Portfolio Managers’ View

As at 30 June 2020

Fund Management Department

Malaysia

1. The KLCI closed 1,501 @ 30.06.20. The stock market has risen by 3.8% since the end of the previous month. YTD-20, it has declined by 6.3%.

2. The World Bank has revised Malaysia's 2020 GDP growth from negative 0.1% to negative 3.1%.

3. The domestic political situation continues to remain unpredictable. Last weekend, Tun Dr Mahathir together with DAP, Amanah and Warisan have reportedly backed Datuk Seri Shafie Apdal as their candidate for Prime Minister.

4. Maybank's management guided that the bank will incur a *day-one* accounting loss of RM 1 bil from the 6-month moratorium exercise (to be recognised in 2QFY21). This was due to the change in terms of financing for its loans under the moratorium from what it was before. 70% of Maybank's loan book in Malaysia was under the moratorium. The CEO stated: "To expect any organisation to expand earnings at this point in time is not a realistic expectation. We have to ensure the sustainability of the company and the entire ecosystem first."

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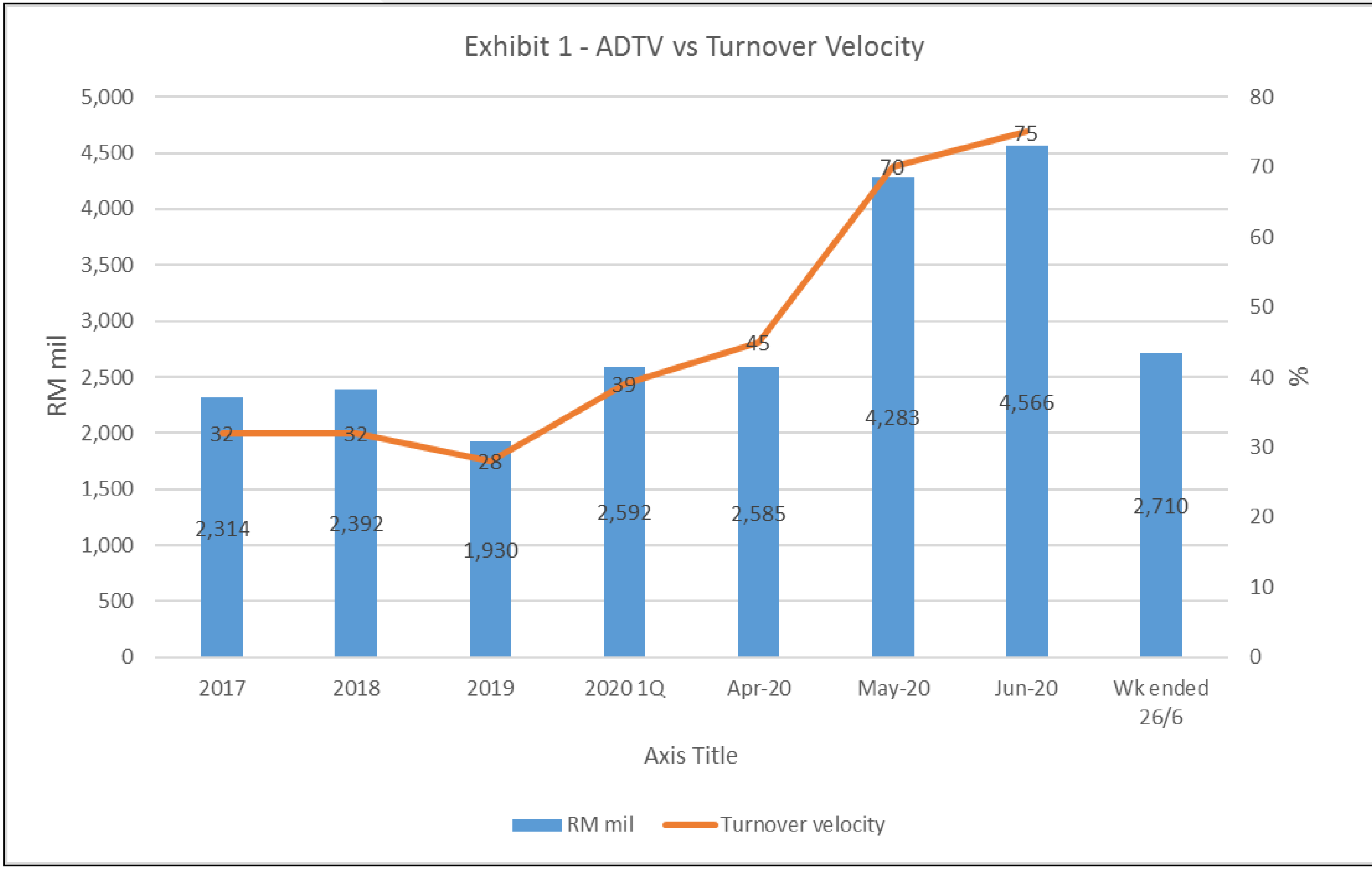
5. Bursa's average daily turnover value (ADTV) for the week ended 26 June 2020 was RM 2.71 bil. This was lower than the ADTV for June & May of RM 4.6 bil / RM 4.3 bil respectively (see Exhibit 1). Previously, we warned of the risk of a market pull-back if the retail buying abated. Our funds are sitting on *healthy cash levels* and are in a good position to take advantage of any market correction to buy.

6. Consensus 2020 market eps has been cut by 25.4% from 101.9 sen @ end-Jan to 76 @ 19.6.2020. At 1,501 @ 30.6.2020, the market is trading at a PER of 19.7x/16.5x for *CY20/CY21. This is **not cheap vis-a-vis** the KLCI's 12M mean PER of ~16x. We believe the earnings risk for 2020 and 2021 remain vulnerable to downward revisions.

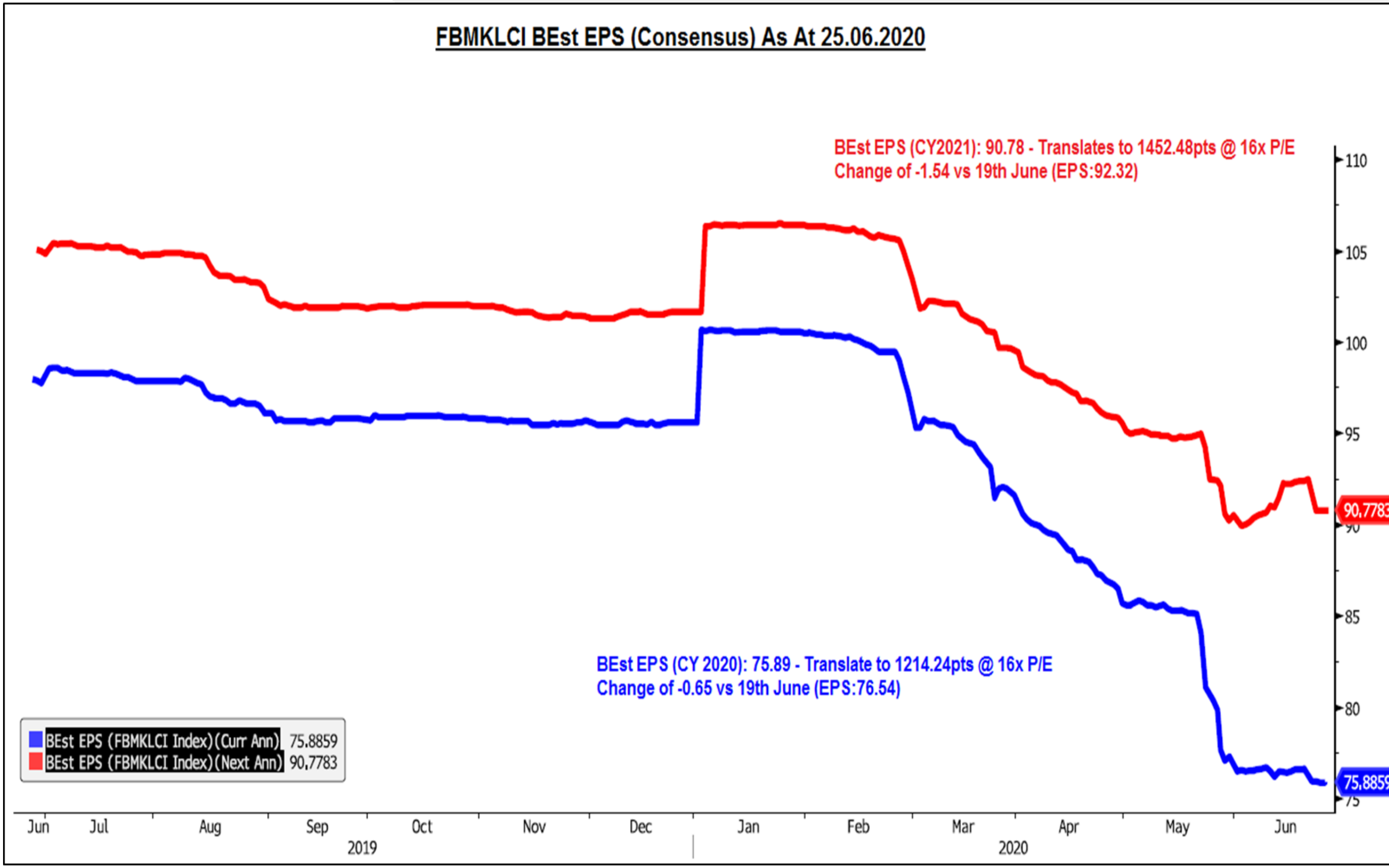
*CY - Calendar Year

Exhibit 1: FBMKLCI ADTV vs Turnover Velocity



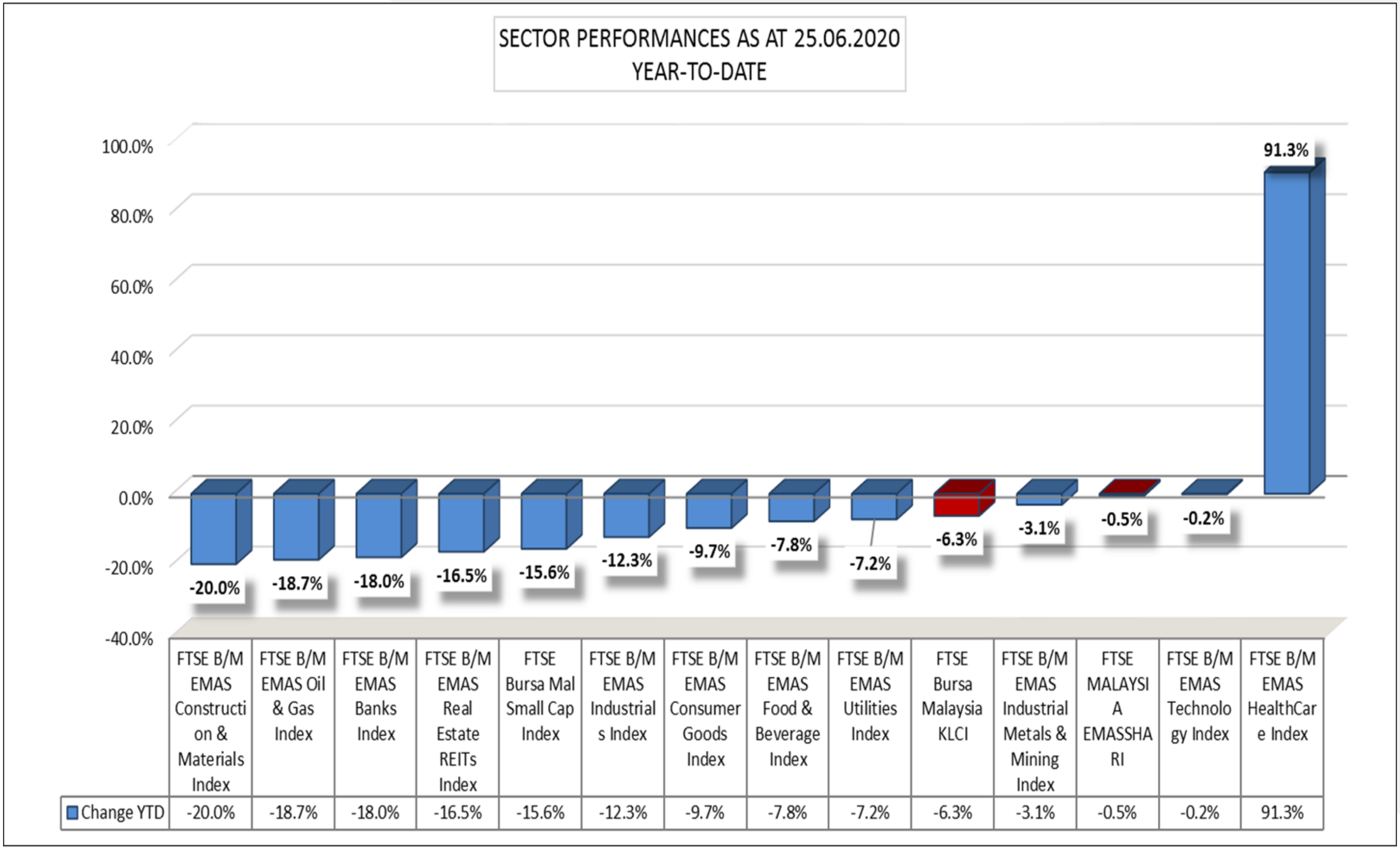
(Source: Star, Bursa & Bloomberg)

Exhibit 2: FBMKLCI Consensus Earnings Per Share (EPS).



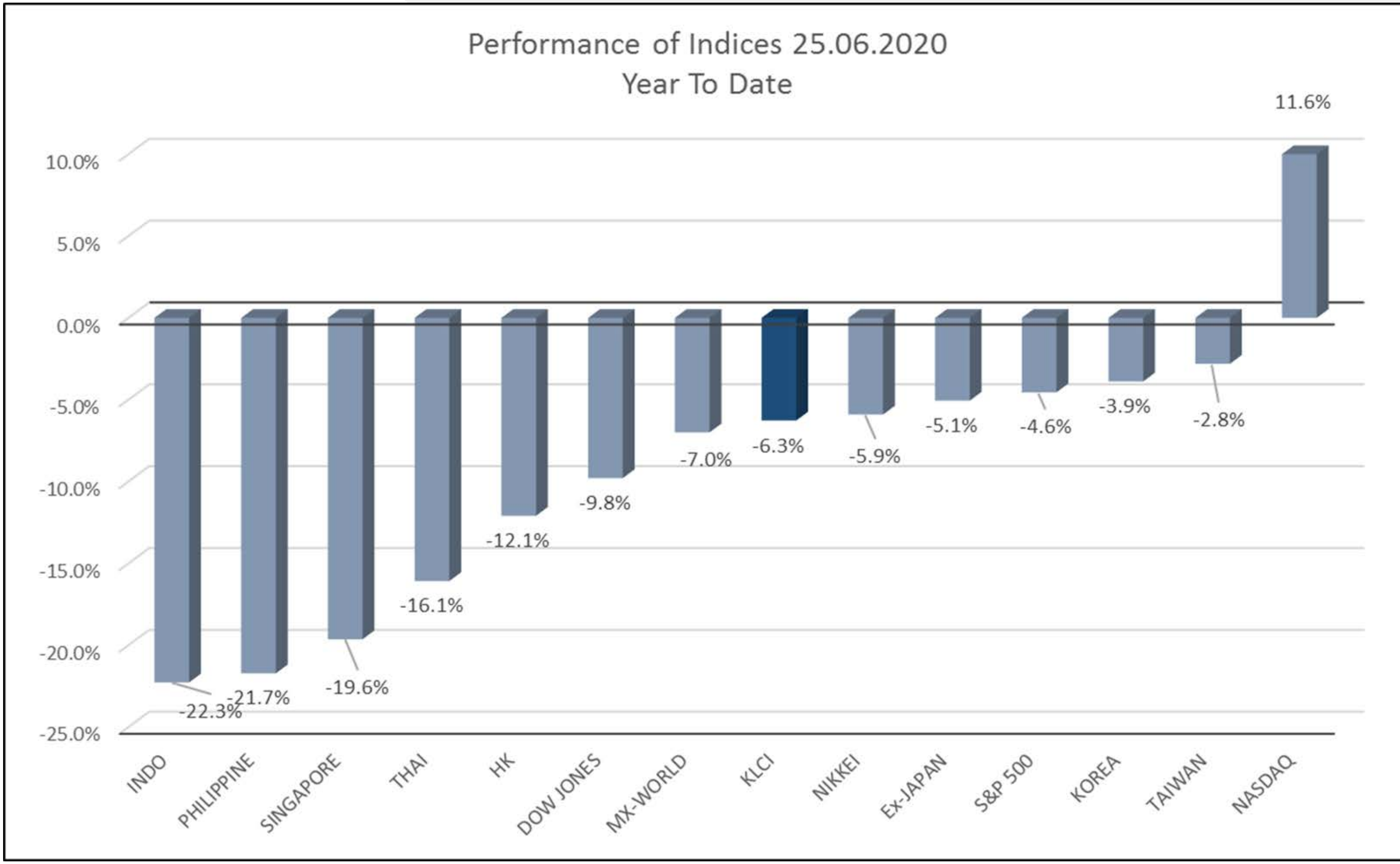
(Source: Bloomberg)

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



(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. The US Covid-19 situation is still in its first wave. Make no mistake. And the failure in getting Covid-19 under control, notwithstanding the possibility of a second wave, is getting harder and harder to ignore. The US stands polarised almost from the rest of the world in her Covid-19 mis-management. The speed and magnitude of an economic recovery has dire implication on the US long-standing statue as the world's leading power.

2. China's official manufacturing Purchasing Managers Index (PMI) for June 2020 rose to 50.9, better than expected, and the fourth consecutive month in expansionary territory. The domestic order sub-index was stronger at 51.3 whereas the export sub-index at 42.6 remained below. This is to be expected with the rest of the world lagging behind China in easing restrictions on lockdown. However, as we are now seeing many countries embarked on easing measures, this should translate into a sustained phase of recovery although some may question if this can be achieved without the US.

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3. A successful navigation of Covid-19 and economic recovery without the US will not be a good picture for President Trump seeking his Presidential Re-Election. Noises from Covid-19 and politics may pose a short-term threat for global equity markets that have almost recovered to pre Covid-19 levels. On a positive note, easy monetary conditions and massive fiscal supports should remain in place that ensure any economic recovery will never be undermined.

4. We are still constructive on Asian equity markets. Massive liquidity in the system way beyond a sustained economic recovery should create a long runway towards building support for any weakness in equity markets.

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