



## Portfolio Manager's View

04 May 2021

Fund Management Department

# Regional

1. Nothing has changed from the US Federal Reserve until it has to change. In last week's FOMC meeting, the US Fed remained committed to the promised US\$120 billion of asset purchases monthly. The US Fed also remained of the view that rising inflation in the coming months will be transitory. Therefore, it is still not time yet to talk about reducing policy accommodation. However, what may have struck concern for investors is the mention of froth in some asset markets. What to me is more noteworthy is the comment that recovery is uneven and far from complete. Good headline economic numbers are one thing, the completeness of recovery is only as good as your weakest link. Between froth and the worst-off, the punchbowl will likely not be taken away until the worst-off are lifted up together.
2. Poor emerging nations remain the most fragile in this Covid-19 recovery. The dire Covid-19 situation in India is just one example of the damage of a second outbreak. The resurgence of new Covid-19 cases in Singapore, seen as one of the countries that has managed the Covid-19 pandemic well, is indication that this Covid-19 war is far from over. However, emerging countries have something to look forward to in the second half of 2021. At the upcoming WTO, US Trade Representative Katherine Tai will be discussing how to ensure

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wider vaccine licensing and wider distribution across the world. More importantly, the wider sharing of these life-saving vaccines must be made quickly and more affordable. Any headway will be positive for emerging economies and markets, allowing us to close the gap with our wealthier brethren.

# Malaysia

1. The KLCI closed at 1,588 @ 04.05.21, increased by +1.8% M-o-M. Last week, Food & Beverage (+0.7%) and Consumer Goods (+0.7%) were the best performing sector. Meanwhile, Healthcare (-1.5%) and Technology (-1.1%) were the worst performing sectors. Year-to-date @ 30.04.2021, the KLCI has retreated by -1.6%.
2. In first 4M (till end-April), foreign net selling has totalled RM 2.8 bil (vs RM 24.7 bil for the whole of 2020) although there has been an uptick in outflows in the last 3 weeks. Local institutions have net sold RM 4.8 bil this year. The main buying support has come from local retail buyers who have net bought RM6.0 bil worth of equities YTD.
3. World Semiconductor Trade Statistics (WSTS) published its Mar 2021 semi sales data. Overall, most sectors continue to record double-digit growth despite the disruption in supply chains and shortages of chips. For Mar-21, total semiconductors sales increased by 17.8% YoY (vs 16.0% YOY for Feb-21) and 13.9% MoM (vs -2.7% MoM for Jan-21). Exhibit 1 shows that growth in global semiconductor sales is still trending upwards. We maintain our positive view on technology stocks as we believe the positive outlook remains for the next 1-2

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quarters at least. Exhibit 2 shows the duration and magnitude of the semis cycle. On average the duration of an upcycle will last 31 months with a % monthly sales order increase of 23% from start to peak. We are currently 13 months into the 7<sup>th</sup> semis upcycle since 1997 with a % monthly sales order increase of 18% from start to peak.

4. The Malaysia's technology sector has underperformed the broader sectors MoM and WoW (Exhibit 3 & Exhibit 6). We are in the early stage of the 1Q21 reporting season. Technology companies that reported 1Q21 earnings in-line with market consensus were Vitrox, Frontken, Unisem and Globetronics, while Mi Technovation reported below market consensus. All 5 Malaysian technology companies saw their share price declined post 1Q21 results. As technology companies are trading at lofty valuations and earnings expectations are high, share prices would require more surprises to move upwards. This is not a domestic phenomenon but globally technology sectors have underperformed the broader sectors. i.e. Microsoft Corp delivered \$2bil more in profits than market consensus but the stock declined around -4% post results. This comes as investors buying interest rotated from growth stocks into "cyclical and recovery plays".

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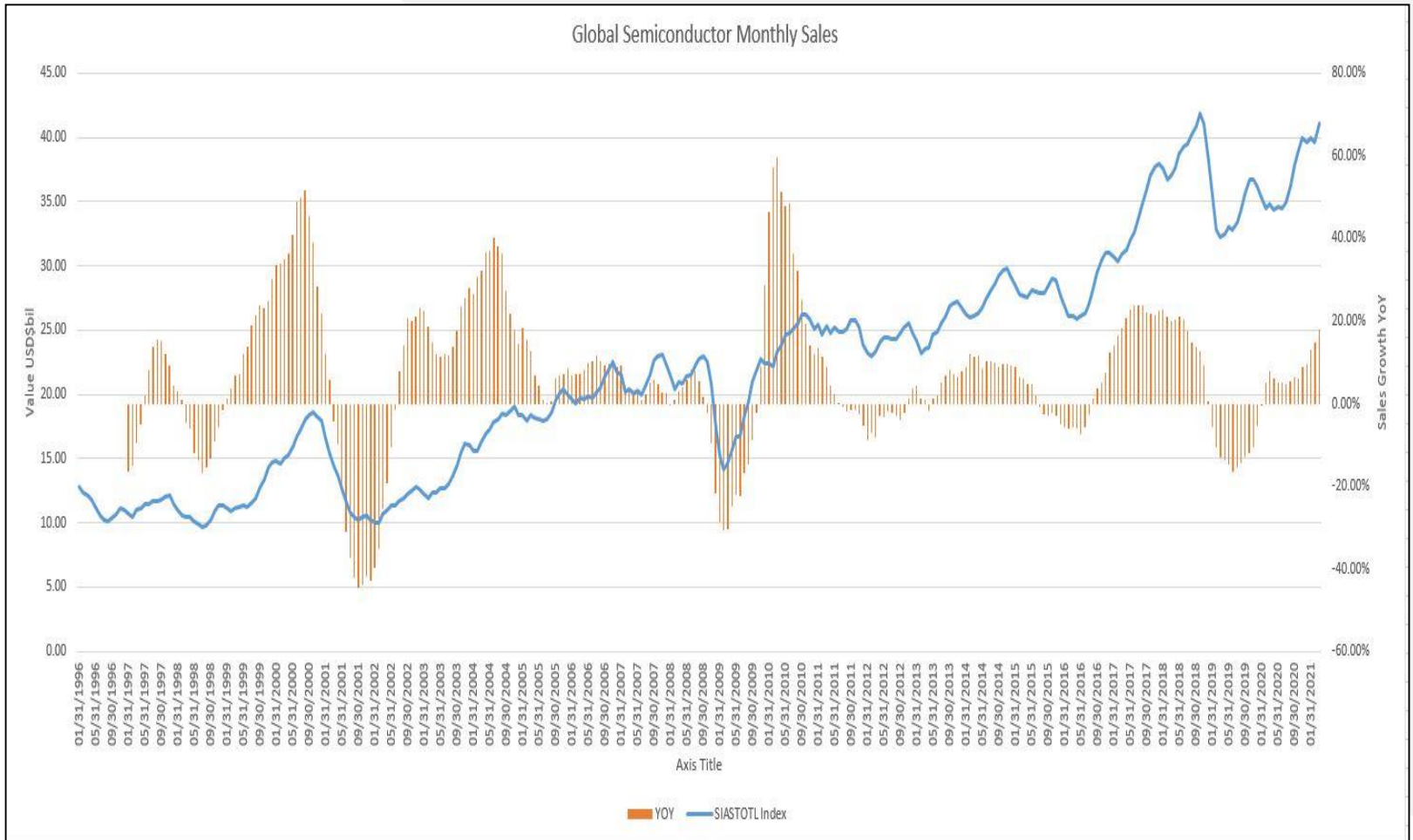
5. In an interview with CBS's 60 Minutes, Intel's CEO Pat Gelsinger stated it will be years before the global semiconductor shortage is resolved. It will require several months for the strain on supply to even begin easing. He also believes it will take a couple of years before the supply for chips catches up with demand. The US supplies only 12% of the world's semiconductor chips vs 37% 25 years ago.
6. We continue to Overweight technology across our funds as we believe the structural drivers for the sector remain intact. In some portfolios, we have added selective laggard and/or value plays whose earnings will fare better when the economy recovers from the pandemic. As always, our discipline is to invest in companies which in our view have catalysts that will drive a rerating of their share prices.
7. Market watchers continue to question the use of RM 5 bil from the National Trust Fund (KWAN) for the purchase of vaccines and related expenses. RM 38 bil/RM 17 bil were allocated for Covid-19 expenditures in the 2020/2021 Budget respectively. However, the Finance Minister recently clarified that no amount was allocated for vaccine purposes in the 2021 Budget. It is not clear if

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the RM 17 bil allocated for 2021 has been exhausted. Neither is it known whether the Covid-19 expenditure has reached the ceiling of RM 65 bil (raised from RM 45 bil in Nov-2020).

8. At 1,588 @ 04.05.21, Malaysia market is trading at a PER of 13.4x for CY21. The market's valuation for 2021 is at a 16.3% discount to its 12M mean PER of ~16x. The market's valuation is flattered by the low PERs of the glove companies. Excluding the latter, the KLCI is trading nearer to 18.0x (source: AISB). Separately, Malaysia is trading at a 20% discount to Asia ex-Japan's 2021 PER of 16.4x (see Exhibit 5). This is the steepest discount in the last 5 years. The latter reflects the consistent outflow of foreign funds from Malaysia in recent years. As most foreigners are significantly Underweight Malaysia, we do not foresee foreign selling to be a major negative going forward.

# Exhibit 1: Semiconductor Up Cycle



(Source: Bloomberg)



## Exhibit 2: Semis Cycle – Duration and Magnitude

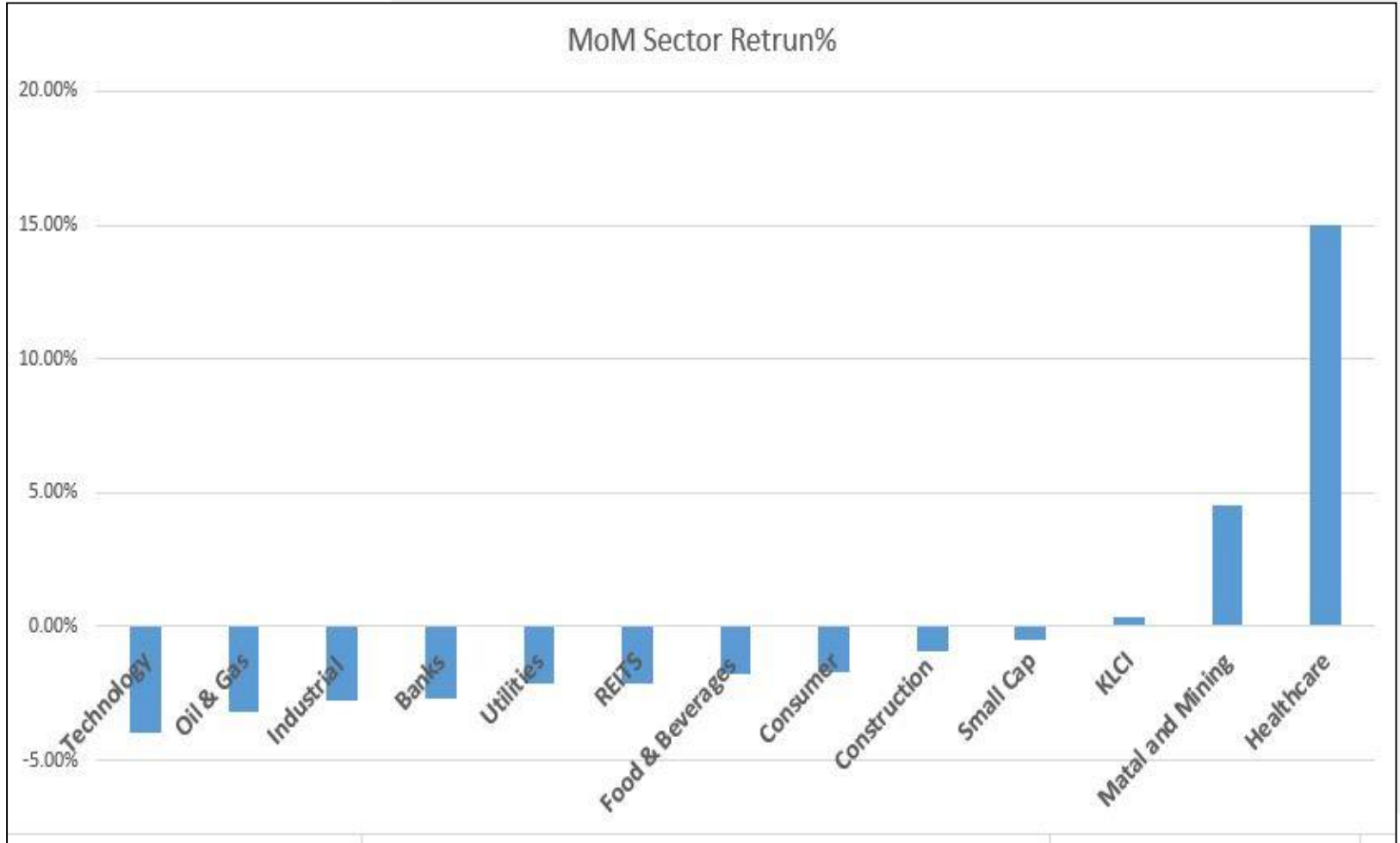
### Semiconductor Sales Cycles

	Dates			Duration (Months)		Monthly Orders
	Start	Peak	End	Start to end	Start to peak	% Increase to Peak
1	06/30/1997	08/31/1997	02/28/1998	9	3	2%
2	02/28/1999	08/31/2000	02/28/2001	25	19	66%
3	08/31/2002	06/30/2004	09/30/2008	74	23	49%
4	12/31/2009	03/31/2010	06/30/2011	19	4	4%
5	12/31/2012	02/28/2014	06/30/2015	31	15	5%
6	09/30/2016	06/30/2017	12/31/2018	28	10	11%
7	03/31/2020	01/31/2021	02/28/2021	13	13*	18%
Average -excluding current cycle				31	12	22%

\* Current cycle

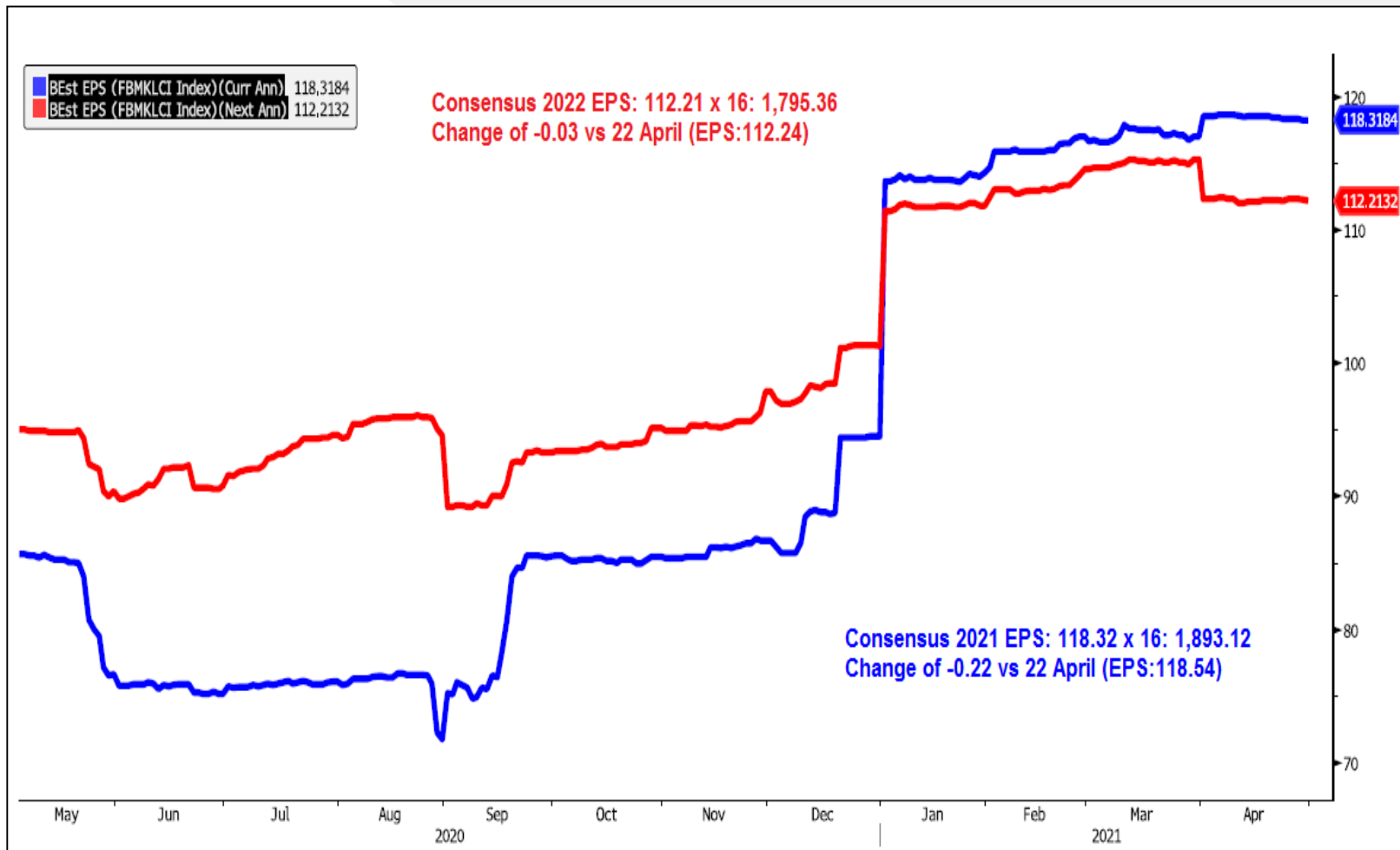
(Source: AISB, Bloomberg)

### Exhibit 3: Sector Performances (Month-on-Month) @ 03.05.21



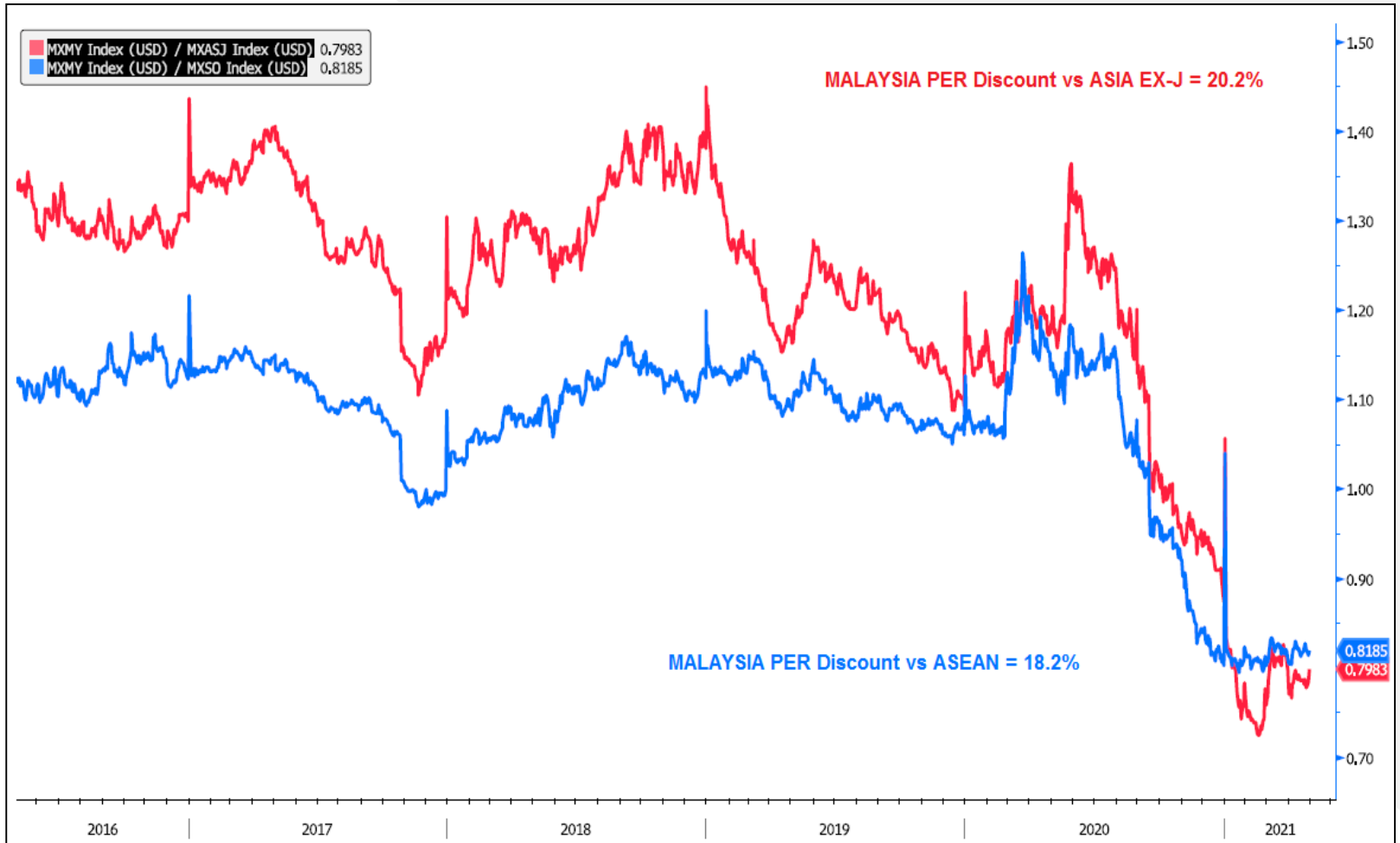
(Source: Bloomberg)

## Exhibit 4: FBMKLCI Consensus Earnings Per Share (EPS) @ 30.04.21



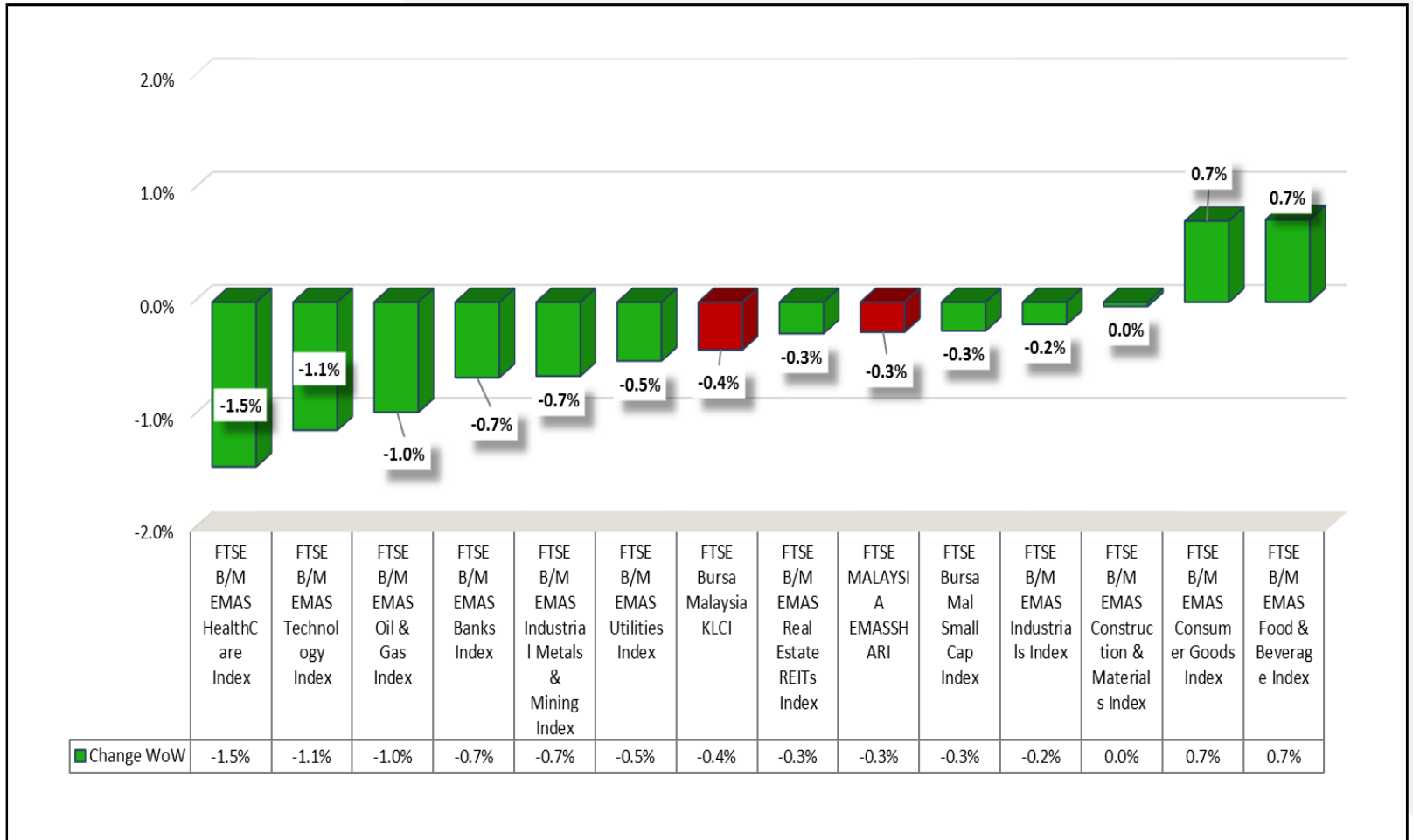
(Source: Bloomberg)

## Exhibit 5: MALAYSIA P/E is at a discount to the region @ 30.04.21



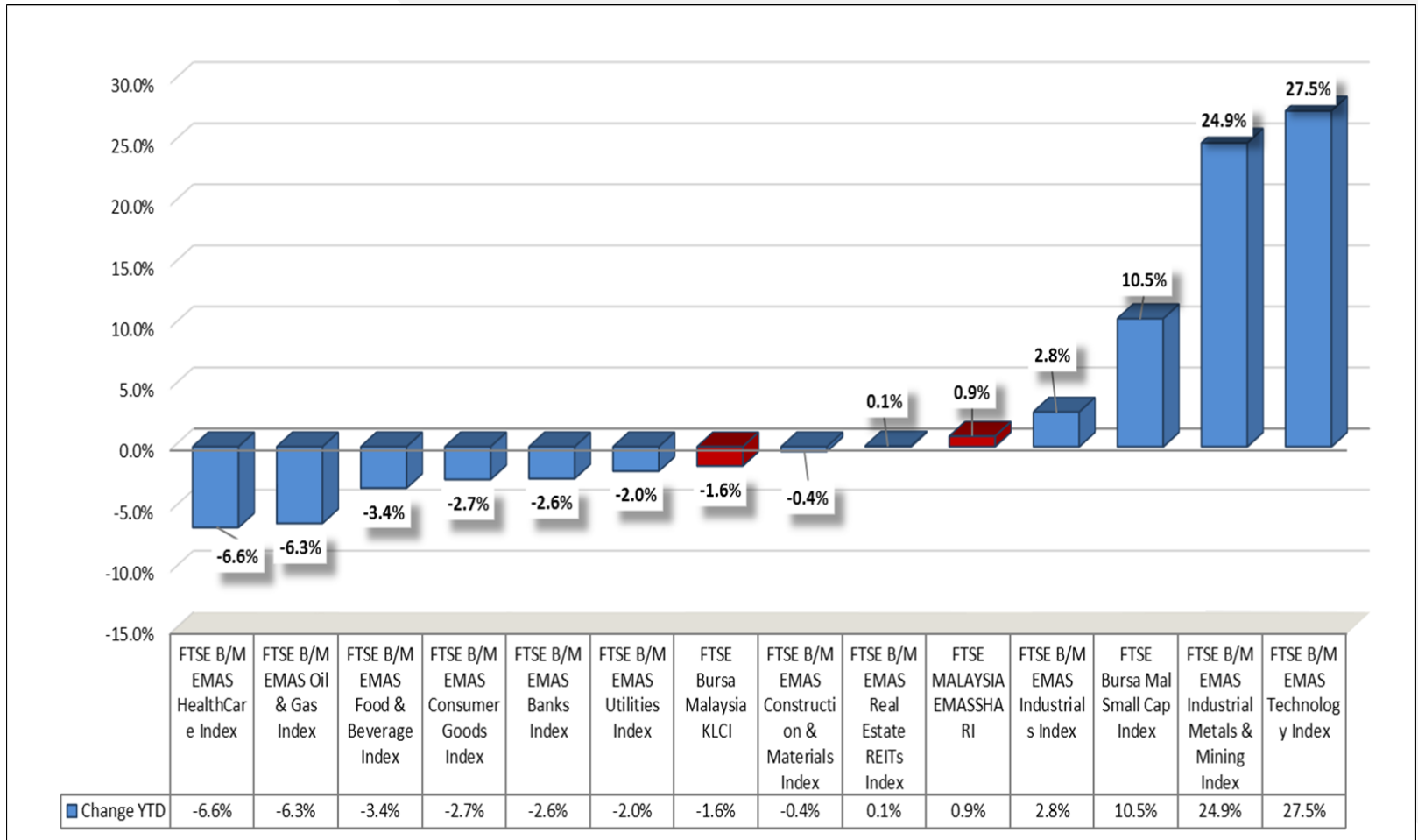
(Source: Bloomberg)

## Exhibit 6: Sector Performances (Week-on-Week) @ 30.04.21



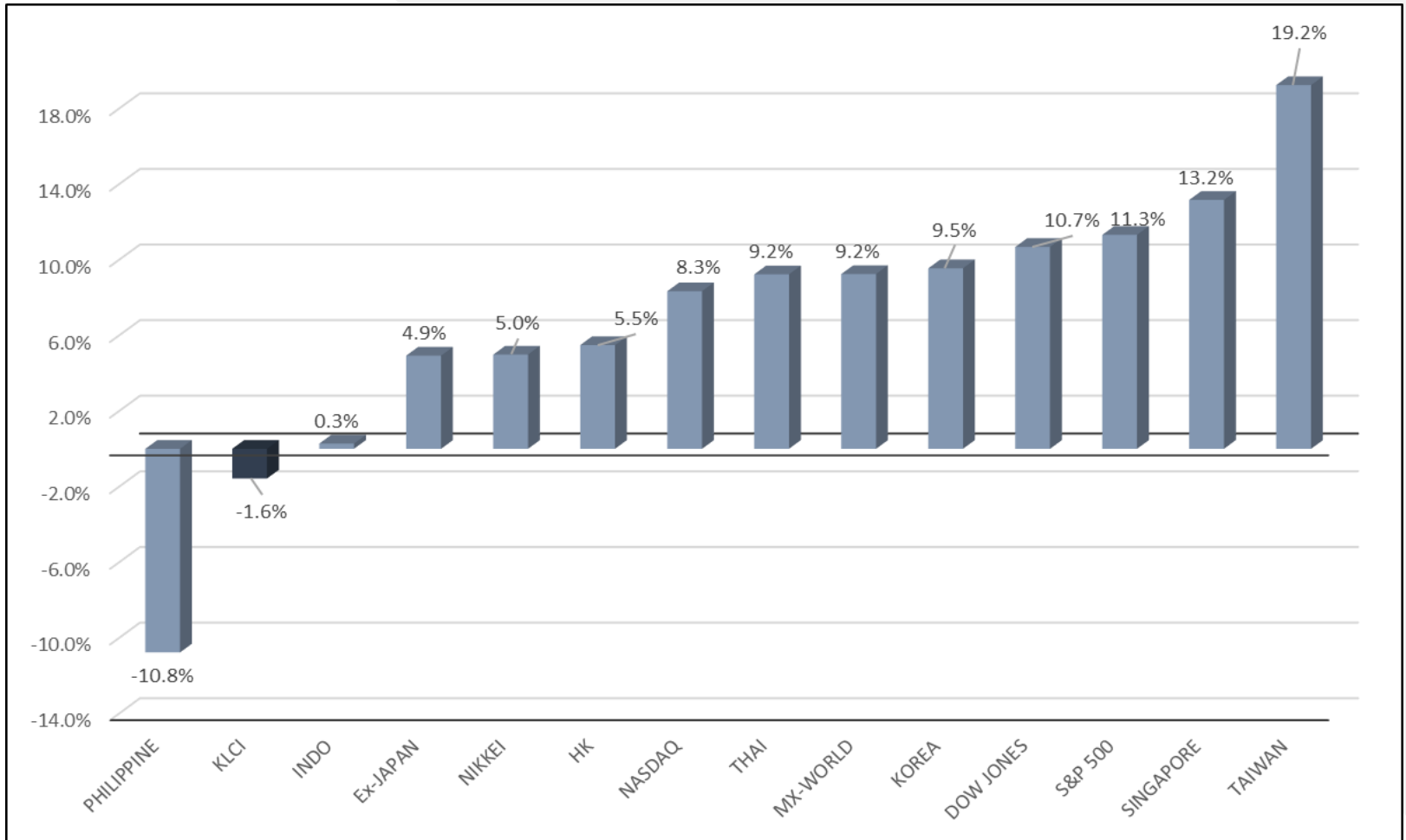
(Source: Bloomberg)

## Exhibit 7 : Sector Performances (Year-to-Date) @ 30.04.21



(Source: Bloomberg)

## Exhibit 8 : Performance of Indices (Year-to-Date) @ 30.04.21



(Source: Bloomberg)

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