Portfolio Managers' View

As at 6 October 2020

Fund Management Department

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Malaysia

1. The KLCI closed at 1,509 @ 06.10.20. The stock market has declined by 1.6% since the end of the previous month. Utilities (-2.9% WoW) and Food & Beverage (-1.9% WoW) were the worst performing sectors in the last one week. YTD-2020, the KLCI has declined by 5.8%.

2. At a PE of 17.4x for 2020, Malaysia's PE *premium* to the Asia ex-Japan region has fallen to zero – the lowest level in the last 5 years. The above is partly due to the market's "E" or earnings integer which has been upgraded due to the glove sector. The market's eps integer for 2020 has risen from circa $76 in Jun-20 to $86 currently.

3. YTD-Sep, the companies with the biggest earnings revision **DOWN** were Genting Malaysia (-151%), Genting (-105%) Petronas Dagangan (-62%) and Petronas Chemical (-56%). The companies with the biggest UPGRADES were Hap Seng (+1,753), Top Glove (+308%) and Hartalega (+225%).

4. Bursa's average daily turnover by value (ADTV) in September was RM 4.7bil (vs RM 7.1bil in July). As mentioned previously, the end of the loan moratorium period at the end of September may trigger a reversal of stock market liquidity. Anecdotally, retail participation has declined from a high of 45% in August to 34.9% in September.

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5. For the month of Sep-2020, foreigners net sold RM 1.9bil of equities. The net selling trend has continued for 36 consecutive weeks. The YTD foreign net sell @ 30.9.2020 was RM 22.3bil. This was significantly higher than the net sell of RM 11.1bil for 2019. The 9M outflow has surpassed the highest ever annual foreign outflow of RM 19.7bil in 2015.
6. Malaysia Finance Minister Tengku Dato' Sri Zafrul mentioned that Malaysia fiscal deficit for 2020 is estimated to be in the range of 5.8% to 6%. The total fiscal injection YTD into Malaysia economy is estimated approximately 20% of Malaysia GDP.
7. Malaysia recorded 432 new covid-19 cases on 5 Oct 2020. This is the fifth consecutive day of more than 250 new Covid-19 daily cases. Senior Defence Minister Datuk Seri Ismail Sabri mentioned that there will be "NO MCO" despite the spike in cases. The government would only enforce targeted EMCO at areas which show a spike in infections. The economic impact of the MCO from 18 Mar to 4 May has led to Malaysia recorded the worst GDP since the Global Financial Crisis (GFC) in 2009. 2Q20 Malaysia's GDP contracted by 17.1% YoY which was the worst in ASEAN.

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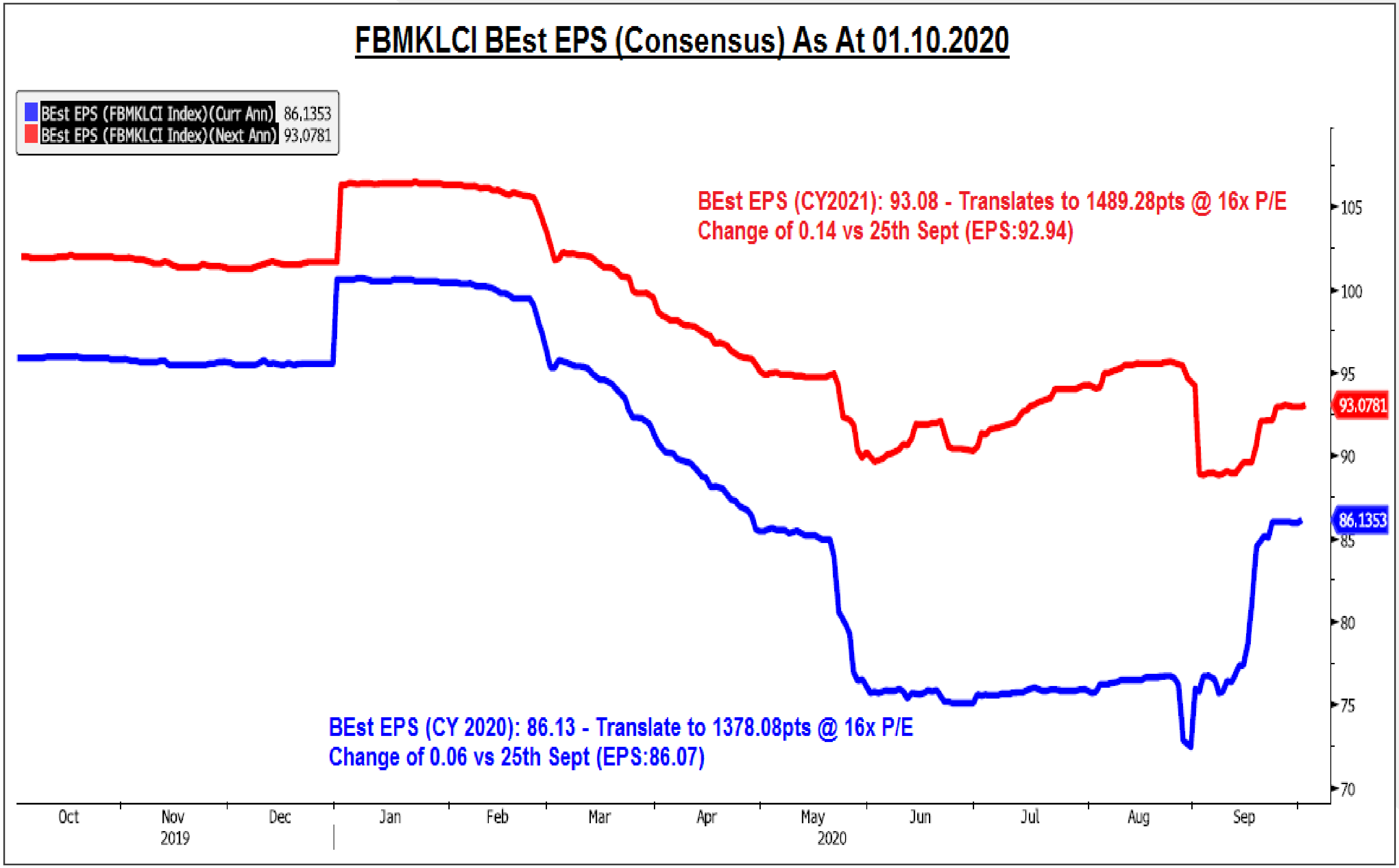
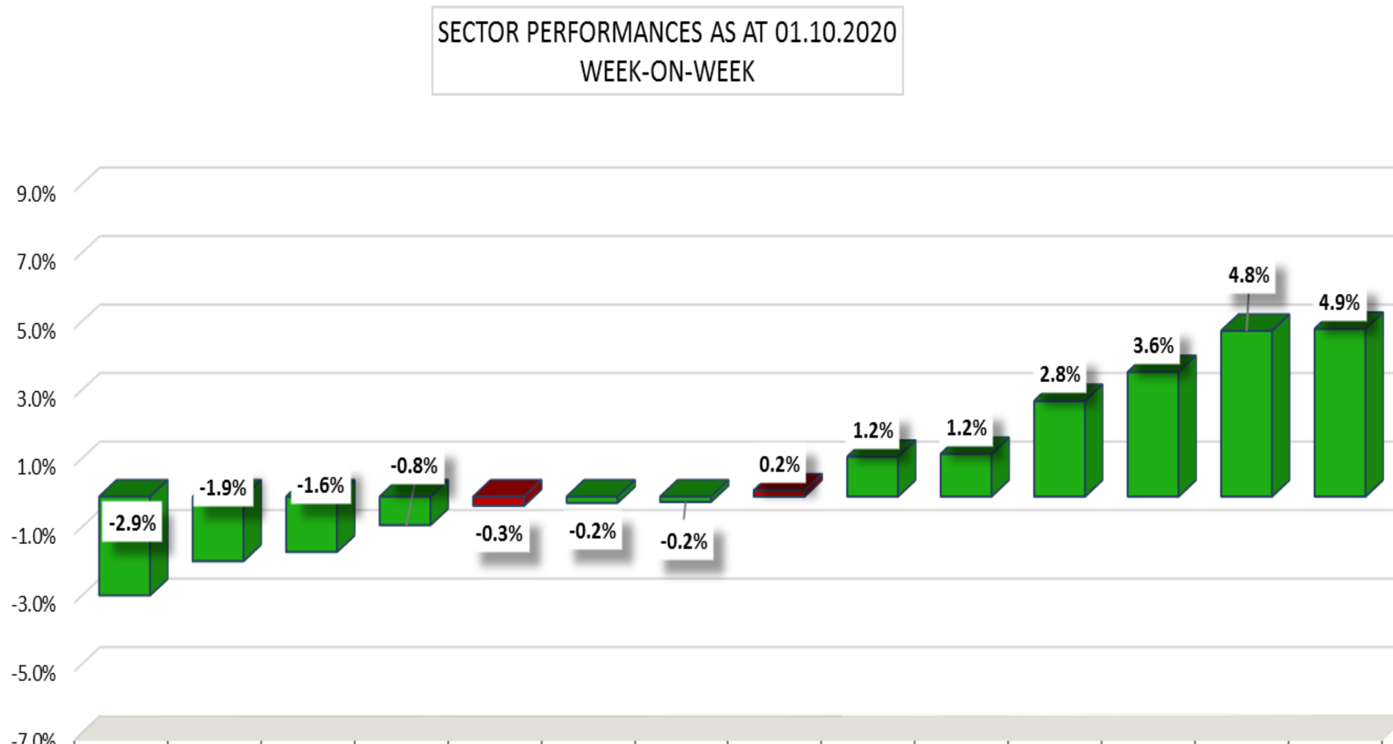
8. Consensus 2021 market eps has been cut by 13.6% from 106.5 sen @ end-Jan to 93 sen @ 01.10.2020. At 1,509 @ 06.10.20, the market is trading at a PER of 17.7x/16.3x for CY20/CY21. While the market's valuation for 2021 is in-line with its 12M mean PER of ~16x, the pressure on earnings (excluding the glove companies), rising Covid-19 infections and the end of the loan moratorium period in Sep-20 will cap any upward move in the KLCI.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS).



(Source: Bloomberg)

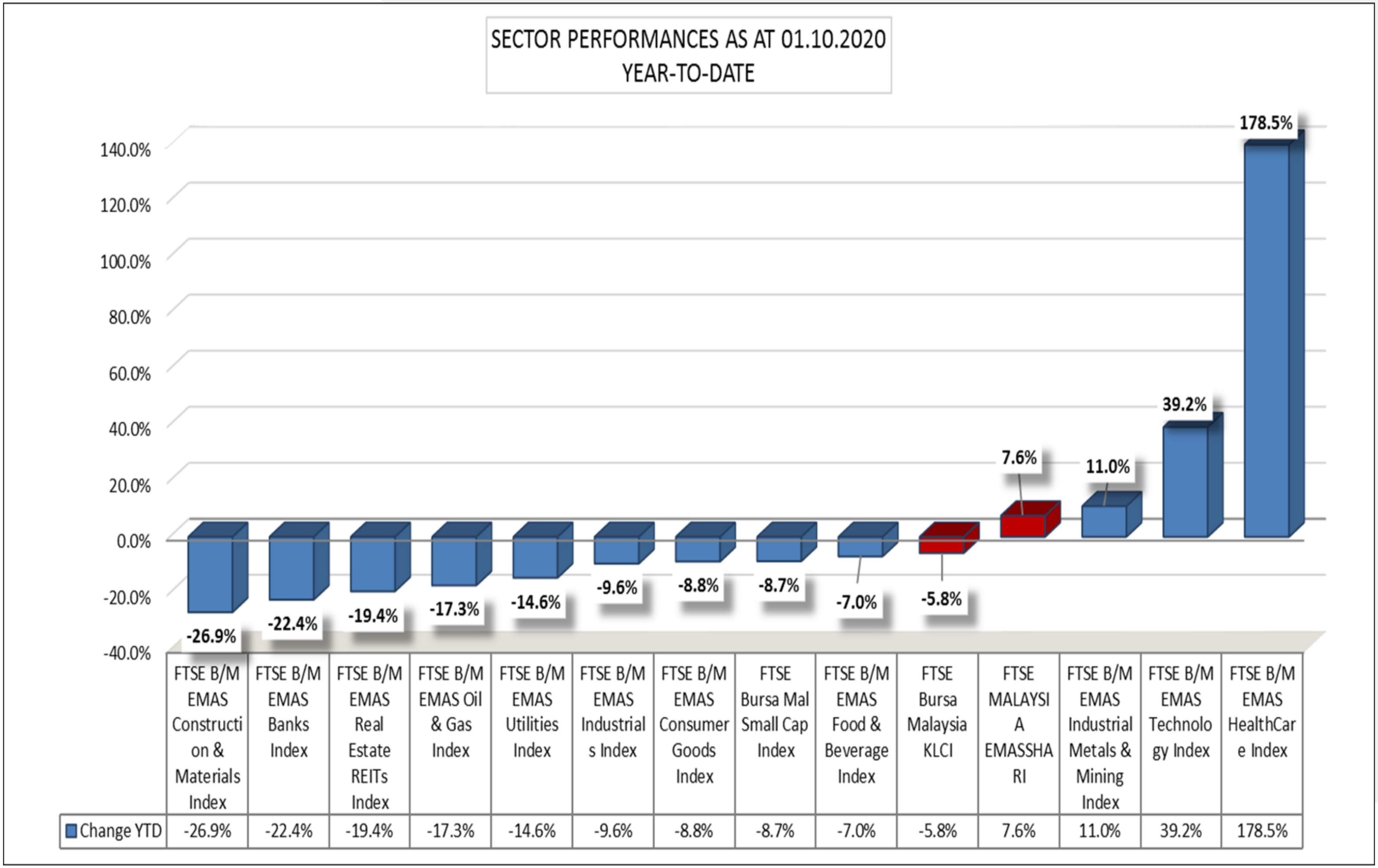
Exhibit 2: Sector Performances (Week-on-Week)



	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Oil & Gas Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Banks Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change WoW	-2.9%	-1.9%	-1.6%	-0.8%	-0.3%	-0.2%	-0.2%	0.2%	1.2%	1.2%	2.8%	3.6%	4.8%	4.9%

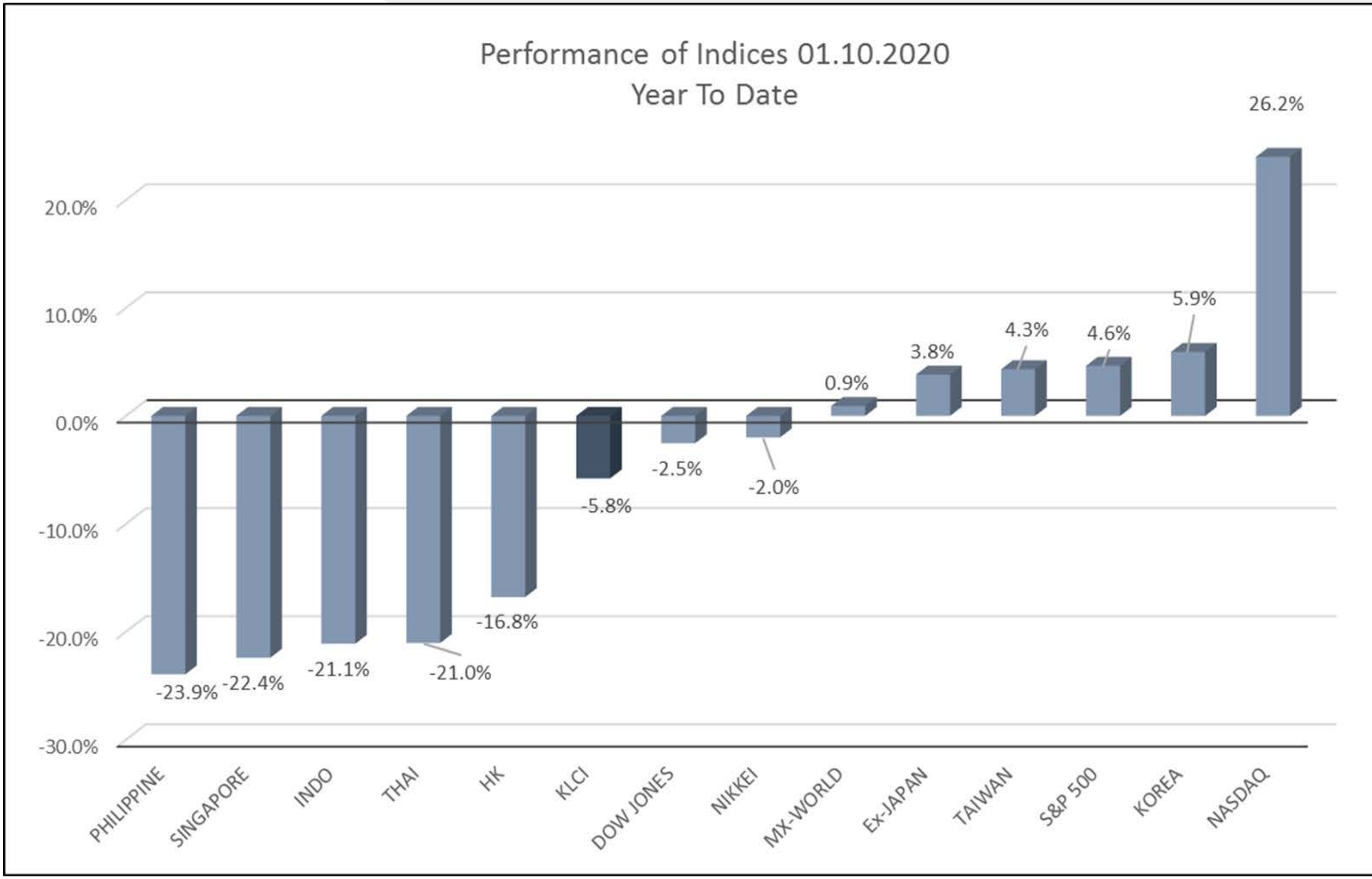
(Source: Bloomberg)

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



(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. President Trump isn't immune after all, or do we actually know anything? News will have you believe that President Trump to needing oxygen to getting permission to step out of hospital to wave to supporters to now a discharge from the hospital back to the White House. Collateral damage continues, apparently, with the White House a potential risk cluster. The Centers of Disease Control and Prevention (CDC) is kept out of the loop on contact tracing. So one has to trust President Trump and the White House to do the right thing.....or lots of noises and contradictions. This run-in to the Presidential Elections is going to be interesting.

2. Unless the conspiracy theories one hears on the news play out, Joe Biden appears to have edge out a marginal advantage. The likely trajectory of markets going forward oscillates from the continuation of Donald Trump's toothless insanity to Joe Biden's logical multi-lateral rules-based approach. Whichever way, the geo-political and economic tension between the US and China is here to stay. The markets have had three years to get used to this.

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3. Remember the US Fed's continued push for more fiscal support for the still fragile US economy? A Joe Biden win coupled with a majority Democrat Congress will surely push more fiscal support to the forefront of the agenda in the next Presidential term. But even with Donald Trump's Covid-19 infection, there is already rumours that both parties may accelerate and compromise on their fiscal grounds. Let’s see if this pans out.

4. Short-term, equity markets remain volatile. But if we focus on the fiscal cliff ahead and the US Fed as the buyer of last resort, the US Dollar is collateral damage. History has shown that a weak US Dollar is conducive for emerging assets performance.

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