



Portfolio Manager's View

02 March 2021

Fund Management Department

Regional

1. We are at an interesting cross-road. The previous stimulus checks sent US January's retail sales growth above the market's expectations. It is very likely that the upcoming potential US\$1.9 trillion support package will sustain consumer optimism once more. The IMF in January has US GDP growth for 2021 at +5.1% yoy. The US Fed's December 2020 forecast for US GDP growth 2021 was +4.2% yoy. Both forecasts look way behind the curve now. The market is of the view that monetary tightening may take place sooner rather than later.
2. However, the economic recovery momentum is still fraught with great uncertainty. Would a Covid-19 breakout resurgence dampen hopes once again especially with different highly potent variants floating around? We also need to ask ourselves whether this economic recovery, while increasingly looking V-shaped, is not an equitable recovery, with many pockets of the economy going through a patchy turnaround. The US Fed is committed towards sustaining an economic recovery that brings everyone up; what should the US Fed do now?

-continued

3. The market has questioned the US yield curve steeping at every arbitrary (because we chose them) point, whether its 1%, 1.2%, or 1.5%, or some other number. We do not profess a crystal ball either. However, at 1.4-1.5%, the 10-Year yield is back to pre Covid-19 levels before the breakdown. Yet, as mentioned in the above paragraph, we are by no means out of the woods even if green shoots are sprouting. It is not time for the US Fed to reverse course yet. But the market wants assurance from the US Fed.

4. Meanwhile, we can expect volatility as investors bet on both sides of the fence. We are probably close to a point where the US Fed needs to send a clear message. Sure, increasingly fiscal support is taking on the heavy lifting, but that heavy lifting needs to be greased by cheap financing. We will find out soon whether we fall on the right or wrong side of the fence.

Malaysia

1. The KLCI closed at 1,569 @ 2.03.21, an increase of +0.4% M-o-M. Last week, Industrial Metal & Mining (+4.3%) and Technology (+4.1%) were the best performing sectors. Meanwhile, Healthcare (-12.0%) was the worst performing sector. Year-to-date @ 25.02.2020, the KLCI has declined by -2.8%.
2. As we have regularly mentioned in our previously weeklies, the Outsourced Semiconductor Assembly and Test (OSAT) companies in the technology sector reported sterling results for 4Q (Dec-20). Unisem announced a 4Q net profit of RM 53.9mil (>+100% YoY, +9% QOQ) which was 21% ahead of consensus forecast of RM 44.4mil. Inari reported a 4Q net profit of RM 90.1mil (>+100% YoY, +29% QoQ) which was 41% above consensus forecast of RM 64.0mil. Lastly, MPI announced Dec-Q net profit of RM 67mil (+49% YoY, +21% QoQ) which was 41% ahead of consensus estimate of RM 47.5mil. Consensus have since raised their 2021 earnings for the OSAT companies but we believe these estimates are likely to be revised upwards in the coming quarters. We have an overweight weighting in the semiconductor packagers across all our funds.

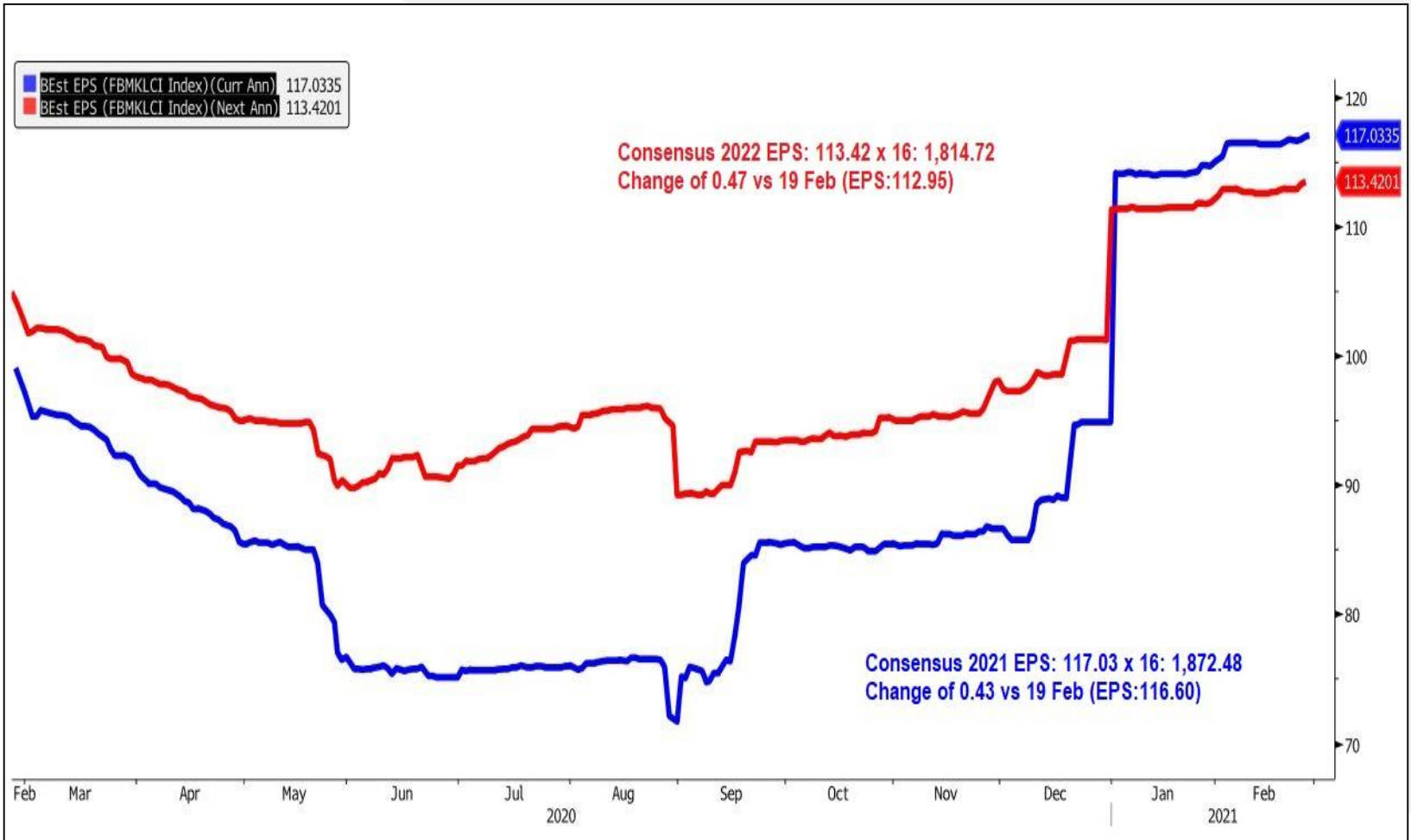
-continued

3. Unisem, Inari, and MPI in their post-results briefing indicated that order visibility remained very good and the industry is likely to enjoy multiple quarters of strong growth. Historically, the March quarter has been seasonally weak. However, it was interesting to note that all 3 semiconductor packagers guided that the strong momentum in the last 6 months has continued in the first 3 months of 2021. In addition, as electronic devices becomes more advanced and sophisticated, the chip content in mobile devices has increased tremendously. For example, the management of an OSAT company mentioned that in the latest iPhone models, chip components have increased from 5 in iPhone 11 to 11 in iPhone 12. This clearly implies more volume and demand for OSAT services.
4. World Semiconductor Trade Statistics (WSTS) reported that semiconductor industry sales increased 19.5% YoY in Jan-21. The growth rate for January is above its seasonal growth avg of 9.5% YoY (based on data since 1992). The semiconductor companies are enjoying firm average selling prices (ASPs) pricing power and are believed to be shipping *below* their client demand levels. It may take several quarters for supply to catch up with demand and even longer for inventories to be replenished to their normal levels. These positive trends indicate that the current super-cycle is far from its peak and we continue to see upside for the semiconductor share prices from here.

-continued

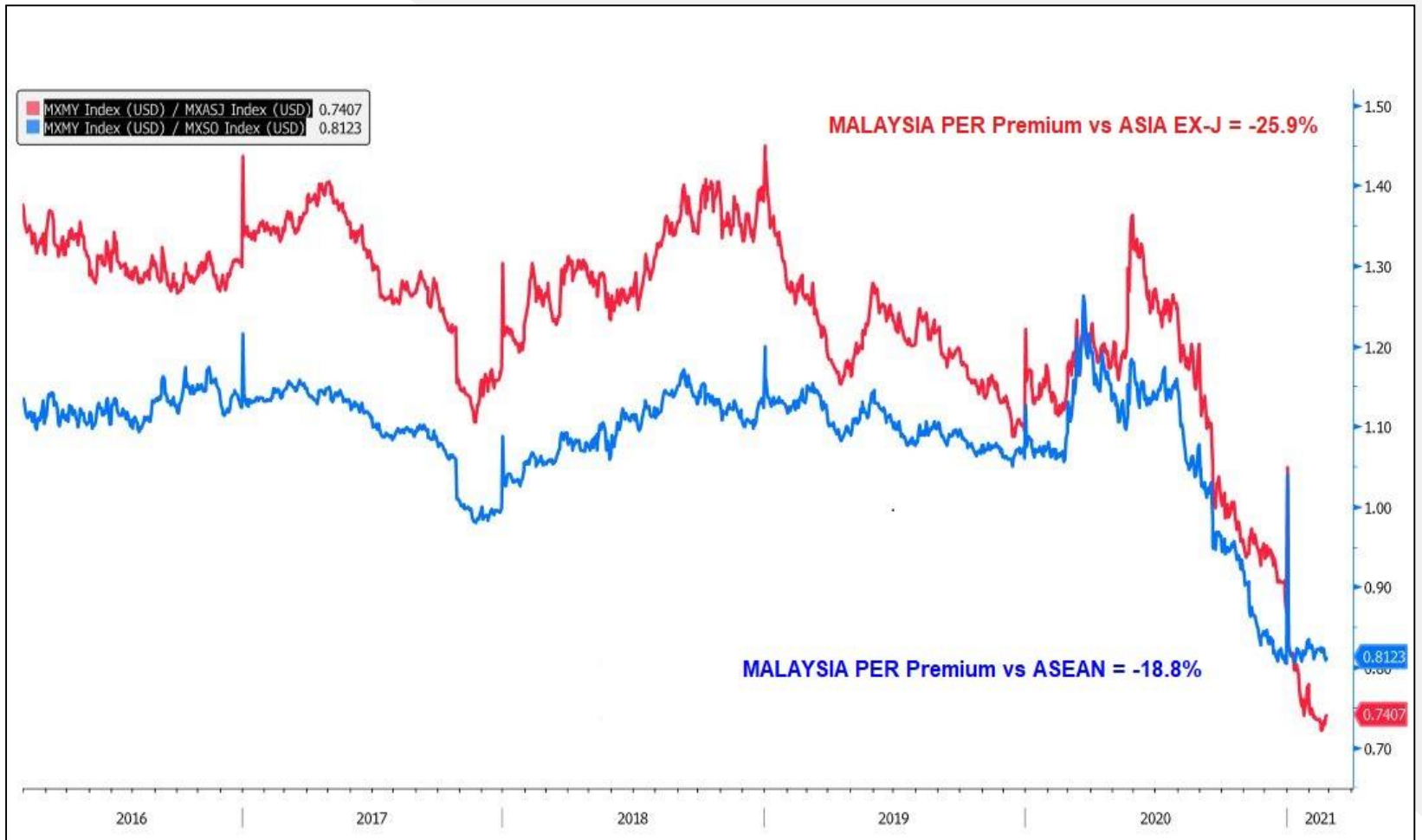
5. Consensus 2021 market eps estimate has risen from RM 88.8 in Dec-20 to RM 117.0 currently. This was due to earnings upgrades for companies such as Press Metal, Genting Malaysia, Petronas Dagangan, Genting , and Petronas Chemical. In 2021, the forecast EPS integer is flattered by the strong earnings 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 113.4. 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 25.9% 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) @ 25.02.21



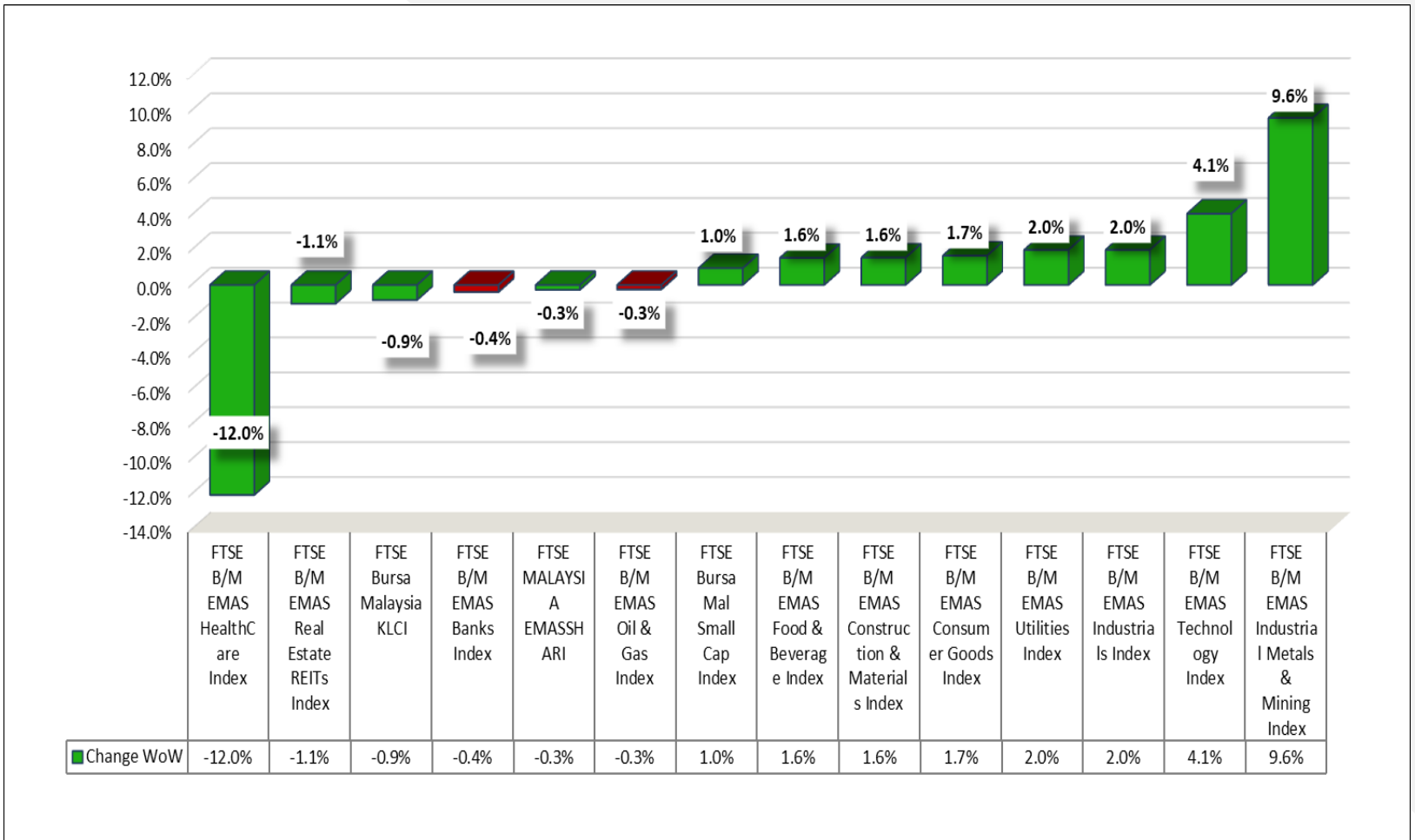
(Source: Bloomberg)

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



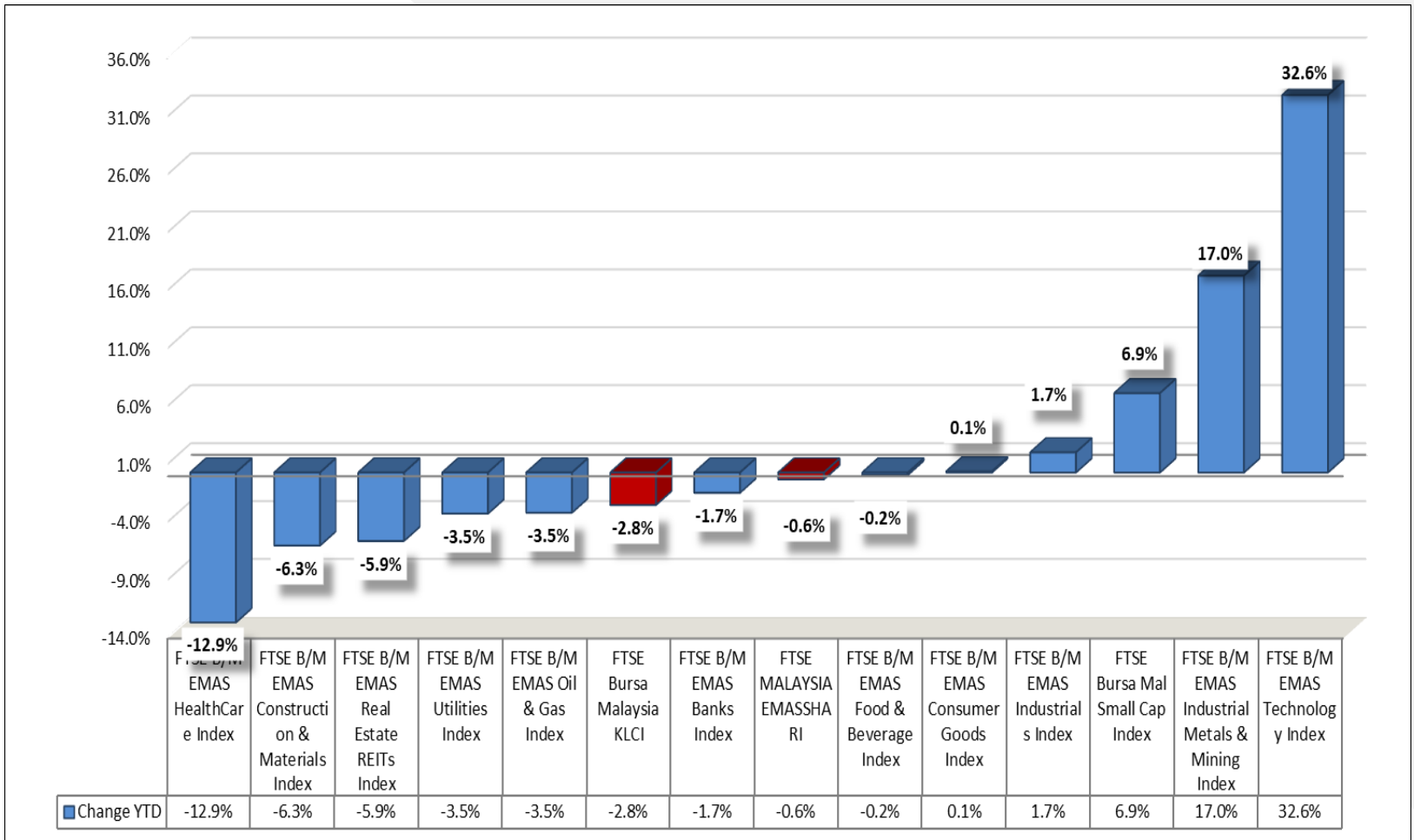
(Source: Bloomberg)

Exhibit 3: Sector performances (Week-on-Week) @ 25.02.21



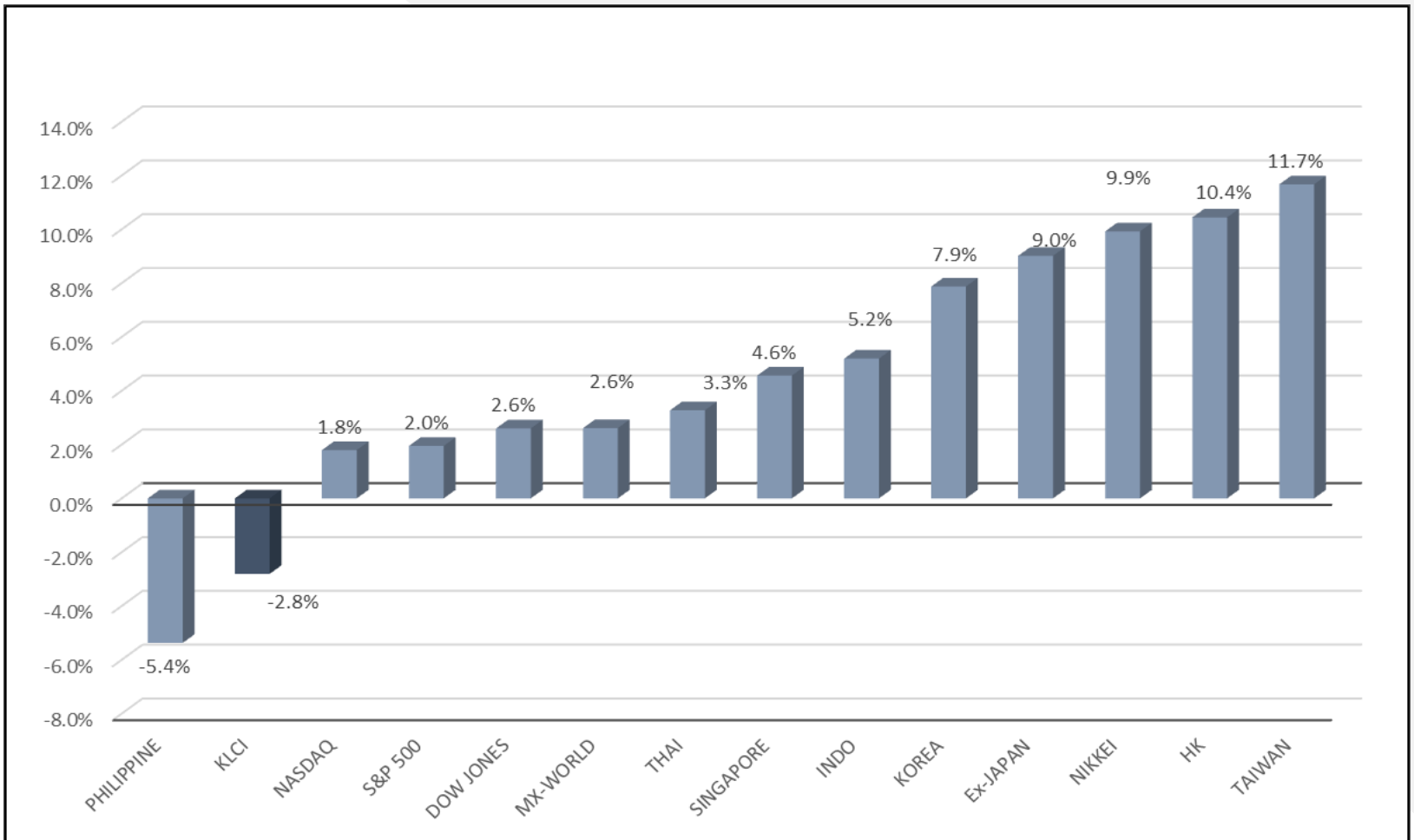
(Source: Bloomberg)

Exhibit 4: Sector performances (Year-to-Date) @ 25.02.21



(Source: Bloomberg)

Exhibit 5: Performance of Indices Year to Date @ 25.02.21



(Source: Bloomberg)

Disclaimer

This document is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Fundamental ratings include various financial data from the income statement, balance sheet, and cash flow statement items such as sales, profit, all important ratios, cash flows, working capital, cash conversion cycle and etc. over the past quarters and years. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not indicative of future performance. This document is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this document. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this document. The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Apex Investment Services Berhad ("AISB") and consequently no representation is made as to the accuracy or completeness of this document by AISB and it should not be relied upon as such. Accordingly, AISB and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this document. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice. This document may contain forward-looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. AISB expressly disclaims any obligation to update or revise any such forward-looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. AISB and its officers, directors and employees, including persons involved in the preparation or issuance of this document, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this document, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this document. One or more directors, officers and/or employees of AISB may be a director of the issuers of the securities mentioned in this document to the extent permitted by law. This document is prepared for the use of AISB clients, consultants or Representatives and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of AISB. AISB and its Representatives accepts no liability whatsoever for the actions of third parties in this respect. This document is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This document is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this document.

This document has not been reviewed by the Securities Commission Malaysia ("SC"), Federation of Investment Managers Malaysia ("FIMM") and Employees Provident Fund ("EPF"). The SC, FIMM and EPF are not liable for this document and are not in any way associated with this document. The SC, FIMM and EPF are not responsible for the contents herein and do not make any representation on the accuracy or completeness of this document, either in whole or in part.