Apex Investment Services Berhad (420390-M)
20 years and beyond

Portfolio Manager's View

25 May 2021

Fund Management Department

Regional

1. What has emerged from the latest FOMC meeting minutes confirmed all along what we have suspected about the US Federal Reserve; that she has started to think about thinking of tapering. The 64 million dollar question on most minds has to be for how long will the US Federal Reserve continue to be accommodative? Yet, US Federal Reserve Chair Jerome Powell would still have you believe that tapering discussion has yet to happen? This tells us that the US Federal Reserve is just loathe to even make the slightest change to its policy guidance. The greatest uncertainty yet is how sustainable is this Covid-19 improvement and the risk that any resurgence undermines a still fragile economic recovery. In other words, reflating is a deliberate policy choice. The market narrative will need to develop confidence the US Federal Reserve can balance growth momentum with manageable inflation.

2. In 2020, at the onset of this Covid-19 pandemic, developed countries were seen to have managed the crisis worse. Therefore, it is also not by choice that the vaccination roll-outs were more aggressive in these countries e.g. US and UK. The more aggressive vaccine roll-outs have had the desired effect of bringing forward economic normalisation. In contrast, Asian countries seen as having managed the Covid-19 pandemic better were not in a hurry to push for

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wider vaccination. Therefore, it is also no coincidence that the recent spike in new Covid-19 cases in some of the best managed countries such as Taiwan, Hong Kong, Singapore, Thailand, and Japan drives home the point that if Covid-19 is here to stay permanently, herd immunity through wider vaccination is the only way to go. The silver lining to this will be an accelerated vaccine program which will also help accelerate the economic normalisation process in this Asia region. The light at the end of the tunnel has gotten closer even if its always the darkest before dawn.

Malaysia

1. The KLCI closed at 1,578 @ 25.05.21, decreased by -2% M-o-M. Last week, Banks (+0.7%) was the best performing sector. Meanwhile, Industrial metals (-7.9%) and Construction (-4.8%) were the worst performing sectors. Year-to-date @ 20.05.2021, the KLCI has retreated by -3.2%.

2. Last week, the government decided against a nationwide lockdown. Its rationale was to balance between lives and livelihood. This comes as Malaysia continues to report daily Covid-19 cases of around 6K cases in the past 1 week. The stricter MCO 3.0 rules will have an impact on company earnings. For example, in the manufacturing sector, only 60% of private sector employees are allowed to be present at work premises. Finance Minster Tengku Zafrul mentioned that MCO 3.0 is estimated to have up to 1% impact on Malaysia's 2021 GDP. The government has lowered its 2021 GDP target to 5.0% to 6.5% vs 6.0% to 7.5% previously.

3. Infineon held an analyst briefing with Asian investors last week. They observe that inventory level across the supply chain is very low. For example, the auto segment normal inventory level pre-pandemic was 12-14 weeks. The current inventory level is around 6 weeks. Infineon management mentioned that it

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take several quarters for inventory to get back to its normal level. However, management does not see inventory levels getting back to its normal level of 12-14 weeks. Instead, they expect to a higher inventory levels to eventually settle at 16-20 weeks. In their view, it was no longer safe to practice a just in time business model. Losing business is no longer an option. Infineon's view would suggest that we have yet to reach the peak of the semiconductor cycle. We have stuck with our technology holdings as we believe that : a) supply chain inventory is low and needs to be rebuilt b) technology and lifestyle changes are driving demand across a wide spectrum of semiconductor segments c) earnings delivery will serve as a positive share price catalyst in the coming quarters d) technology stocks in Malaysia have a strong performance record in the last 7-8 years.

4. On 21 May, Inari reported above consensus earnings for 3Q FY21 (March quarter). Its share price reacted positively to the good results. 3Q net profit grew +134% YoY to RM 81.9mil (vs consensus RM 60.5mil). This is the highest net profit for the March quarter in the Company's history. The strong results was due to higher radio frequency (RF) content due to growing 5G adoption. In its results briefing, management appeared upbeat and guided for double digit YoY growth for its RF segment in the 2HCY21 driven by rising content in 5G smartphones.

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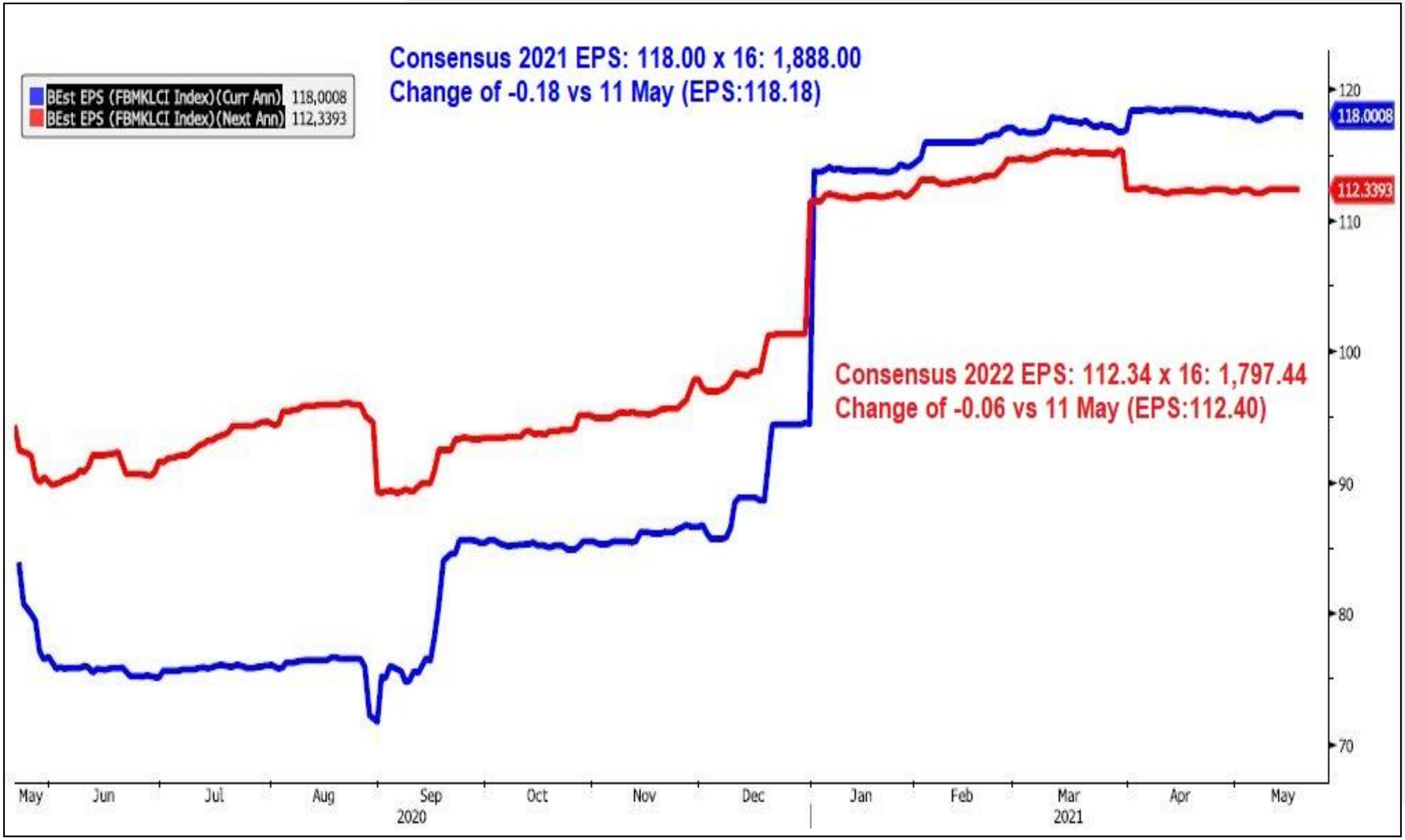
Management also expects the auto segment to do better in the coming quarters. The Company announced a special DPS of 1.8sen YTD DPS for FY21 was RM 8.5sen (vs 4.4sen in 2020). We own Inari and selected OSATs in several of our Malaysia equity funds.

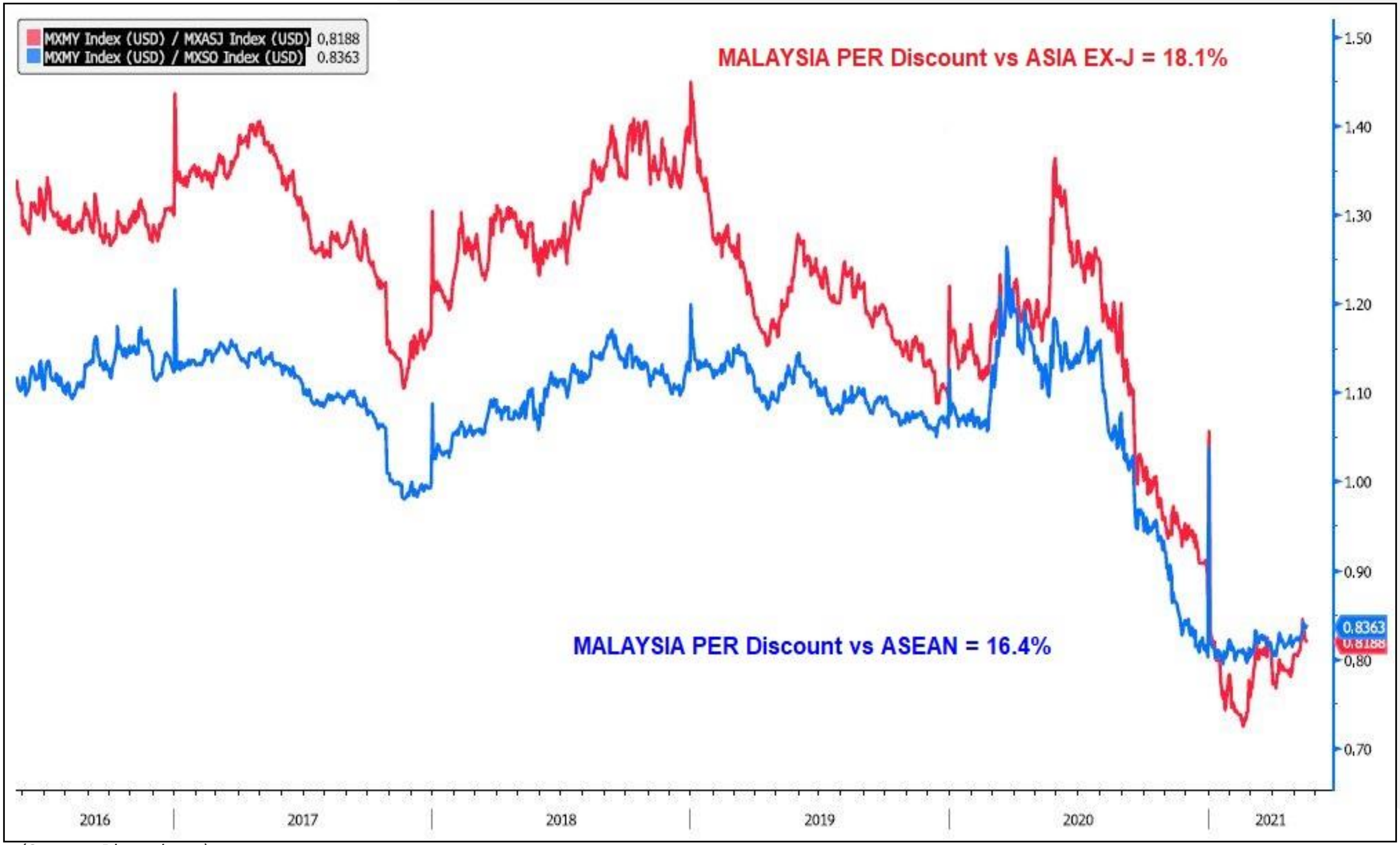
5. At 1,578@ 25.05.21, Malaysia market is trading at a PER of 13.4x for CY21. The market is trading at a 16% discount to its 12M historical mean PER of ~16x. The market's valuation is distorted by the low PERs of the glove companies. Excluding the latter, the KLCI is trading nearer to 18.0x (source: AISB). Separately, Malaysia is trading at a 17.2% discount to Asia ex-Japan's 2021 PER of 16.0x (see Exhibit 2) – at the trough of its valuation range against APxJ. The widening of the market's discount against its historical mean PER and vs Asian markets are a unusual phenomenon. Investors are discounting the marked deterioration in Covid-19 cases, dearth of institutional reforms, "old economy" offering (lack of technology content), unstable politics and exodus of foreign equity investors. Share prices have substantially baked in these negatives. A reversal of one or two of these negatives will no doubt lift prospects for the market.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS) @ 20.05.21



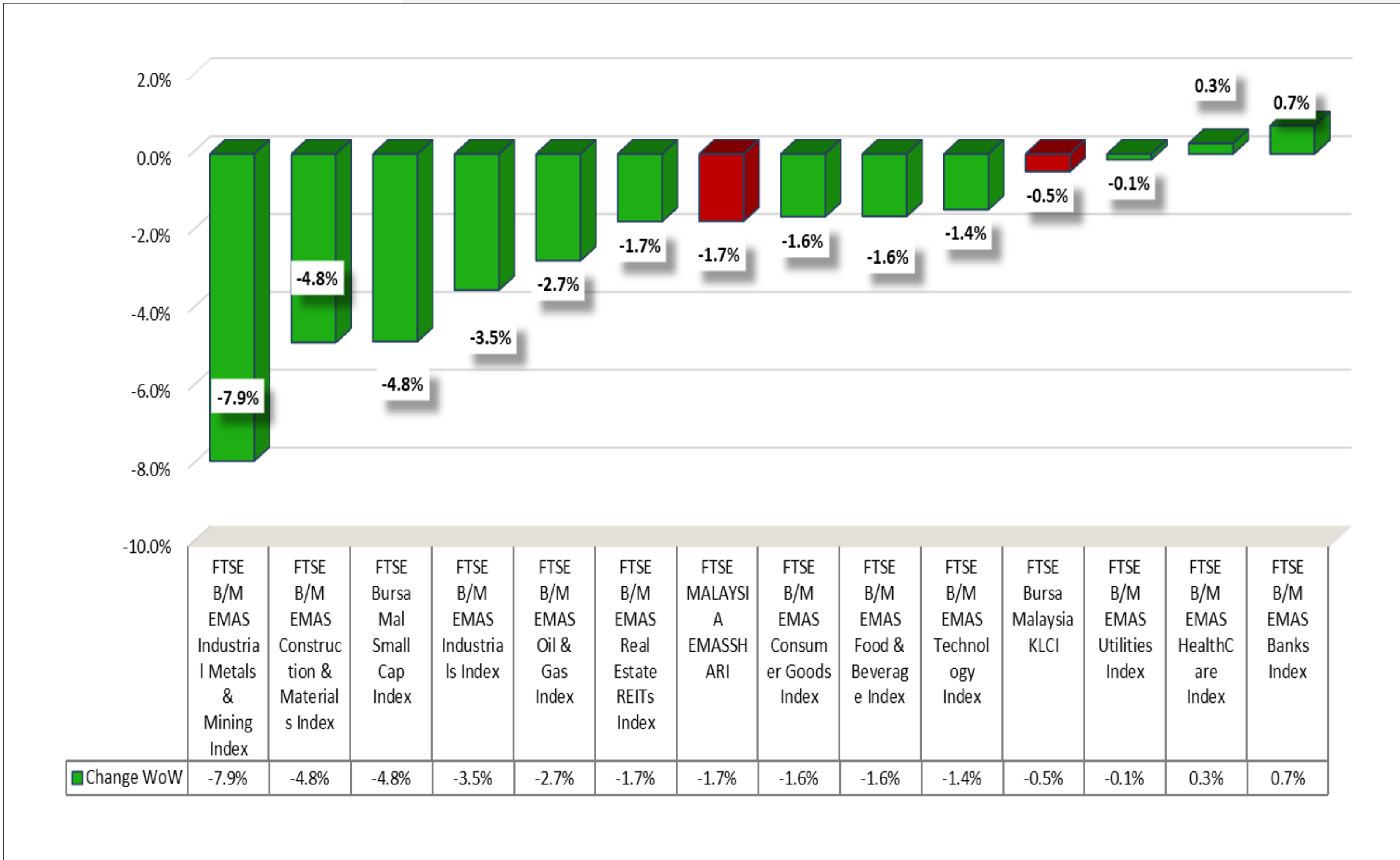
(Source: Bloomberg)

Exhibit 2: MALAYSIA P/E is at a discount to the region @ 20.05.21



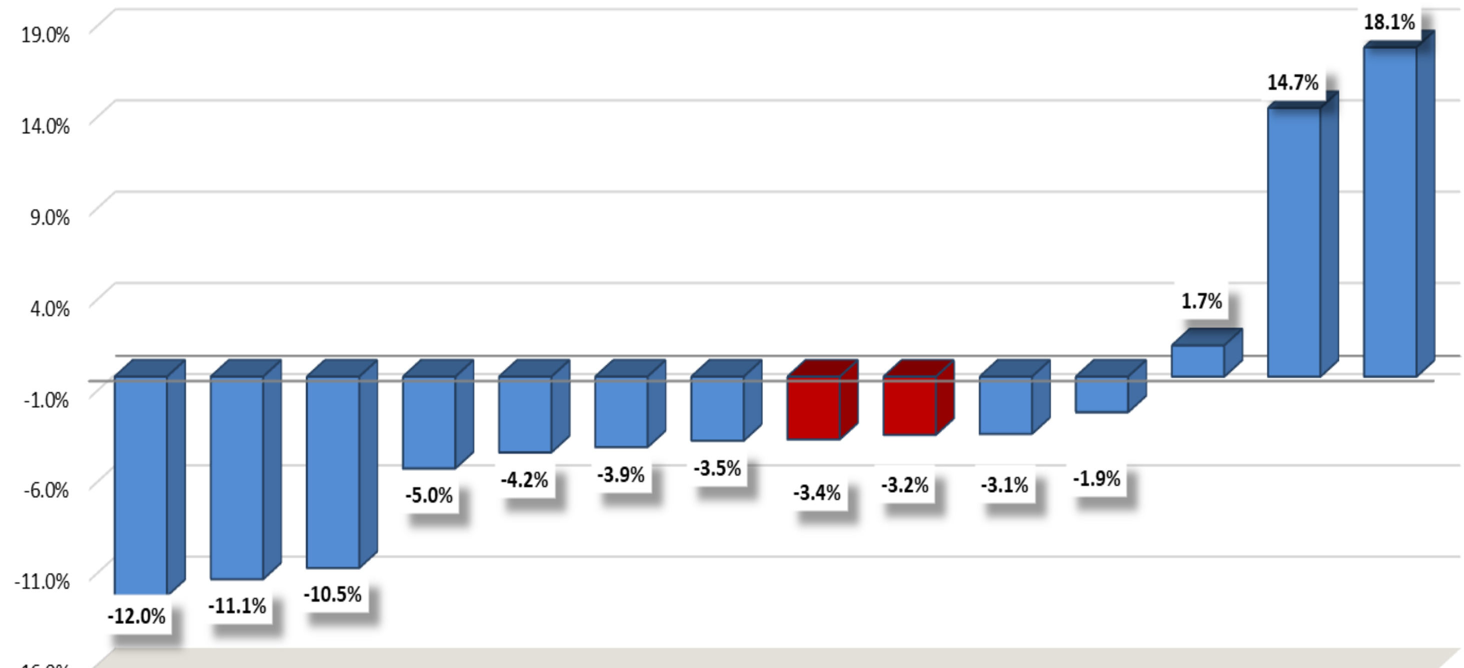
(Source: Bloomberg)

Exhibit 3: Sector Performance (Week-on-Week) @ 20.05.21



(Source: Bloomberg)

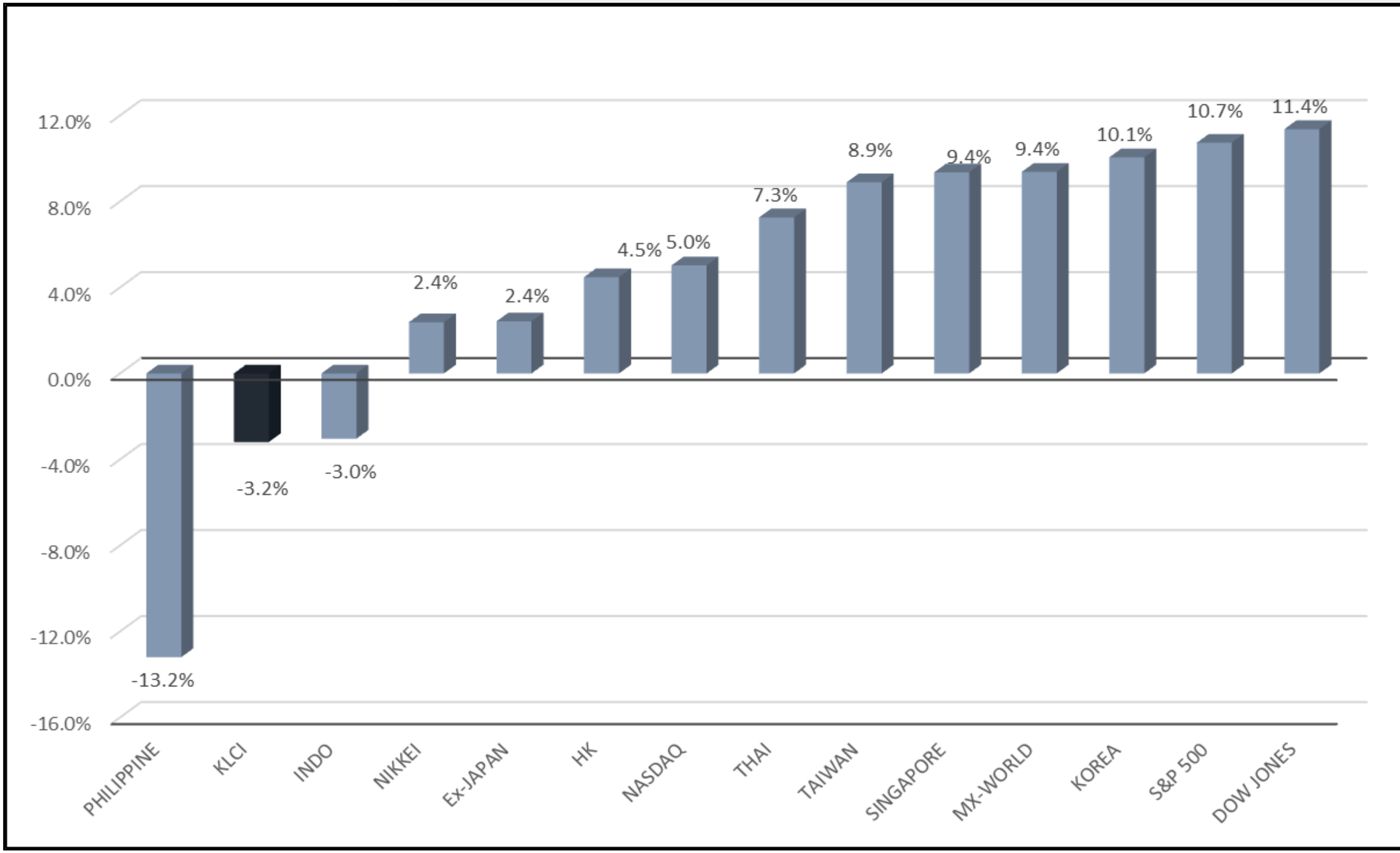
Exhibit 4 : Sector Performance (Year-to-Date) @ 20.05.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Consumer Goods Index	FTSE MALAYSIA EMASSHA RI	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change YTD	-12.0%	-11.1%	-10.5%	-5.0%	-4.2%	-3.9%	-3.5%	-3.4%	-3.2%	-3.1%	-1.9%	1.7%	14.7%	18.1%

(Source: Bloomberg)

Exhibit 5 : Performance of Indices (Year-to-Date) @ 20.05.21



(Source: Bloomberg)

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