Astute
Fund Management

Portfolio Manager's Views

Investment Department

13 January 2025

1. MALAYSIA & REGIONAL

1 **Special Feature: Why do we own Bumi Armada?** We believe the potential merger with MISC is a re-rating catalyst.

2 **The FBM KLCI registered a strong 12.6% gain in 2024** led by a rebound in market earnings growth.

3 **The US economy has remained resilient as we head into 2025.** On the 19th Dec 2024, the FED cut US interest rates by 25-bps to 4.50%. Importantly, **FED Chair Powell signalled that the FED's policy stance has entered a "new phase"** and that it will **move cautiously on further rate cuts.** Meanwhile, the median "dot plot" now expects only 2 rate cuts in 2025 (total of 50 bps) vs more bullish expectations of 4 cuts back in Sep-2024.

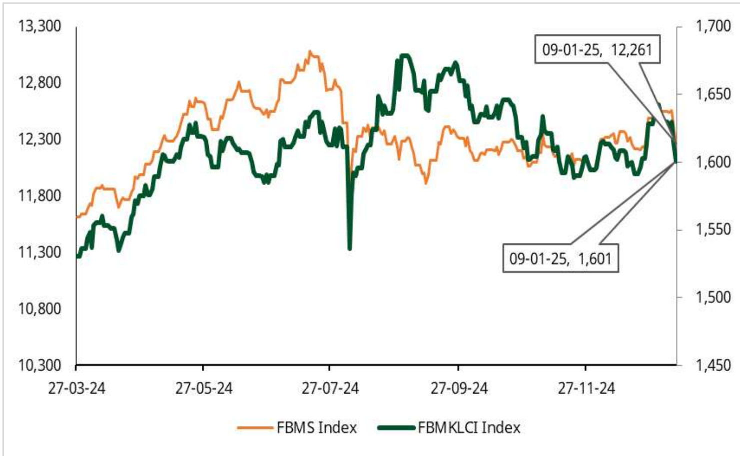
4 **USD "exceptionalism" (strength) expected in 2025 will represent a significant headwind for Asian markets.** As President-elect Donald Trump prepares to return to the White House on 20th Jan 2025, markets are bracing for widespread tariffs on China and the rest of the world. The **impact of such tariffs may adversely affect Asia's growth** and **exert downward pressure on their currencies.** Since 27th Sep 2024, the DXY (USD Currency Index) has rallied 9.3% to 109.7. During periods of Dollar strength, liquidity invariably leaves Emerging Markets and returns to Developed Markets.

5 **KLCI will be supported by a bunching-up of thematics.** This includes the launch of the Johor-Singapore Special Economic Zone (JSSEZ), the government directed focus on domestic investments by government-linked investment companies (GLICs), robust foreign direct investments (FDIs) including into data centres and semiconductors, implementation of the National Energy Transition Roadmap (NETR) and Penang Transport Master Plan.

6 **KLCI's valuations are undemanding** ie. 12-month forward PER of 14.1x (10Y range 12.2x to 19.3x), PBR of 1.4x (10Y range 1.1x to 2.0x) and forecast DY of 4.2% (10Y range 3.1% to 4.8%) [source: Bloomberg]. Our strategy is biased towards domestic plays which are insulated from some of the external headwinds. We are keeping a higher level of cash in view of the short-term uncertainties and are looking for lower levels to buy.

2. MALAYSIA MARKET REVIEW

Exhibit 1: KLCI & Shariah Index

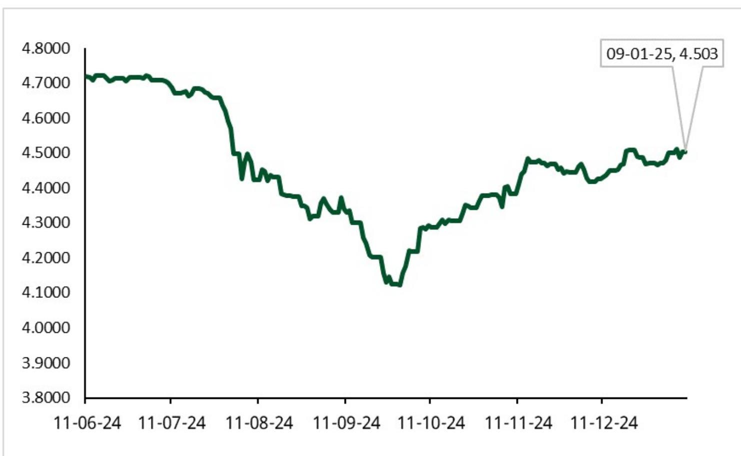


Source: Bloomberg

1 Malaysia outperformed in 2024.

The KLCI registered a 12.6% gain in 2024 (vs MSCI Asia ex Japan's 9.8%) led by a rebound in market earnings growth. Malaysia saw a sharp recovery in investor sentiment helped by a confluence of positive thematics (JS-SEZ, FDIs, influx of data centres, renewable energy policies etc.)

Exhibit 2: USDMYR



Source: Bloomberg

2 Ringgit's strength has reversed since Oct 24.

Strong US economic data, a rebound of US 10Y bond yields and threats of tariffs led to a resurgent USD resulting in the weakening of Asian currencies.

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2. MALAYSIA MARKET REVIEW

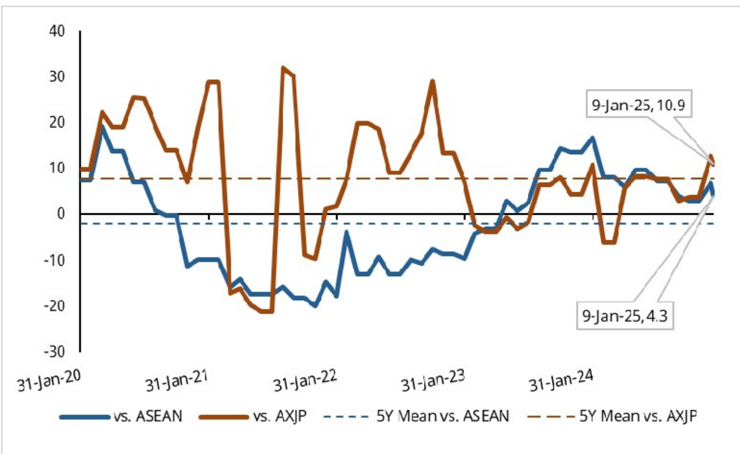
Exhibit 3: Sector Performances Year-to-Date 2025 (%)

Source: Bloomberg

3 Construction outperformed due to new DC builds and rollouts of mega infrastructure projects.

The construction sector is buoyed by global private sector demand and a clearer government infrastructure pipeline. Meanwhile, the healthcare sector was the top loser as investors await more details regarding the proposed DRG system.

Exhibit 4: MY's PER Premium/Discount (%) to ASEAN & Asia



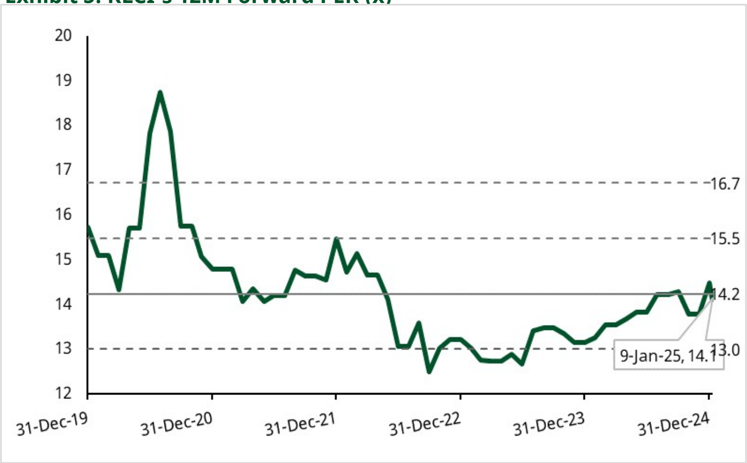
Source: Bloomberg

4 The KLCI is trading above the 5Y mean of ASEAN and Asian Ex Japan.

Malaysia has rerated vs ASEAN (4.3% premium) while it is trading at a 10.9% premium to Asia ex Japan (above its 5 year mean premium of 7.8%). The convergence of positive themes has led the KLCI to trade above its average premium to ASEAN markets.

3. MALAYSIA VALUATIONS

Exhibit 5: KLCI's 12M Forward PER (x)

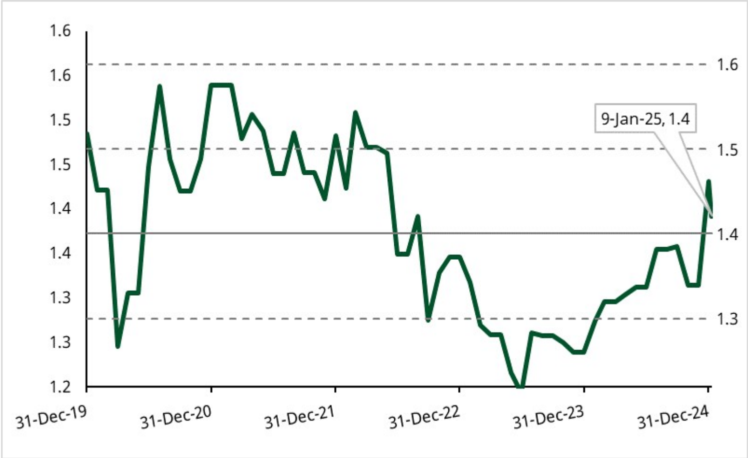


Source: Bloomberg

5 KLCI's valuations are still reasonable.

The KLCI trades at a 2025 PER of 14.1x (5Y mean of 14.2x). We see further upside to Malaysian equities despite the run-up in 2024.

Exhibit 6: KLCI's 12M Forward PBR (x)



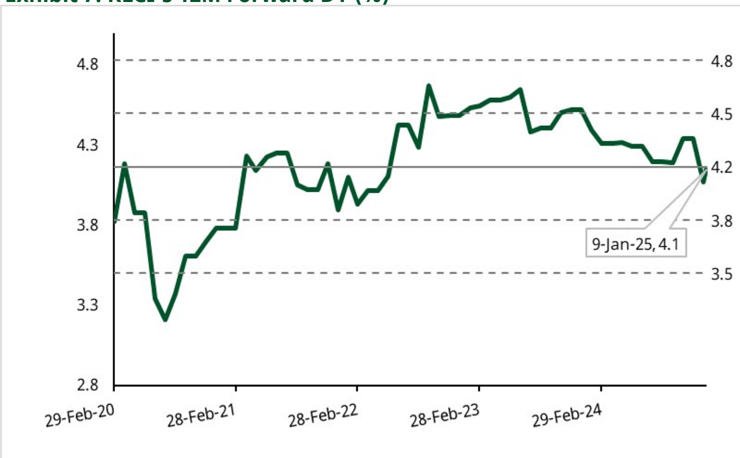
Source: Bloomberg

6 KLCI's PBR is not excessive.

The KLCI trades at a PBR of 1.4x (5Y mean of 1.4x).

3. MALAYSIA VALUATIONS

Exhibit 7: KLCI's 12M Forward DY (%)

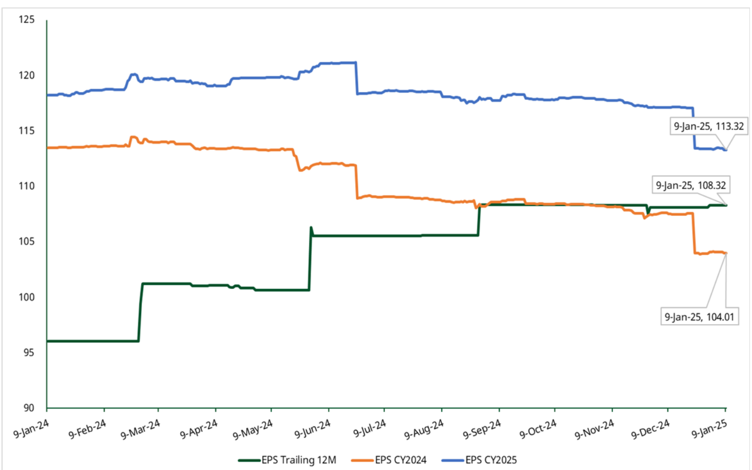


Source: Bloomberg

7 Similarly, the dividend yield remains attractive.

The KLCI trades at a 2025 forecast DY of 4.1% (5Y mean of 4.0%). The attractive dividend yield should moderate downside risks.

Exhibit 8: 12M Trailing & 2024 & 2025 EPS



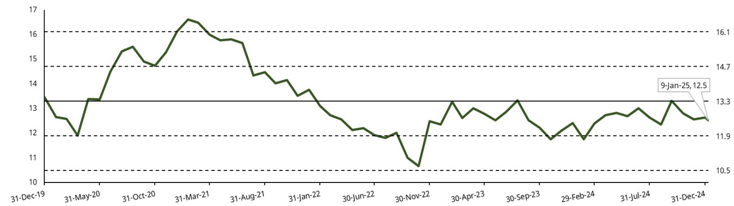
Source: Bloomberg

8 2025 KLCI earnings have edged lower.

All eyes will be on the reported 2025 EPS numbers as corporate earnings are the key to sustaining the market rally. Bloomberg consensus estimates a YoY EPS growth of 4.6% in 2025.

4. MSCI ASIA EX JAPAN PER & USD

Exhibit 9: MSCI AxJ Index's 12M Forward PER (x)

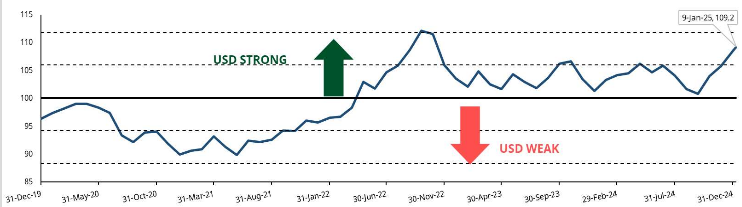


Source: Bloomberg

9 Asia Ex Japan is trading below historical averages.

Asia faces economic headwind in 2025 as slow Chinese economic growth and the possibility of a global trade conflict under the Trump administration pose risks to GDP and corporate earnings.

Exhibit 10: DXY Index



Source: Bloomberg

10 Fed sees fewer cuts in 2025, dollar strength will continue.

The fed is cautious about further rate cuts due to the strong labour market. The incoming Trump administration adds uncertainty to outlook but is positive for the dollar.

5. FUND FLOWS YTD-25

Exhibit 11: Selected ASEAN Markets (Net USD mil)

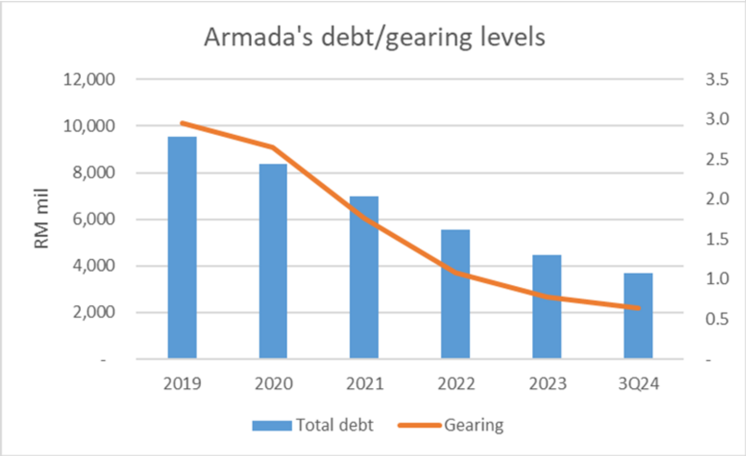
Source: Bloomberg, data as of 10 January 2025

11 **Outflows in Japan, Taiwan & ASEAN (Indo, MY, PH) ahead of the US Presidential Inauguration on 21 Jan 2025.**

Overseas investors turned net sellers of Asian equities amid concerns that U.S. President-elect Donald Trump's trade policies might hit Asian economies.

6. BUMI ARMADA - A NEWLY TRANSFORMED ENTITY

Exhibit 12: Armada's debt / gearing levels



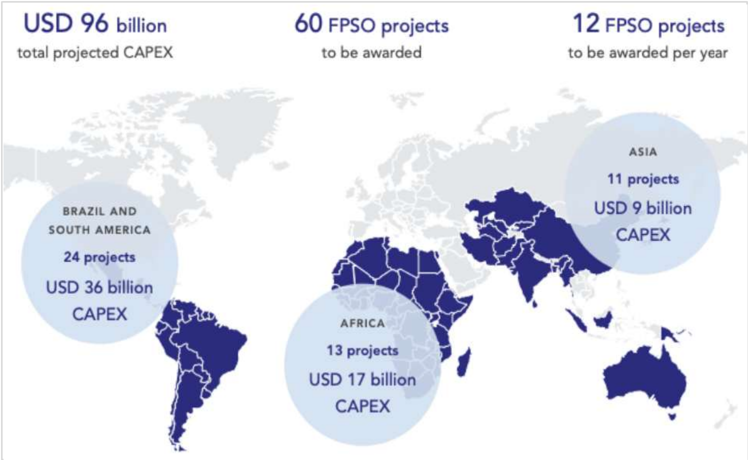
Source: Astute Research

12 Armada is a new transformed entity as compared to 4 years ago.

Since 2019, with a new CEO at the helm, Armada has divested all of its offshore support vessels (OSV) and wound down the unprofitable businesses.

Armada has also improved their balance sheet health significantly, reducing their debt from RM9.5b in 2019 to RM3.7b. Net gearing has dropped from 3.0x to 0.6x currently.

Exhibit 13: Projected FPSO Market Growth (2024-2028)



Source: Rystad Energy and Energy Maritime Associates

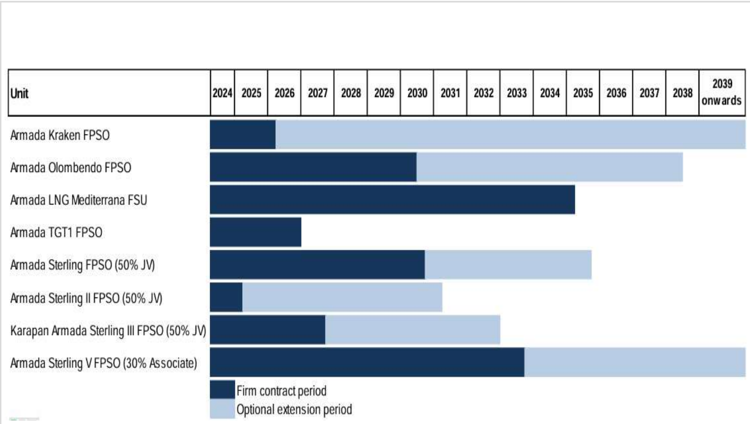
13 We expect the FPSO market to be robust.

We think the FPSO market will continue to be lucrative due to a robust global tender pipeline – with an expected 60 awards from 2024-2028E.

Armada is in a favourable position to secure new contracts, particularly as competitions has narrowed down to a handful of players due to high entry barriers and unavailability of capacity.

6. BUMI ARMADA - A NEWLY TRANSFORMED ENTITY

Exhibit 14: Armada's FPSO vessel charters



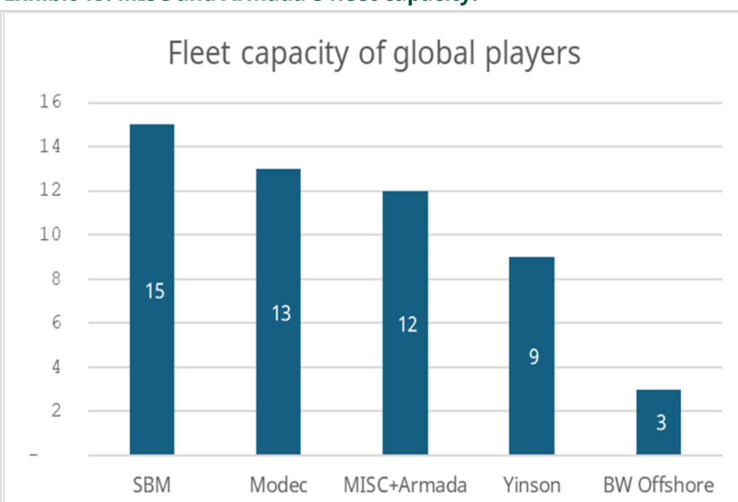
Source: Company investor presentation

14 Armada has a sizeable orderbook.

Armada has a robust firm orderbook of RM10.2b. 72% of their FPSOs are wholly-owned, offering steady long-term recurring income and cash flows.

The long contract period allows Armada to recover their initial investment and generate returns over the FPSO's operational lifespan. Once operational, FPSOs require minimal manpower and resources, resulting in high margins.

Exhibit 15: MISC and Armada's fleet capacity.



Source: Astute Research

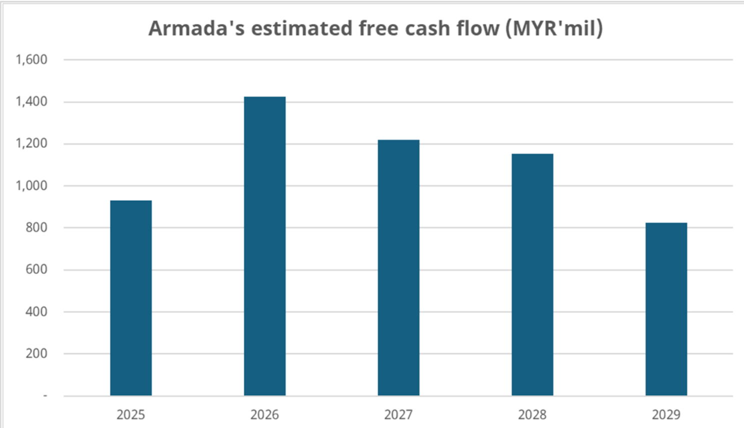
15 The potential merger with MISC is a re-rating catalyst.

The proposed merger could lead to a rerating of Armada's share price, which we think has been depressed (trading at 0.69x book value). While details remain sparse on the potential merger with MISC, we believe Armada could benefit significantly. Being part of the Petronas group will enhance the financial strength of Armada to undertake new projects.

The new entity following the merger will operate a total number of 12 FPSOs, making the group the world's third largest player in terms of fleet capacity.

6. BUMI ARMADA - A NEWLY TRANSFORMED ENTITY

Exhibit 16: Armada's FPSO vessel charters



Source: Astute Research

16

Conclusion: We think Armada is undervalued.

We forecast Armada to deliver an average annual free cash flow of RM1.1b over the next 5 years. Our DCF valuation of Armada implies a fair value of RM0.73. To be conservative, we exclude any contribution from Armada's proposed new ventures, i.e. the Bluestreak CO2 JV, the Akia PSC in Indonesia, or the Madura FLNG project in Indonesia. Potential upsides to our valuations could come from new project wins.

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