



Portfolio Manager's View

23 February 2021

Fund Management Department

Regional

1. Democrats are said to be pushing for as much as US\$3 trillion new spending from wide ranging job support programs to an infrastructure policy, on top of the US\$1.9 trillion Covid-19 package seeking support from the House this week. At the same time, new Treasury Secretary Janet Yellen is pushing for higher corporate taxes (read not wealthy individuals yet though) to fund increased Government debt obligations.
2. No wonder inflationary expectations are up. US Treasury yields have moved up reflecting such expectations. The US Fed has no choice but to step in. The latest US Fed FOMC Meeting minutes has this to say, "Many participants stressed the importance of distinguishing between such one-time changes in relative prices (an argument that higher inflation print is caused by a low base effect) and changes in the underlying trend for inflation. Such moves could temporary raised measured inflation but would be unlikely to have a lasting effect". The US Fed has the dual mandate of managing labour and inflation conditions; the Covid-19 pandemic has a disproportionately devastating effect on the lower income groups. "Rightfully" so, the US Fed has chosen to save the labour market.

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3. The runway for relative outperformance of emerging markets and currencies is long; this is a multi-year investment cycle not to be missed.

Malaysia

1. The KLCI closed at 1,565 @ 23.02.21, down -3.8% M-o-M. Last week, Oil & Gas (+4.5%), Small Caps (+4.4%) and Industrial Metal & Mining (+4.3%) were the best performing sectors. Meanwhile, Healthcare (-2.9%) and Utilities (-1.5%) were the worst performing sectors. Year-to-date @ 19.02.2020, the KLCI has declined by -2.6%.
2. Capex spending by cloud service providers (Microsoft, Alphabet, Facebook, & Amazon) are expected to re-accelerate after a muted 4Q 2020. Microsoft expects capex in 1Q21 to increase by +43% YoY to \$5.6bil. Separately, Facebook has guided a capex guidance of \$21-\$23bil in 2021 or a growth of +35%-45% YoY. In addition, US research house Raymond James data center capex to grow by 25% YoY in 2021. An increase in data center capex translates to more demand for data storage space. This is positive for hard disk drive (HDD) manufacturers such as Seagate & Western Digital which are likely to increase their demand for disk spacers from Dufu Technology.
3. On 21 Feb, the first shipment of Pfizer-BioNtech arrived in Malaysia. The National Covid-19 Immunisation Programme's consist of 3 phases. 1st phase (Feb to April 2021) which involves vaccinating 500K front-liners. Phase 2 (Apr to Aug 2021) involves vaccinating 9.4 mil senior citizen aged 65 and above and

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high risk groups. Phase 3 (May-21 to Feb-22) involves vaccinating more than 13.7 mil Malaysian and non-citizens aged 18 and above. Rotational interest in cyclical and recovery plays is likely to pick-up as investors focus on the re-opening of the global economy with the availability of the vaccine.

4. Last week, PM Tan Sri Muhyiddin Yassin unveiled the Malaysia Digital Economy Blueprint. The Malaysian government intends to roll out 5G infrastructure through a government Special Purpose Vehicle (SPV) with a total of RM 15bil to be invested over 10 years. 3 local companies Enfasys Solution, Prestariang System and Cloud Connect were appointed as service providers for the migration of public data (80% target migration by end-2022).
5. On 18 February 2021, the Employees Provident Fund (EPF) removed the conditions for withdrawal under its i-Sinar facility which was previously announced in Budget 2021 last November. Under the revised terms for i-Sinar, all 14.6 million EPF members will now enjoy the right to withdraw part of their savings under Account 1. Under i-Sinar's new terms, the eligible amount which is allowed will depend on a member's Account 1 balance. Members who have RM100K and below are allowed to withdraw an amount of up to RM10K while members with balances in excess of RM100K are allowed to withdraw a

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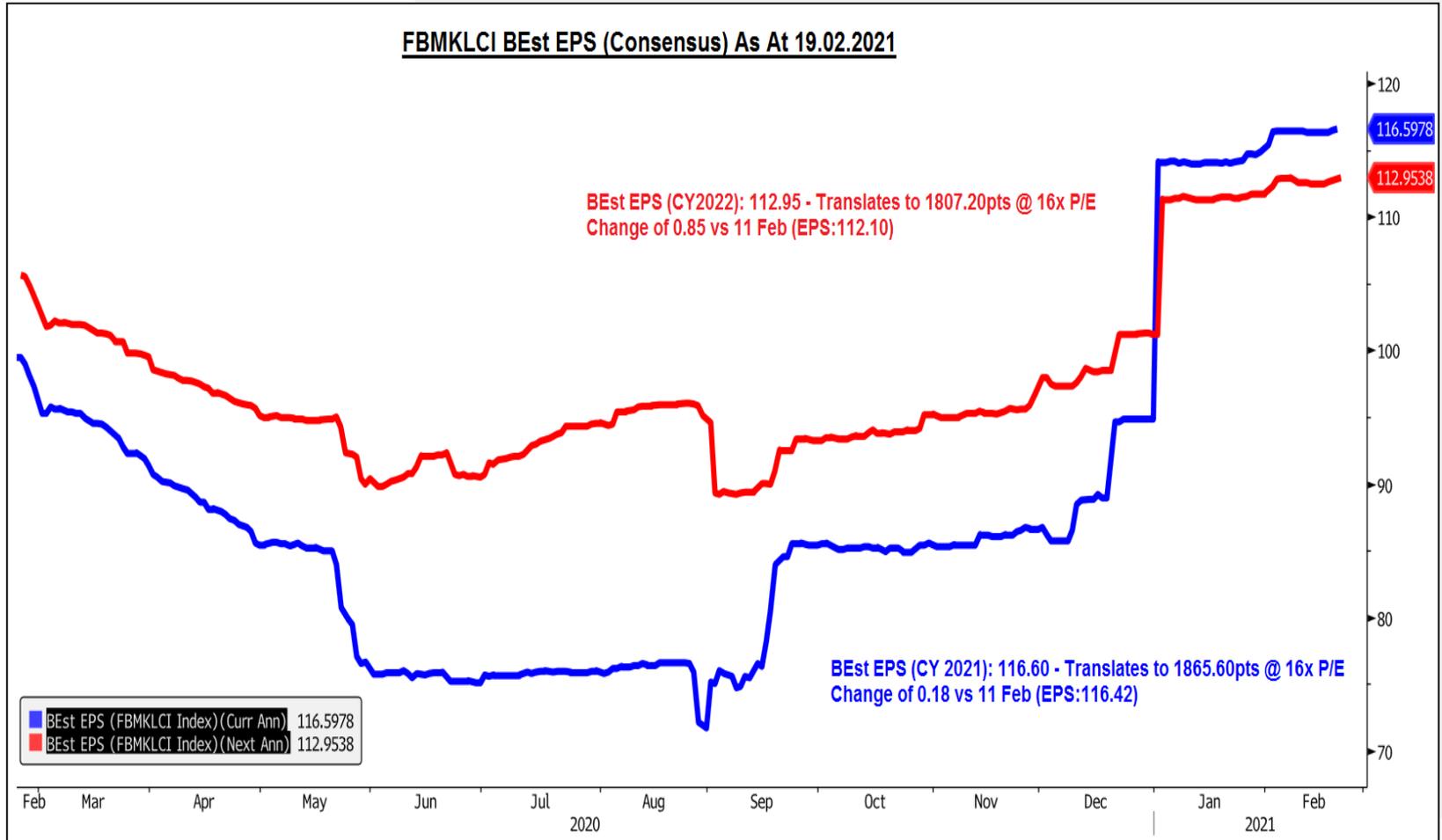
maximum of 10% of their Account 1 balance or up to RM60K, whichever is lower. A Star newspaper article on 20 February 2021 projected a potential withdrawal amount of RM 56 billion (based on certain hypothetical assumptions) arising from the easier withdrawal conditions. EPF's statement on 18 February 2021 indicated that RM 18.5 billion was released to 3.3 million EPF members since applications opened for i-Sinar in Dec-20 (this was under the stricter criteria). Separately, a total of RM 16.96 bil was withdrawn by 5.12 million members via the i-Lestari Account 2 facility between April 2020 and February 2021 (The Edge, 22.2.2021). EPF has money market investments, realizable investments and new inflows to meet these withdrawal needs. However, investors will be closely monitoring any fund raising and disposals to re-establish its cash and money market holdings.

6. Consensus 2021 market eps estimate has risen from RM 88.8 in Dec-20 to RM 116.6 currently. This was due to earnings upgrades for companies such as Petronas Dagangan, Genting, Sime Darby Plantation, Supermax and KL Kepong. In 2021, the forecast EPS integer is inflated by the strong earnings of the glove makers (due to high selling prices and exceptionally strong demand conditions). The EPS integer for 2022 is forecast to decline by -3.2% YoY to RM 112.9.

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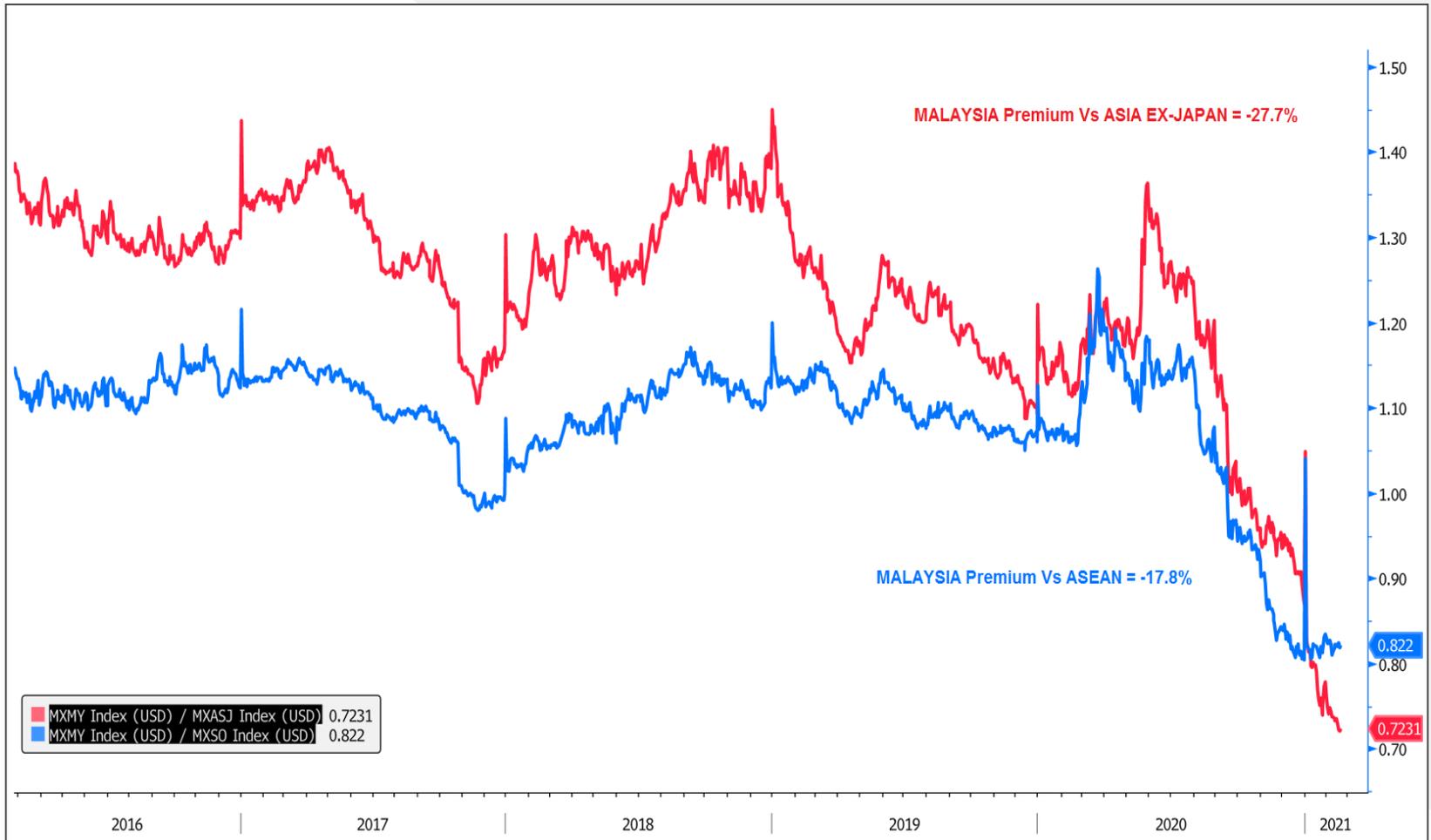
At 1,565 @ 23.02.21, the market is trading at a PER of 13.5x for CY21 respectively. The market's valuation for 2021 is below its 12M mean PER of ~16x. Separately, Malaysia is trading at a 27.7% discount to Asia ex-Japan's 2020 PE multiple (see Exhibit 2). This is the steepest discount in the last 5 years.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 19.02.21



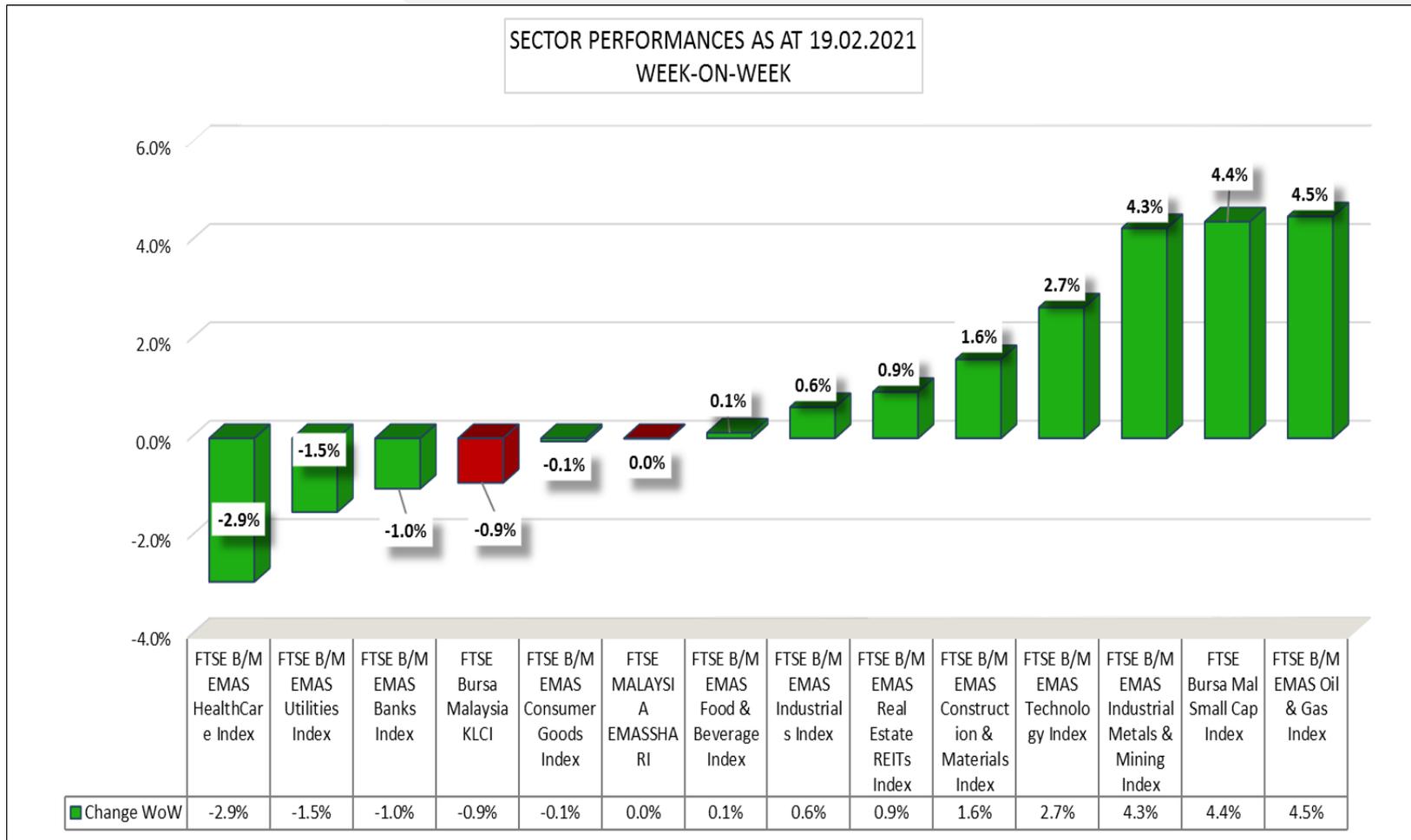
(Source: Bloomberg)

Exhibit 2: MALAYSIA P/E is at a discount to the region



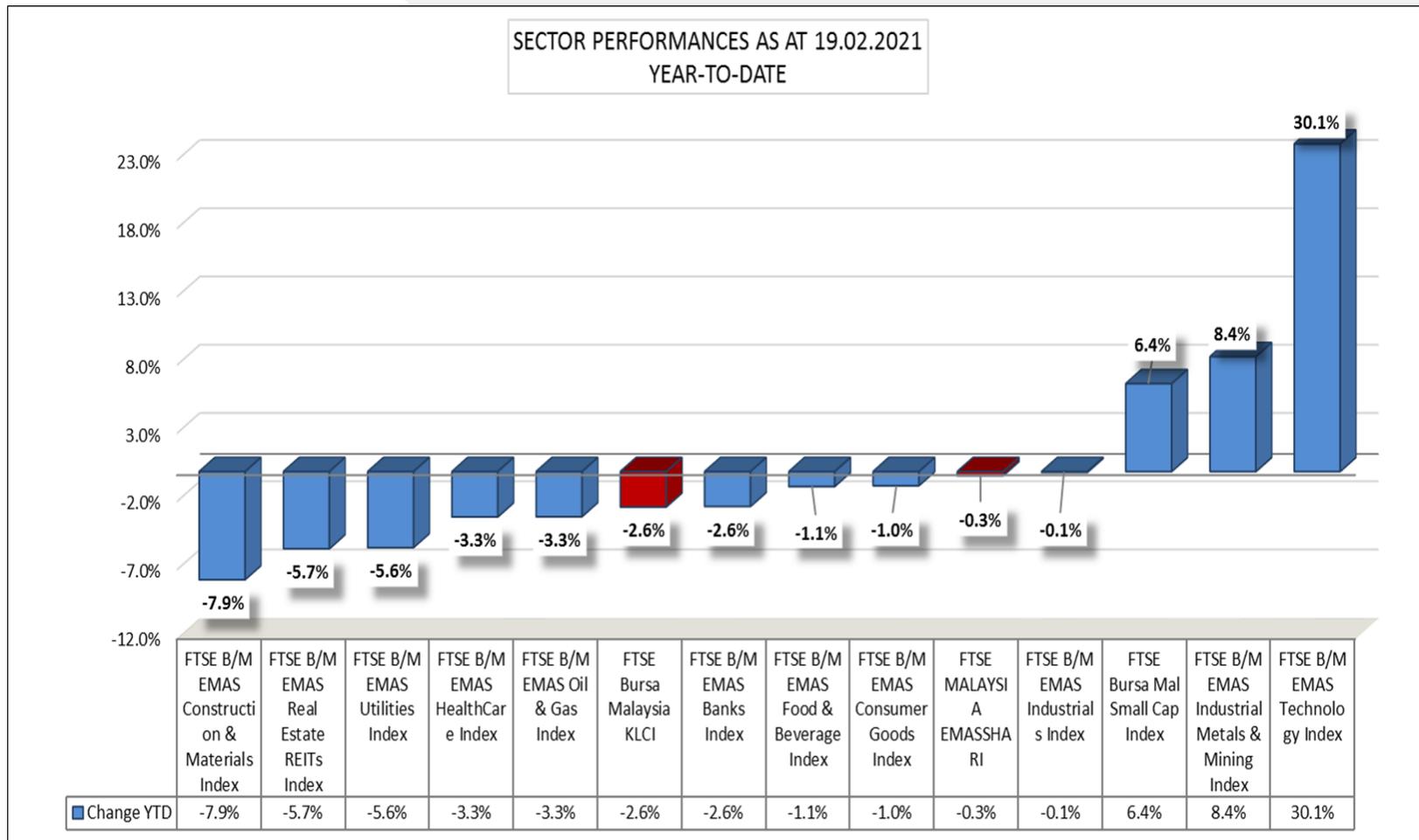
(Source: Bloomberg)

Exhibit 3: Sector performances (Week-on-Week) @ 19.02.21



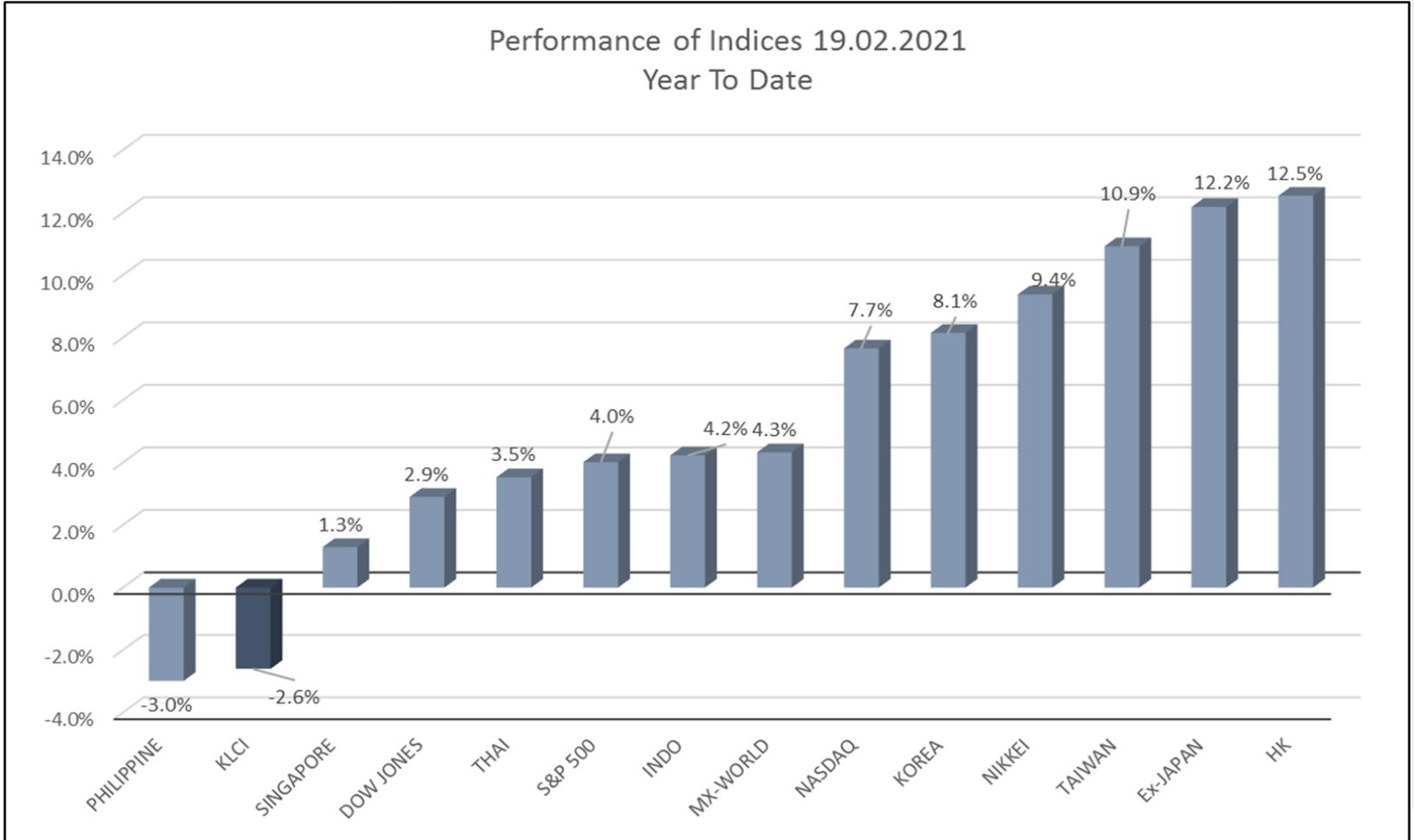
(Source: Bloomberg)

Exhibit 4: Sector performances (Year-to-Date) @ 19.02.21



(Source: Bloomberg)

Exhibit 5: Performance of Indices Year to Date @ 19.02.21



(Source: Bloomberg)

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