



## Portfolio Manager's View

18 May 2021

Fund Management Department

# Regional

1. This commentator generally refrains from political opinions. However, politics have largely framed our investment perspective for the last 4 to 5 years that it bears some ranting. The Israeli-Palestinian conflict is of utmost concern to everyone watching the horrific unfolding with each passing day. The United Nations (UN) Security Council charged with preserving international peace and security has pushed for a condemnation of the situation and a de-escalation of fighting. Yet the US, as one of five members on the UN Security Council with veto power over anything they don't like in the Security Council, has kept using this veto power to block any form of formal reaction, "preferring to use its own diplomatic powers to calm things down". The seeds of empowerment for Israel were sowed when previous US President Donald Trump made the decision to relocate the US Embassy from Tel Aviv to Jerusalem, a recognition of Jerusalem as the capital of Israel. This tells us that if you are an ally of the US, you can get away with anything you want. As much as the political outreach of China across the South China Seas is a concern for all, its also a matter of self-interest to the US. Asian equity markets for the past 4 to 5 years have come to include this prolonged US-China trade tension as an important driver for positioning and performance. Many Asian nations will dread the day when we are asked to pick sides from this cross-fire and face the consequences.

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2. Investment guru Stanley Druckenmiller said that the US Federal Reserve is endangering the US Dollar's global reserve status and the unbelievable benefits that have accrued with it. As the ex-French Minister of Finance Valery Giscard d'Estaing said back in the 1960s, this has indeed been an extraordinary 60 years of unbelievable "exorbitant privilege". Ex-Treasury Secretary Lawrence Summers has also warned of the longer-term concern of the US Federal Reserve printing press. However, we reiterate that the US Federal Reserve is in no position to reverse the course of monetary accommodation as long as the hardest hit lower income groups are not seen to be lifted up like wealthier ex-Treasury Secretaries and hedge fund managers. Fiscal support remains of dire priority and a highly indebted US Treasury still depends on the US Federal Reserve printing press. Perhaps, Lawrence Summers and Apple Inc. may want to help by paying higher taxes to save the US Dollar?
3. Our view remains unchanged. We are positive Asia. Asia remains a sweet spot with monetary accommodation and manufacturing momentum. Normalisation out of Covid-19, albeit with a delay, will be another bright spot to look forward to.

# Malaysia

1. The KLCI closed at 1,591 @ 18.05.21, decreased by -1.6% M-o-M. Last week, Industrial Metal & Mining (+3.3%) and F&B (+1.2%) were the best performing sector. Meanwhile, Technology (-4.7%) and Construction (-4.7%) were the worst performing sectors. Year-to-date @ 12.05.2021, the KLCI has retreated by -3%.
2. Malaysia's Health Ministry minister mentioned that it may push for a total lockdown in the state of Selangor if the Covid-19 situation in the state worsens. This news will dampen market sentiment as Selangor is one of the key industrial manufacturing states in Malaysia. In 2019 the GDP contribution from Selangor accounted for 24.2% of the country's total.
3. A new cryptocurrency called Chia has driven up the demand for hard disk drives (HDD) globally. As cryptocurrency miners requires more data storage for harvesting coins, the demand for storage space increases. This is a potential positive for HDD players. The 2 largest HDD manufacturers saw their share prices increase YTD i.e. Seagate +73.4% and Western Digital 46.3%. This is positive read through for HDD components manufacturer Dufu Technology which is involves in producing disk spacers for HDDs.

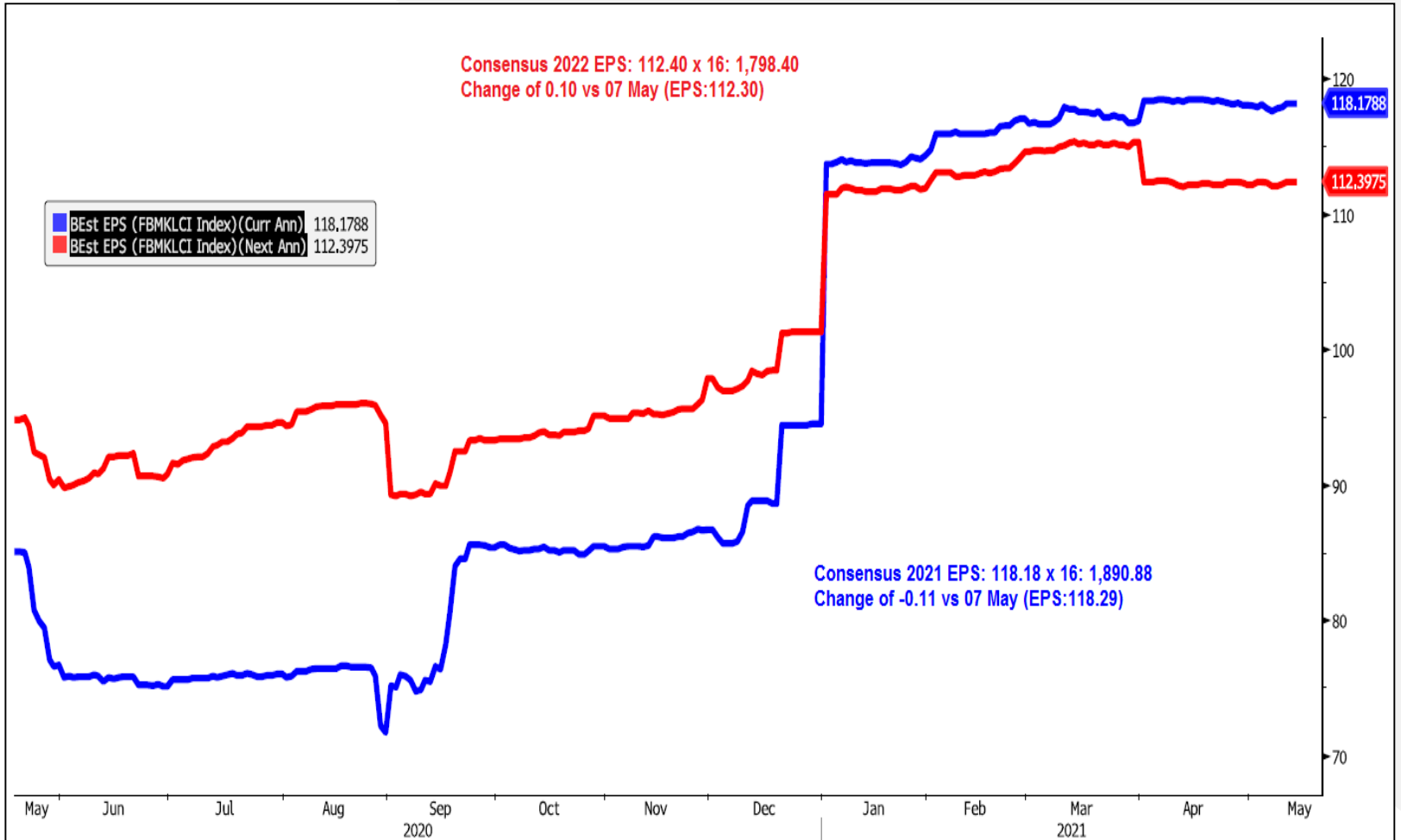
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4. Malayan Cement has announced it will acquire 12 subsidiary companies owned by YTL Cement for a sum of RM 5.2bil to be paid via RM 2.0 bil cash, RM 1.4 bil new MCement shares and RM 1.8 bil irredeemable convertible preference shares (ICPS)). In our opinion, this is a very positive acquisition for MCement. Reasons: (i) MCement is acquiring YTL's cement businesses at an estimated 2020 PER of 15x (ii) post-acquisition, MCement is expected to enjoy operational synergies, better margins and a turnaround from a loss making situation to profitability (iii) MCement is issuing new shares and setting the ICPS conversion price at RM 3.75. This is a premium to its share price. In addition, this is the same price that YTL paid for MCement in 2019. Post the acquisition, MCement will own circa 60% of the cement industry in Malaysia. We own MCement in several of our Malaysia equity funds.
  
5. The Finance Minister Tengku Zafrul stated : (1) the country's GDP will grow at 6.0 to 7.5% in 2021 (IMF 6.5%, World Bank 6.0%) (2) the government has RM 17 billion left to spend on on-going stimulus packages from its Cover-19 fund (the government has spent RM 10 bil from 2021's allocation) (3) arising from MCO 1.0, 2.8 mil people lost their jobs (4) RM 78 bil was withdrawn under I-Lestari & I-Sinar programmes; he commented that 2.6 mil EPF members had less than RM 1K in Account 1.

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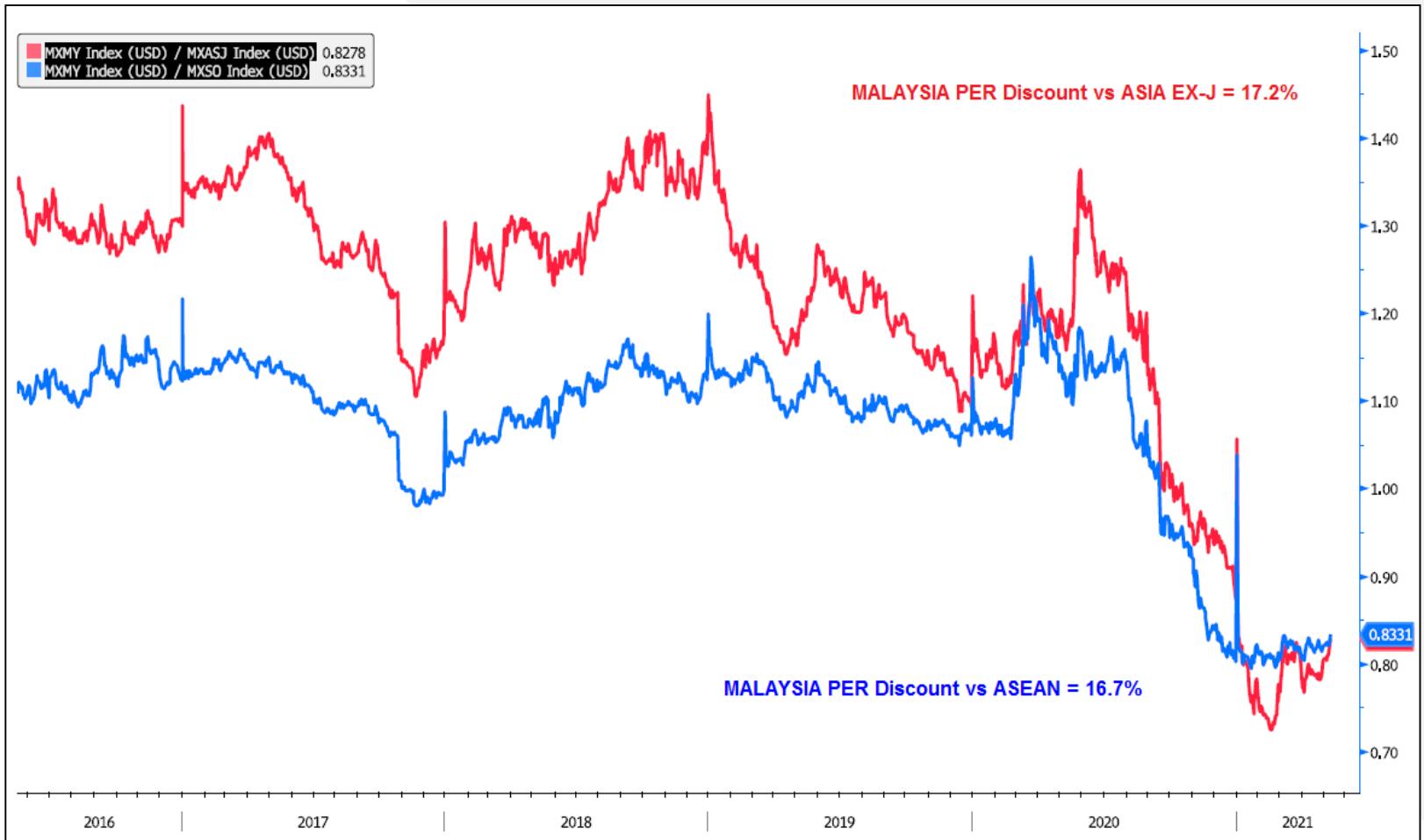
6. At 1,591 @ 18.05.21, Malaysia market is trading at a PER of 13.5x for CY21. The market's valuation for 2021 is at a 15.6% discount to its 12M mean PER of ~16x. The market's valuation is flattered by the low PERs of the glove companies. Excluding the latter, the KLCI is trading nearer to 18.0x (source: AISB). Separately, Malaysia is trading at a 17.2% discount to Asia ex-Japan's 2021 PER of 16.2x (see Exhibit 2). 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: FBMKLCI Consensus Earnings Per Share (EPS) @ 12.05.21



(Source: Bloomberg)

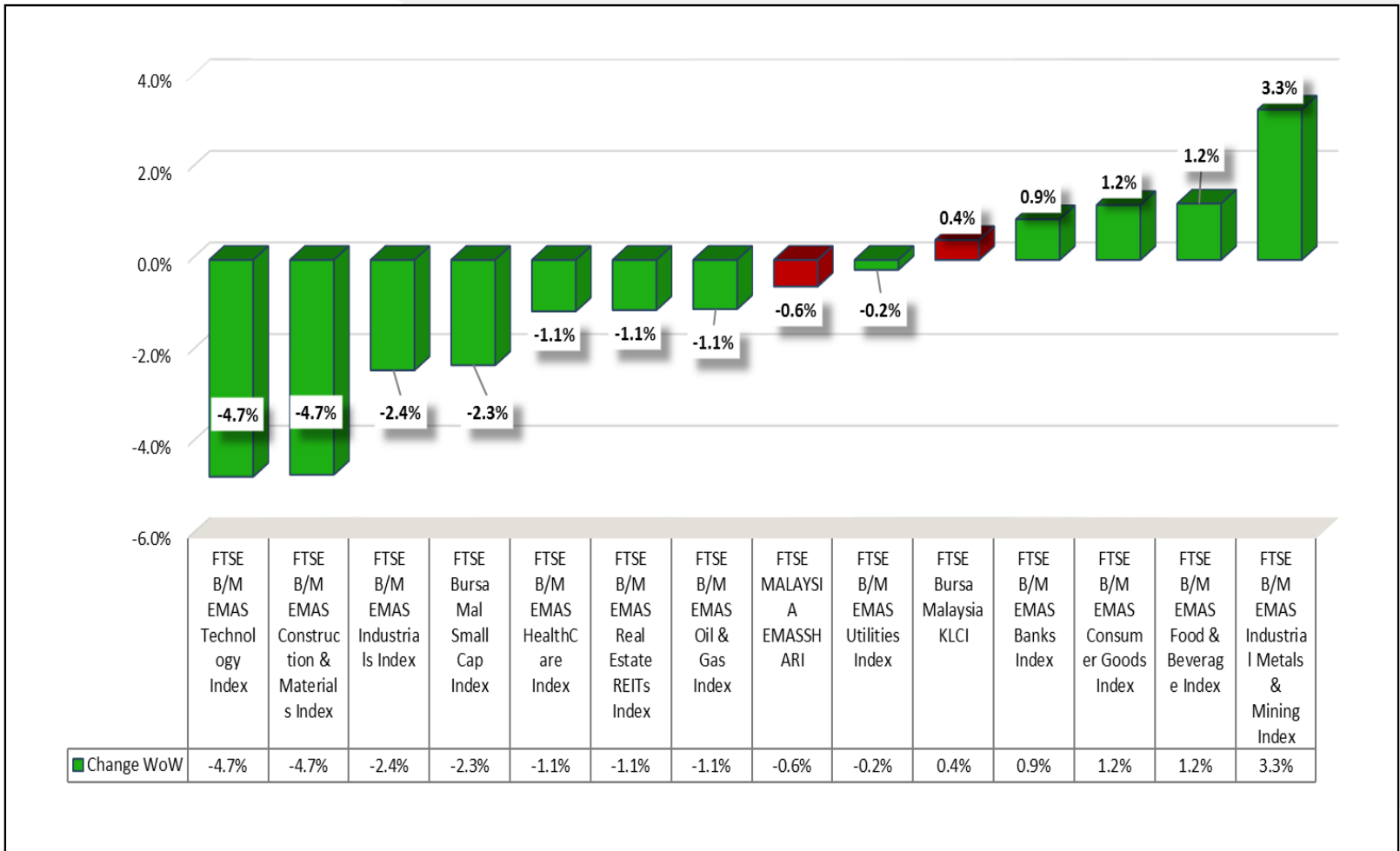
## Exhibit 2: MALAYSIA P/E is at a discount to the region @ 12.05.21



(Source: Bloomberg)

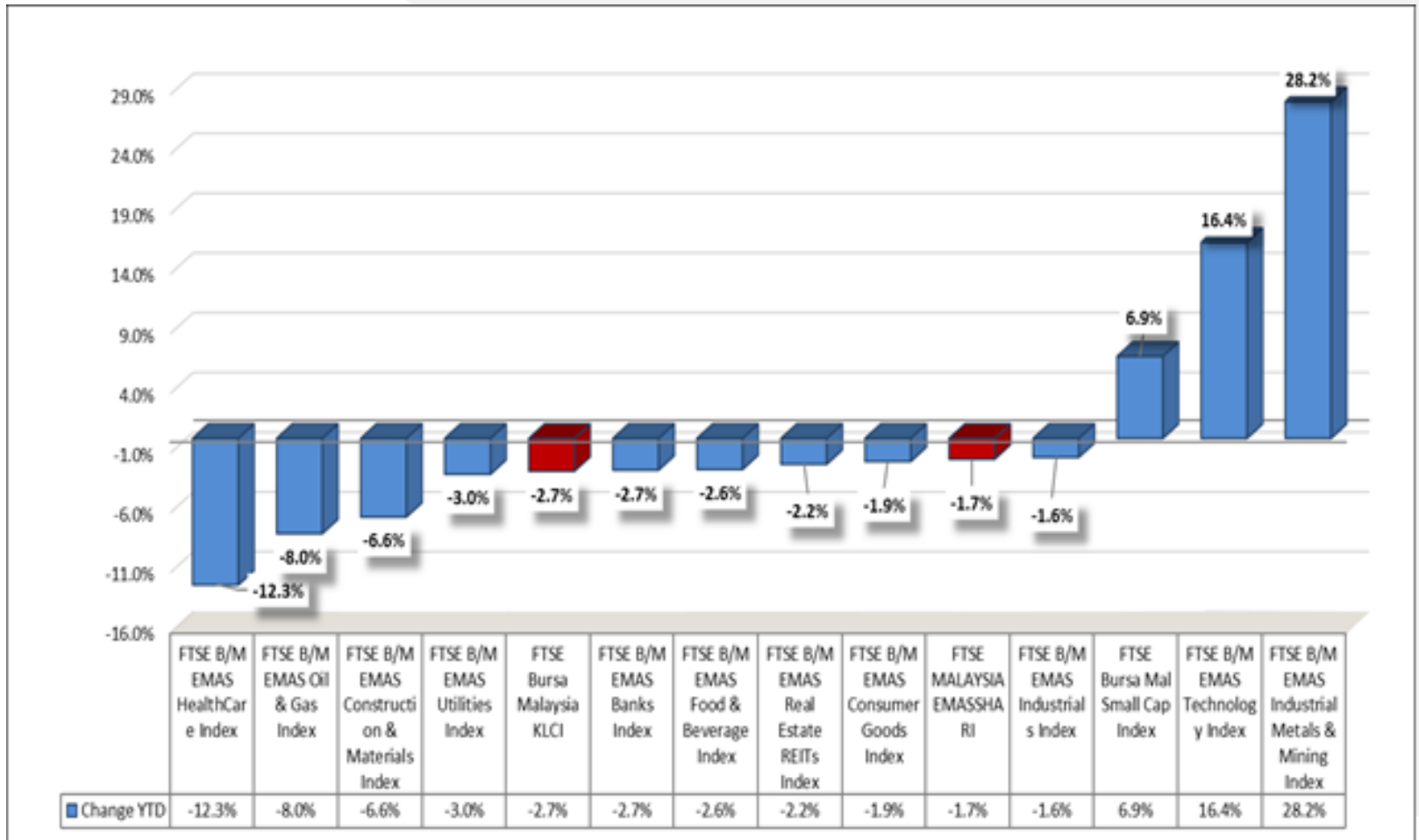


### Exhibit 3: Sector Performance (Week-on-Week) @ 12.05.21



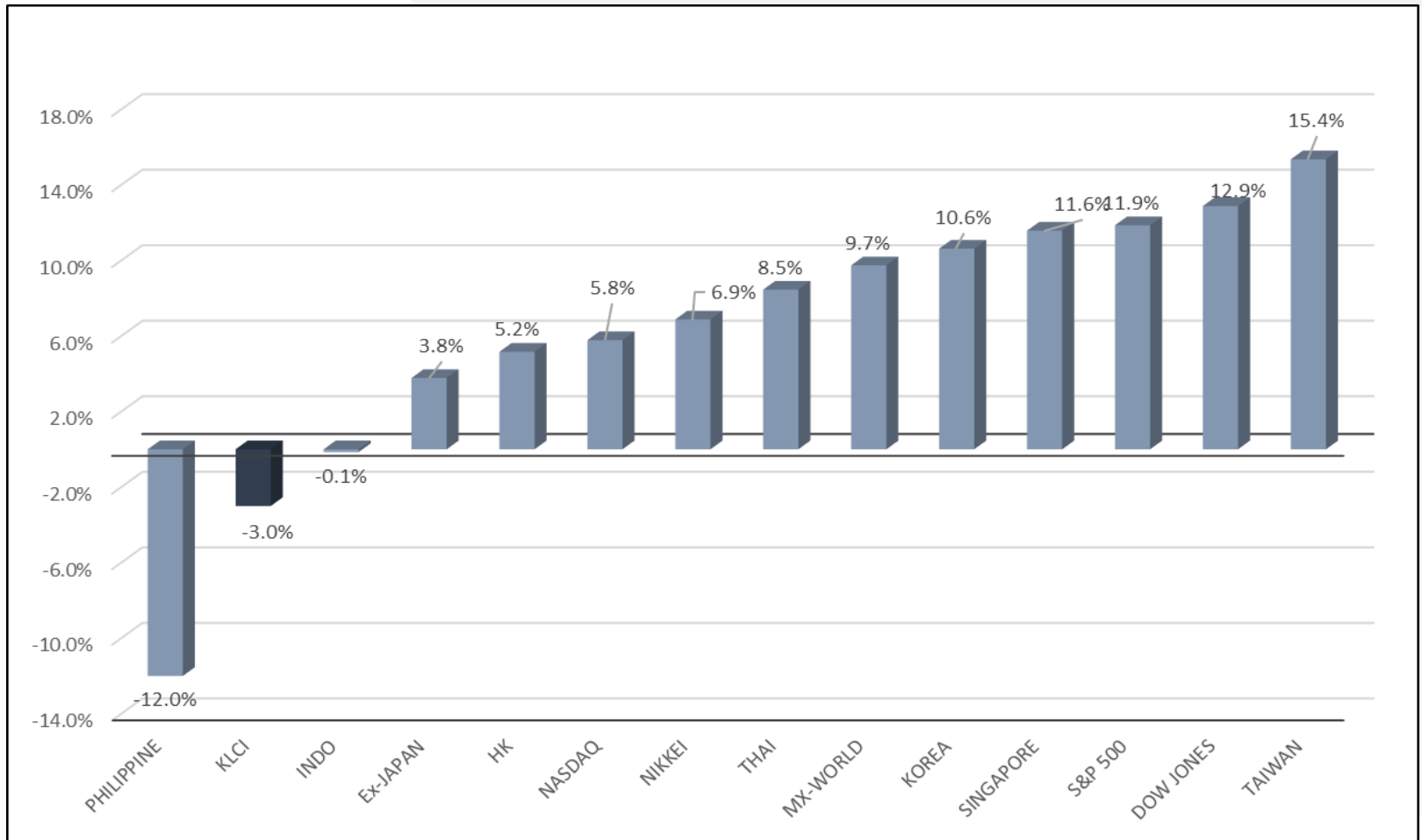
(Source: Bloomberg)

## Exhibit 4 : Sector Performance (Year-to-Date) @ 12.05.21



(Source: Bloomberg)

## Exhibit 5 : Performance of Indices (Year-to-Date) @ 12.05.21



(Source: Bloomberg)

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