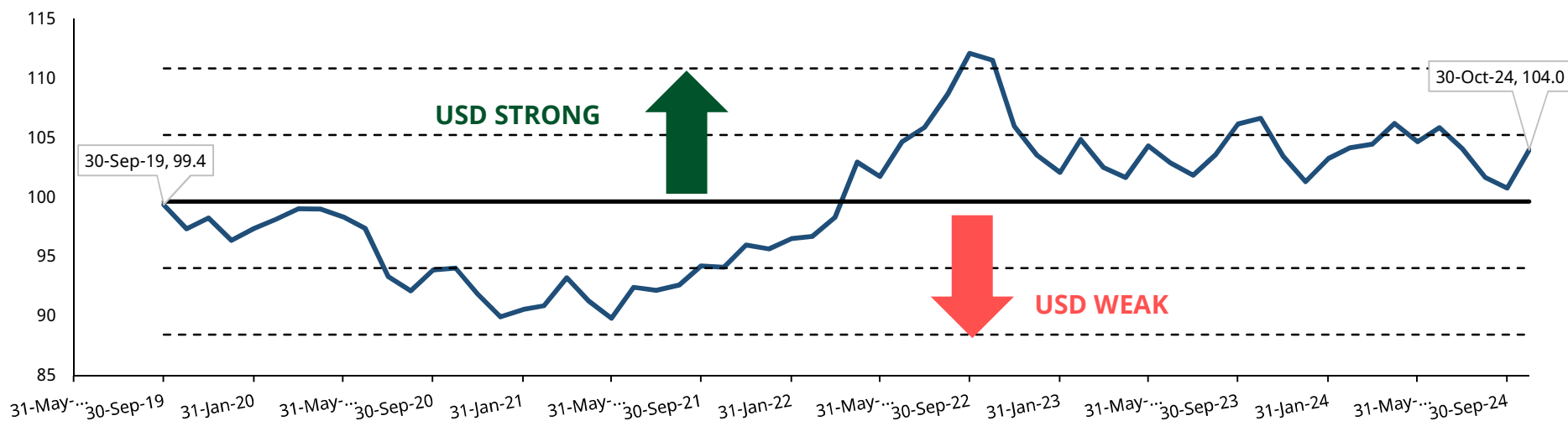
Exhibit 10: MSCI Axj Index's 2024 PER (x)



Source: Bloomberg

Fed poised to further cut interest rates. However, dollar strength will continue.

Exhibit 11: DXY Index

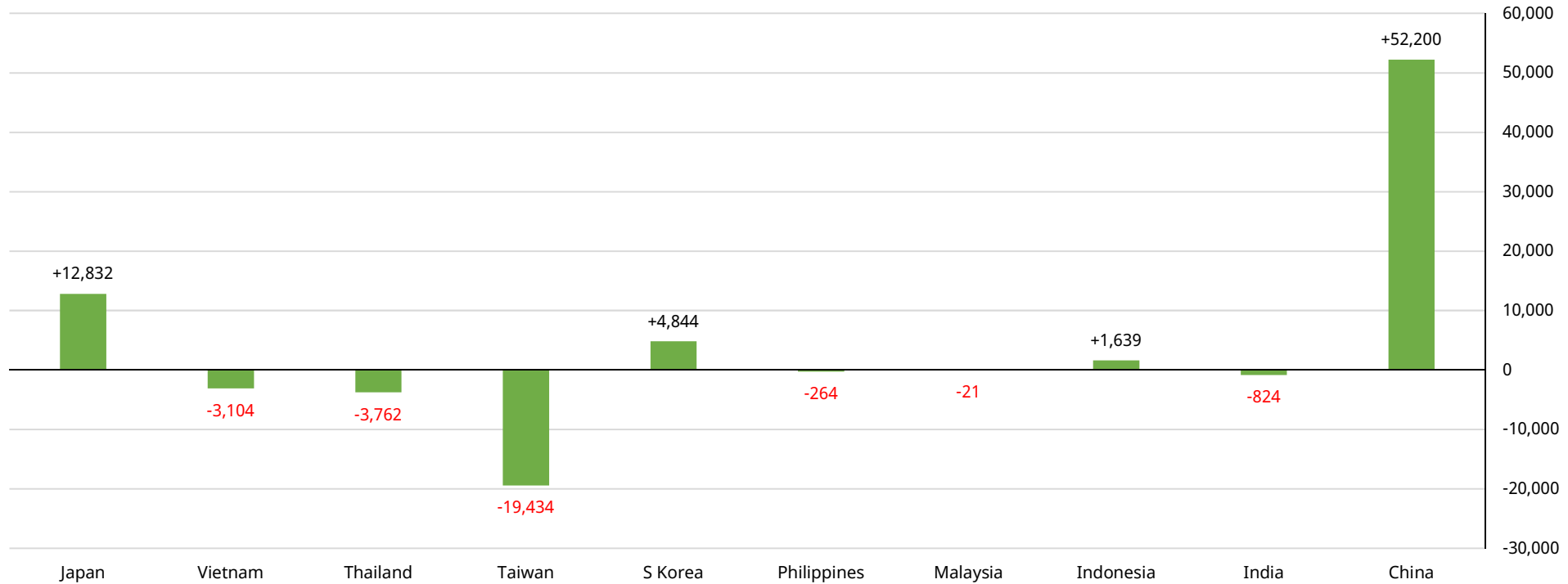


Source: Bloomberg

6. FUND FLOWS YTD-24

Outflows from North Asia, ASEAN is seeing inflows except for Vietnam.

Exhibit 12: Selected ASEAN Markets (Net USD mil)



Source: Bloomberg

7. WHY WE OWN SPRITZER?

Exhibit 1: Spritzer's water source - Taiping



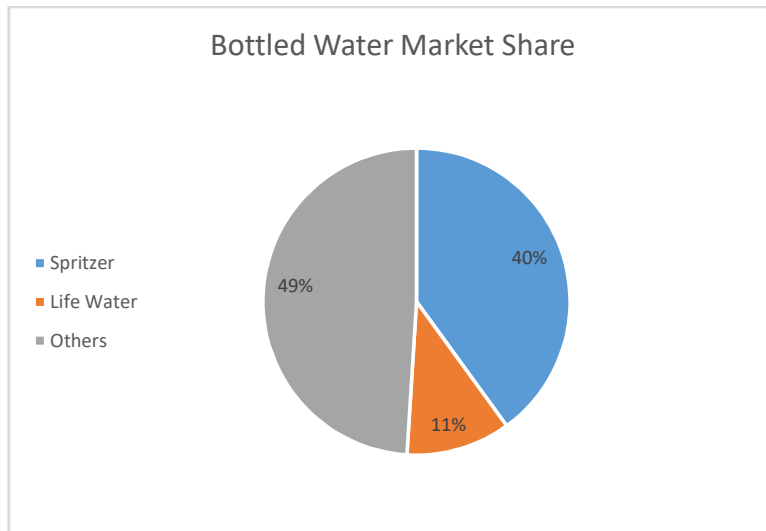
Source: Spritzer

1

Spritzer water sources are drawn from natural aquifers.

Spritzer is unique for its mineral-rich water source, which is drawn from a protected rainforest in Taiping. It is also the only bottled water producer with a protected landbank. This competitive advantage has significantly raised the barriers to entry for potential new entrants.

Exhibit 2: Spritzer market share



Source: Spritzer

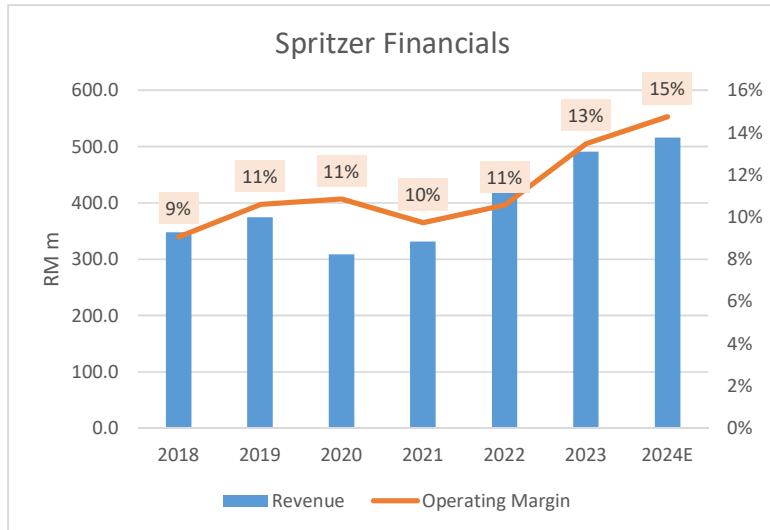
2

Spritzer is the largest bottled water supplier in Malaysia.

Spritzer holds a 40% market share of Malaysia's bottled water industry. On the other hand, its closest competitor Life Water (listed a few weeks ago) accounts for only 11% market share of the industry.

7. WHY WE OWN SPRITZER?

Exhibit 3: Spritzer Financials



Source: Spritzer Annual Report, Bloomberg

3

Spritzer's strong branding and marketing efforts translate to better revenue and margins.

Over the past few years, Spritzer has heavily invested in its marketing strategy. They have successfully rebranded their mineral water as a premium product. As a result, Spritzer's revenue has grown rapidly achieving a 7-year CAGR of 6% in its revenue from 2018 to 2024. Additionally, FY2024E results are expected to show further improvement in operating margins, reflecting a 6%-point increase over 7 years according to Bloomberg

Exhibit 4: China PET Resin Index, USD/MYR Rate



Source: Bloomberg

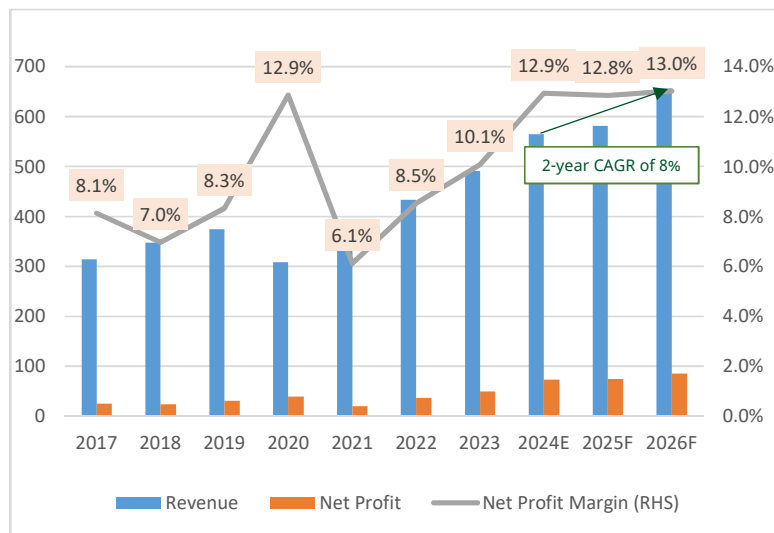
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Potential margin expansion from lower PET Resin prices and stronger MYR.

The primary raw material for bottled water is PET resin (40% of its total costs). Over the past 12 months, PET prices have declined by 11% while the MYR has strengthened against the USD by 6.5%. This is mainly driven by falling oil prices and the onset of a rate cut cycle. Hence, we anticipate that Spritzer's margin to further expand in the coming quarters.

7. WHY WE OWN SPRITZER?

Exhibit 5: Spritzer core earnings forecast



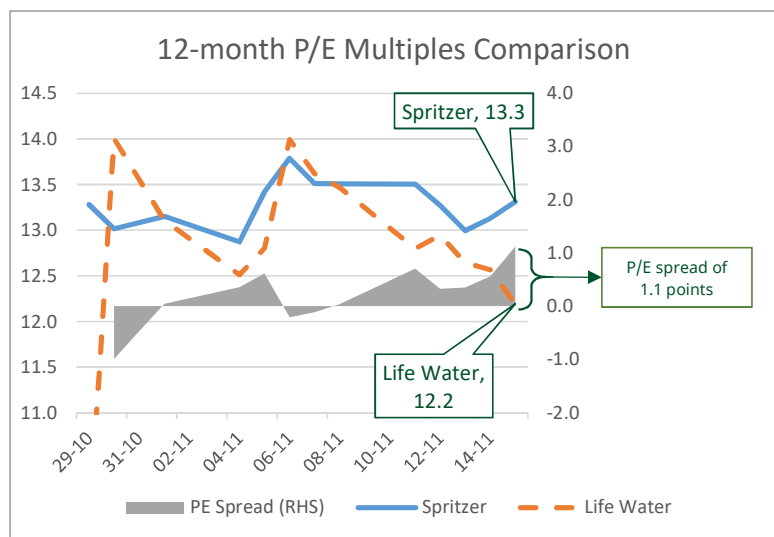
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We anticipate Spritzer to sustain core net profit margin of 12.5% or higher.

Moving forward, Spritzer's strong brand recognition will continue enhance its premium positioning. Hence, it is likely to sustain a net profit margin above 12.5% (see Exhibit 5). We project Spritzer to achieve a record-high revenue in FY2026 (2-year CAGR of 8%).

Source: Spritzer Annual Report, Astute Fund Management Research

Exhibit 6: P/E Multiples Comparison



6

Spritzer or Life Water?

Life Water was listed on November 12 and is the largest drinking water producer in Sabah. We think Life Water is Spritzer's closest listed peer. Currently, Spritzer is trading at 13.3x 12-month forward P/E while Life Water is trading at 12.2x 12-month forward P/E (see Exhibit 6). We believe Spritzer deserves to be trading at a much higher premium to Life Water due to its larger scale, larger market share and stronger branding and better diversified market exposure.

Source: Bloomberg

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