Astute
Fund Management

Portfolio Manager's Views

Investment Team

12 March 2025

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1. EXECUTIVE SUMMARY

1 **Special Feature: Why do we own United Plantations?**

2 **The KLCI retreated on the back of foreign selling** as fears of the US-China trade war, US AI chip ban and DeepSeek implications weigh down on the market. Foreign shareholdings in Malaysia hit a record low of 19.4% as of January 2025.

3 **Asia Pacific ex Japan markets (MXAPJ) have risen by 1.7% in 2025.** On 1 Feb 2025, US President Donald Trump surprised the market with a 25% tariff on imports from Canada and Mexico. However, the initial 10% tariff on imports from China was milder than expected. This was followed by the announcement of a 25% import tax on all steel and aluminium imports on Feb 12. We believe the tariff war will escalate in the coming months as other countries and sectors are likely to be targeted by the US. Tariffs are essentially a supply shock and will lead to higher prices and lower economic growth over time.

4 **USD "exceptionalism" (strength) expected in 2025 will represent a significant headwind for Asian markets.** Recent US economic data continues to indicate a resilient economy against a backdrop of easing inflation. The US reported non-farm payrolls of 143K for Jan-25 (vs consensus of 169K) while the unemployment rate fell to 4.0% in Jan-25 from 4.1% in Dec-24. Finally, Dec's US core personal consumption expenditure ("PCE") came in at 0.16% QoQ which was "cooler" than consensus expectations of 0.19% QoQ. We believe the USD strength will continue and this is likely to weigh down EM and Asian equity indices.

5 **In Malaysia, corporate earnings growth and government initiatives are key to attract stronger foreign fund inflows.** Bloomberg consensus estimates a YoY EPS growth of 4.6% for the KLCI in 2025 mainly driven by the banking, utilities and construction sector. The Madani government's infrastructure push supported by initiatives such as the launch of the Johor-Singapore Special Economic Zone (JSSEZ), implementation of the National Energy Transition Roadmap (NETR) and Penang Transport Master Plan will drive earnings in these sectors.

6 **KLCI's valuations are undemanding** ie. 12-month forward PER of 13.0x (10Y range 12.2x to 19.3x), PBR of 1.2x (10Y range 1.1x to 2.0x) and forecast DY of 4.8% (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.

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2. SPECIAL FEATURE: UNITED PLANTATIONS

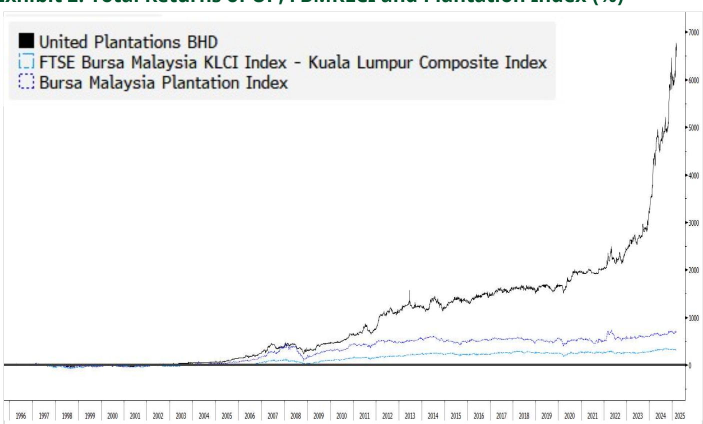
Exhibit 1: UP's Geographical Presence

Source: United Plantations Berhad

1 United Plantations (UP) - Second to none within the plantation industry.

United Plantations Berhad (UP), founded in 1906, has grown into **one of the largest medium-sized plantation groups,** with over **51k planted hectares (Ha)** in Malaysia and Indonesia. We consider **UP one of our top picks** due to its **quality management, superior Fresh Fruit Bunch (FFB) yields, strong financial performance, resilient dividends, and leadership in sustainable palm oil production.**

Exhibit 2: Total Returns of UP, FBMKLCI and Plantation Index (%)



Source: Bloomberg, as of 12th March 2025

2 The Bek-Nielsen family's leadership continue to drive UP's excellence in efficiency, sustainability and governance.

Known as 'Malaysia's Palm Oil King,' Tan Sri Daro' Seri Børge Bek-Nielsen was instrumental in transforming UP into one of the industry's most efficient and benchmark-setting companies. His **principles of honesty, integrity, and hands-on leadership remain evident today** under the stewardship of his sons, Dato ' Carl Bek-Nielsen (CEO) and Martin Bek-Nielsen (Executive Director). **Over the past 30 years, UP has significantly outperformed the broader market** (Exhibit 2).

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2. SPECIAL FEATURE: UNITED PLANTATIONS - CONT'D

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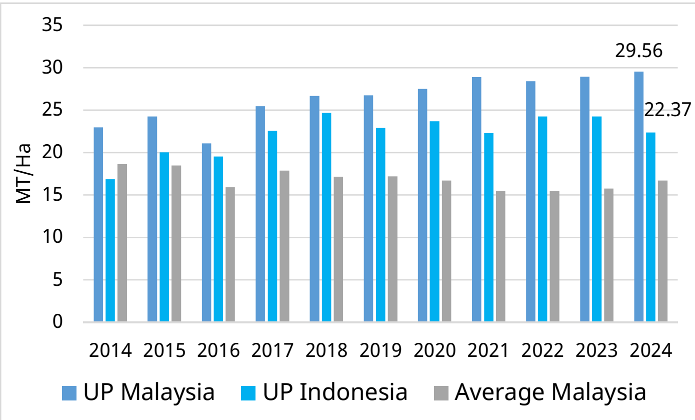
Exhibit 3: UP's FFB Yields vs Malaysia Industry Average (MT/Ha)

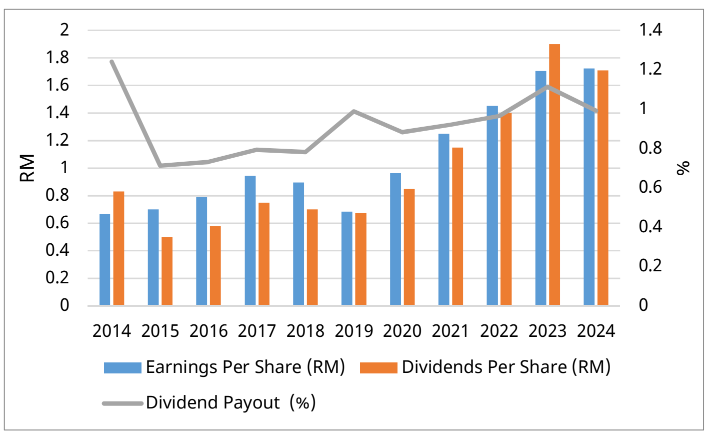


Source: United Plantations Berhad, Malaysian Palm Oil Board

3 UP's superior and strong productivity metrics (FFB yields) is a huge competitive advantage.

Research and development have played a vital role in UP's strong FFB yields. Over the past decade, its Malaysian and Indonesian plantations have consistently outperformed the Malaysian industry average. As of 2024, **UP's Malaysian plantation FFB yield (29.6 MT/Ha) is nearly double the national average** (16.7 MT/Ha). This industry-leading performance translates into lower production costs, higher profitability, and long-term sustainability.

Exhibit 4: UP's Financial Performance



The above table is based on shares 416.3m shares, pre-bonus issue (before 26 February 2025).
Source: Astute Research

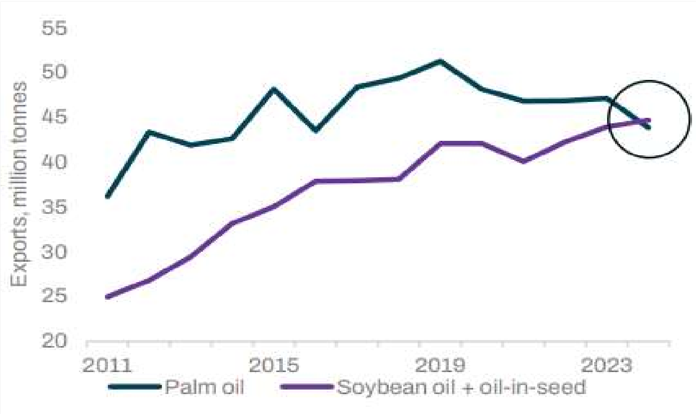
4 UP's industry-leading FFB yields have been reflected in its strong financial performance and resilient dividends.

Driven by operational excellence and efficient cost management, UP has achieved steady earnings growth, with a **10-year compound annual growth rate (CAGR) of 9.9%.** Since 2014, the company has **maintained a high dividend payout of over 70%,** supported by a strong cash position. Consequently, **dividends have grown at a 10-year CAGR of 7.5%,** making **UP a reliable and attractive choice for income-seeking investors.**

With its consistent financial performance and shareholder-friendly dividend policy, **UP remains a compelling investment for those seeking stable returns.**

2. SPECIAL FEATURE: UNITED PLANTATIONS - CONT'D

Exhibit 5: Annual palm oil and soybean oil-in-seed exports

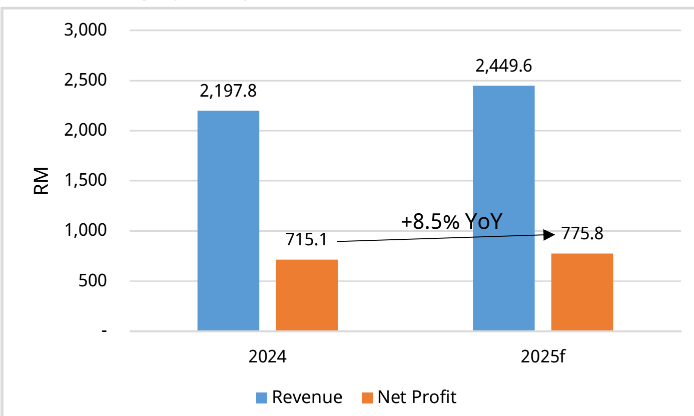


Source: Glenauk Economics

5 UP would be a beneficiary to elevated CPO prices as global supply growth slows.

Palm oil supply growth largely peaked in 2019 and has since fallen behind rival oil crops (Exhibit 5). This decline is driven by several factors, including land constraints, deforestation policies, and the rapid aging of trees in Malaysia and Indonesia, which account for approximately 85% of global production. **Given the tighter supply and the demand tailwind from Indonesia's biodiesel mandate to increase palm oil consumption, we expect CPO prices to remain elevated in 2025** (YTD [12th March 2025] spot CPO price RM 4,704.3/MT).

Exhibit 6: UP's projected growth



Source: Astute Research

6 Valuations.

In our base case, we project an average spot CPO price of RM 4,300/MT for 2025. Accordingly, we expect UP to generate a net profit of RM 775.8 million for FY25. At the current share price of RM 21.50, UP is trading at 17.3x FY25 P/E, which is lower than its large-market-cap peers at 18.2x FY25 P/E. Based on a 99% dividend payout, we forecast an FY25 DPS of RM 1.23, implying a 5.7% dividend yield. We believe there is further upside potential if CPO prices remain above our assumptions.

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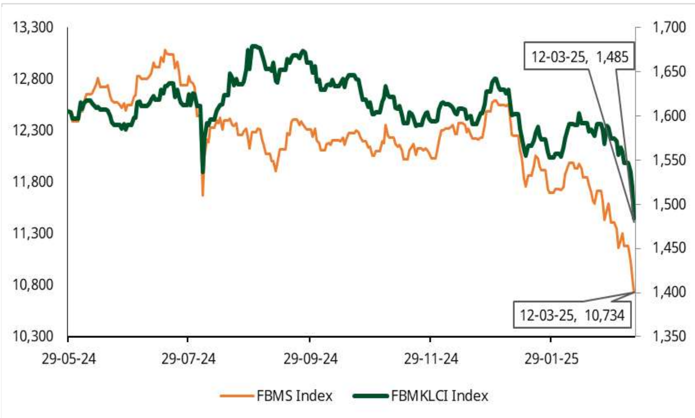
3. MALAYSIA MARKET REVIEW

Exhibit 7: KLCI & Shariah Index

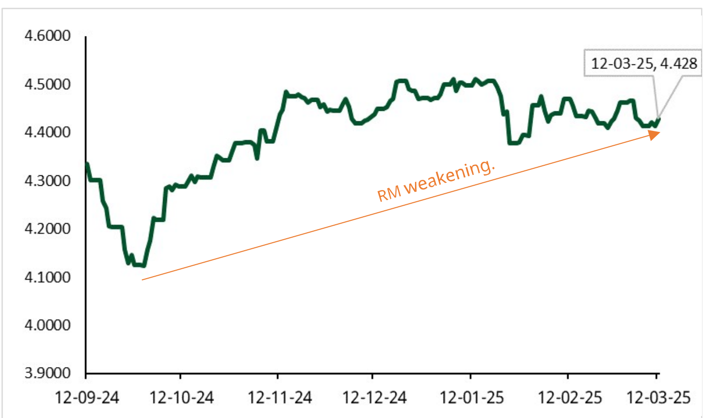


Source: Bloomberg

1 The KLCI has declined amid foreign selling.

The KLCI is down 9.5% Ytd-25 on the back of foreign selling as fears of the US-China trade war, US AI chip ban and DeepSeek implications weigh down on the market.

Exhibit 8: USDMYR



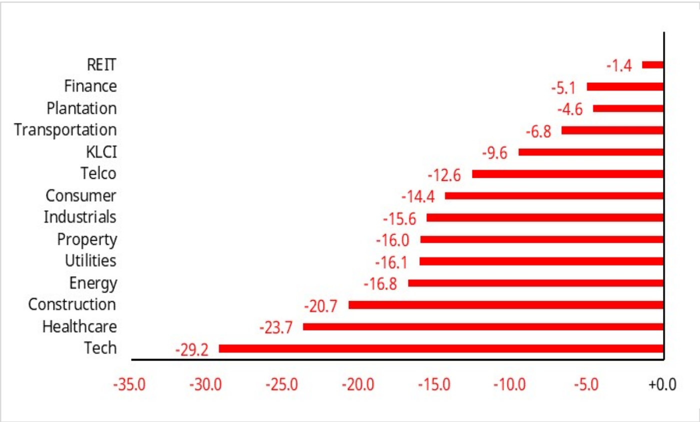
Source: Bloomberg

2 Ringgit's strength has reversed since Oct 24.

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

3. MALAYSIA MARKET REVIEW - CONT'D

Exhibit 9: Sector Performances Year-to-Date 2025 (%)



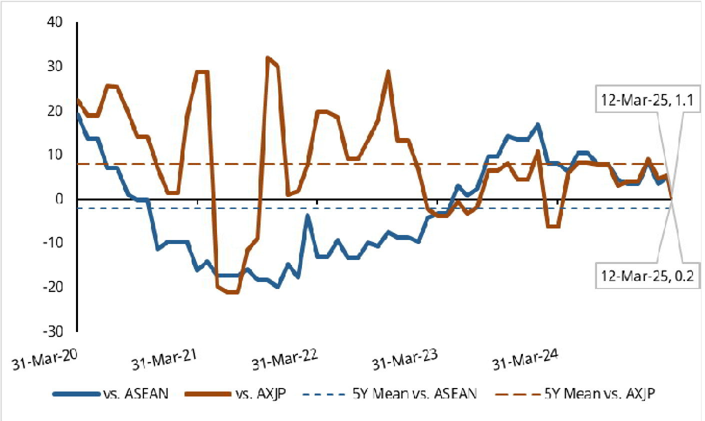
Source: Bloomberg

3

External pressures kept KLCI in the red.

The technology, healthcare and construction sector were the top losers. In addition to concerns over the AI chip restriction implemented by the Biden administration, DeepSeek demonstrated that heavy optimization can produce remarkable results on significantly lower capex and power demand. This has hurt the prospects of data center and power-related companies.

Exhibit 10: MY's PER Premium/Discount (%) to ASEAN & APxJ



Source: Bloomberg

4

The KLCI is trading at mean valuations against ASEAN and Asia Ex Japan (AxJP).

Due to KLCI's decline, the spread has narrowed over the last month. Malaysia is trading at a 1.1% premium vs ASEAN (5Y range -20% to 20%, 5Y mean -2.0%) and a 0.2% premium vs Asia ex Japan (5Y range -20% to 30%, 5Y mean 8.0%).

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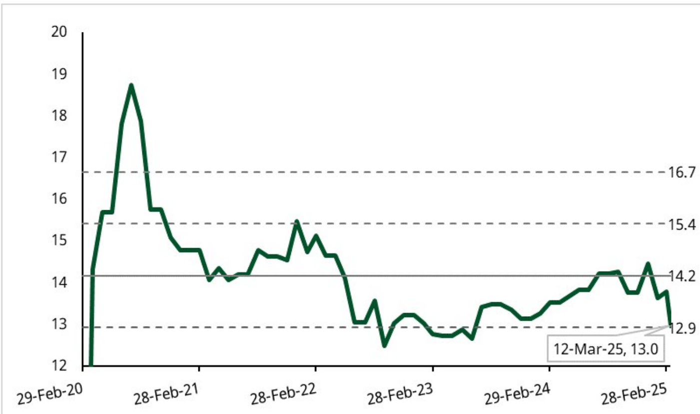
4. MALAYSIA VALUATIONS

Exhibit 11: KLCI's 12M Forward PER (x)

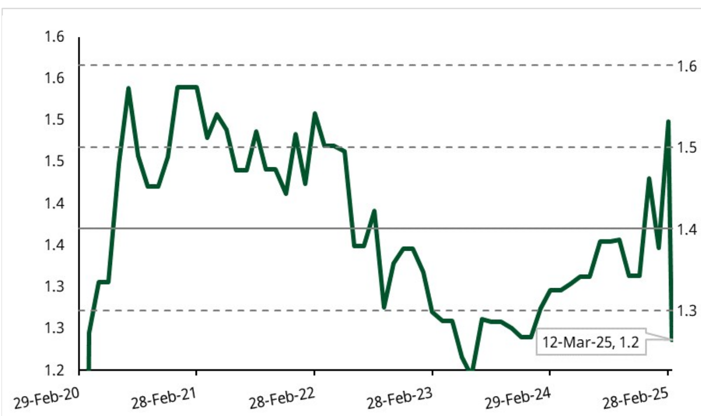


Source: Bloomberg

5 **The KLCI ' s valuation is now undervalued at -1 standard deviation.**

The KLCI trades at a 2025 PER of 13.0x (5Y range 12.5x to 19x, 5Y mean of 14.2x). The continued uncertainties surrounding future US trade policies has created a challenging environment for investors.

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



Source: Bloomberg

6 **This is the same for KLCI's PBR.**

The KLCI trades at a PBR of 1.2x (5Y range 1.2x to 1.55x, 5Y mean 1.4x).

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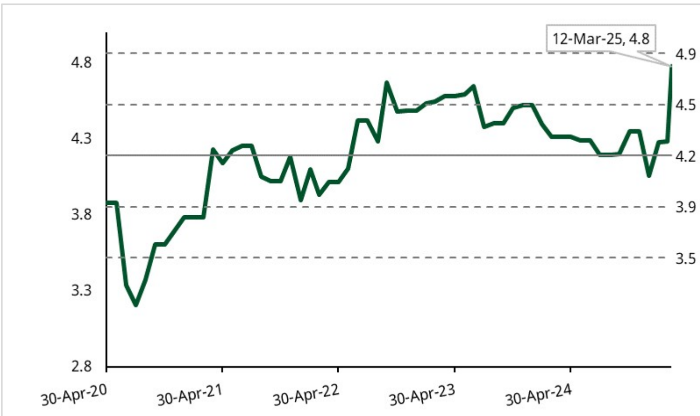
4. MALAYSIA VALUATIONS - CONT'D

Exhibit 13: KLCI's 12M Forward DY (%)

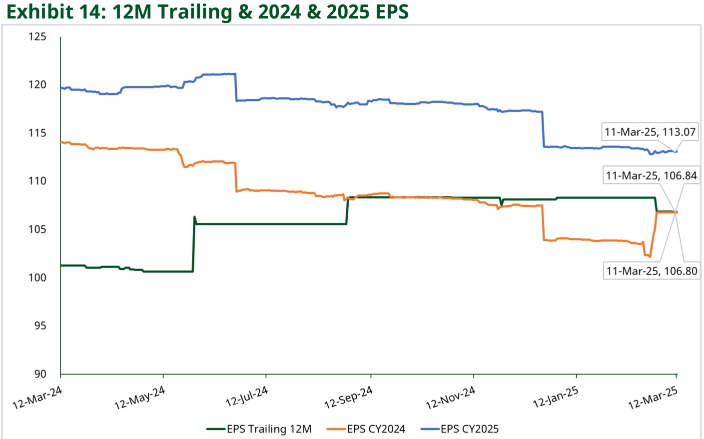


Source: Bloomberg

7 The KLCI dividend yield remains attractive.

The KLCI trades at a 2025 forecast DY of 4.8%, in line with its 5Y mean of 4.2%. The attractive dividend yield should moderate downside risks.

Exhibit 14: 12M Trailing & 2024 & 2025 EPS



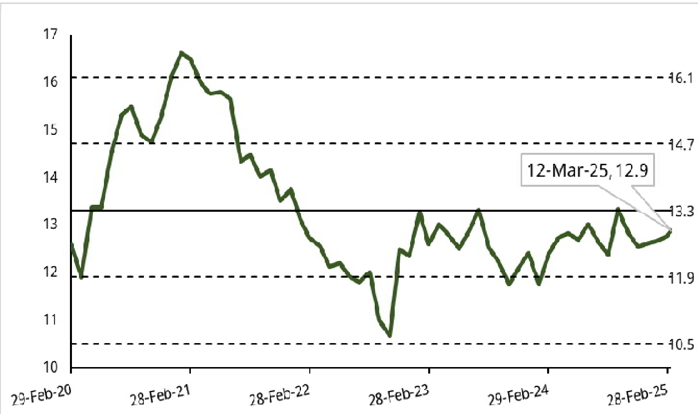
Source: Bloomberg

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.

5. MSCI AC ASIA EX JAPAN

Exhibit 15: MSCI AxJ Index's 12M Forward PER (x)

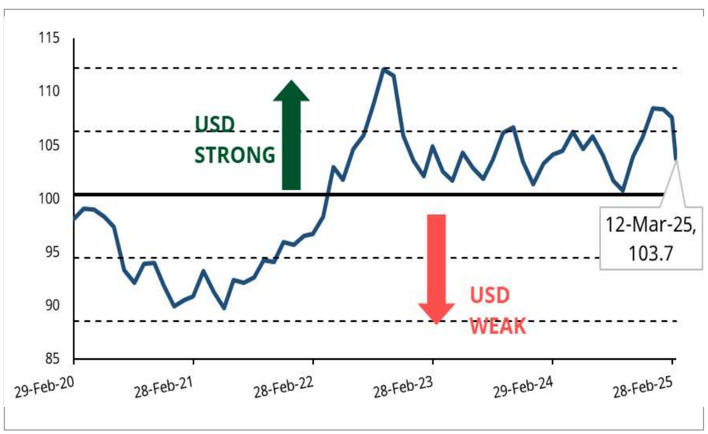


Source: Bloomberg

9 Asia ex Japan is trading below historical averages.

The MSCI AC Asia ex Japan index trades at a 2025 PER of 12.9x (5Y range 10.5x to 16.5x, mean of 13.3x). Asia ex Japan faces economic headwind in 2025 as slow Chinese economic growth and the possibility of an escalating global trade conflict under the Trump administration pose risks to GDP and corporate earnings.

Exhibit 16: DXY Index



Source: Bloomberg

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

The Fed is cautious about further rate cuts due to the resilient labour market. The Trump administration's policies adds uncertainty to equity markets but is positive for the dollar.

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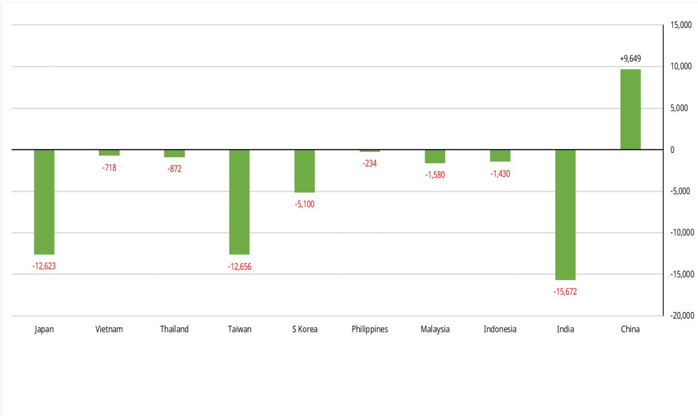
6. FUND FLOWS YTD-25

Exhibit 17: Selected ASEAN Markets (Net USD mil)



Source: Bloomberg, data as of 12 March 2025

11 **Outflows were the highest in India, Taiwan, South Korea & Malaysia.**

Overseas investors turned net sellers of Asian equities except China on concerns that Trump's trade policies might hit Asian economies. China has seen consistent net inflows, highlighting global investors' optimism about the Chinese market and their government's commitment to stimulate the economy.

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