Apex
INVESTMENT SERVICES BERHAD (420390-M)
20 years and beyond

Portfolio Manager's View

13 July 2021

Fund Management Department

Regional

1. US Treasury Secretary Janet Yellen, whom I call the tag-team partner of US Federal Reserve Chair Jerome Powell, spoke at the conclusion of the G20 Meeting of Finance Ministers. She expressed concerns that a sustained economic recovery for a very connected world can be undermined very quickly by new variants of Coronavirus that are proving to be more infectious. In other words, the US economic health can only be as strong as its weakest global link. Slower than expected economic recovery in the rest of the world will eventually drag down the growth momentum of the US.

2. We have commented previously of the likelihood that China may soon reverse the tight monetary stance undertaken since the beginning of the year. Over the weekend, the Chinese Central Bank PBOC surprised even us with the speed of the reversal, announcing a 50bp cut in banks' reserve ratio requirement effective 15th July. China has been prudent in both fiscal and monetary supports over this Covid-19 pandemic period. If one takes the view that this is a counter-cyclical shift in priority towards growth, it should help mark the bottom of this economic cycle.

-continued

3. Meanwhile, the US Federal Reserve under pressure from some market watchers over rising domestic inflationary pressure will do well to pay heed to the Chinese experience. As the US Fed shifts toward an outcome-based versus an outlook-base approach, with a labour market that has yet to recover back to pre-pandemic level, the question to ask is if it is still pre-mature to be thinking of monetary tightening. Furthermore, history has shown that external events such as the Rmb devaluation episode in 2015 and the Brexit of 2016 are important considerations in the US Fed's monetary policy. The still fragile world condition calls for a more benign monetary approach. With great powers come great responsibility; if the US wants to be seen as the greatest power (not China), it owes that responsibility to the rest of the world.

Malaysia

1. The KLCI closed at 1,519 @ 13.07.21, a decline of -3.9% M-o-M. Last week, Metal & Mining (+2.5%) and Technology (+0.7%) were the best performing sectors. In contrast, Construction (-3.7%) and F&B (-1.6%) were the worst performing sectors. Year-to-date @ 09.07.2021, the KLCI has retreated by -6.6%. *Local* and *foreign* institutions continue to be relentless net sellers. The biggest buying support has come from local retailers.

2. The world's largest semiconductor foundry TSMC posted a record June revenue of NT$148.5bil (US$ 5.3bil). This brings 2Q21 revenue to a record high of NT$ 372.15bil (US$ 13.3bil). The read through is positive for Frontken as TSMC is its largest client. TSMC's analyst briefing on 15 July will give us an indication of what its management expects in 2H21 for the semiconductor sector.

3. Finance Minister Tengku Zafrul, in an interview with Bloomberg, mentioned that Malaysia's GDP growth may be lowered to 4.0% from 6.0%-7.5% GDP growth previously. He added that the government may raise the debt ceiling from 60% to 65%.

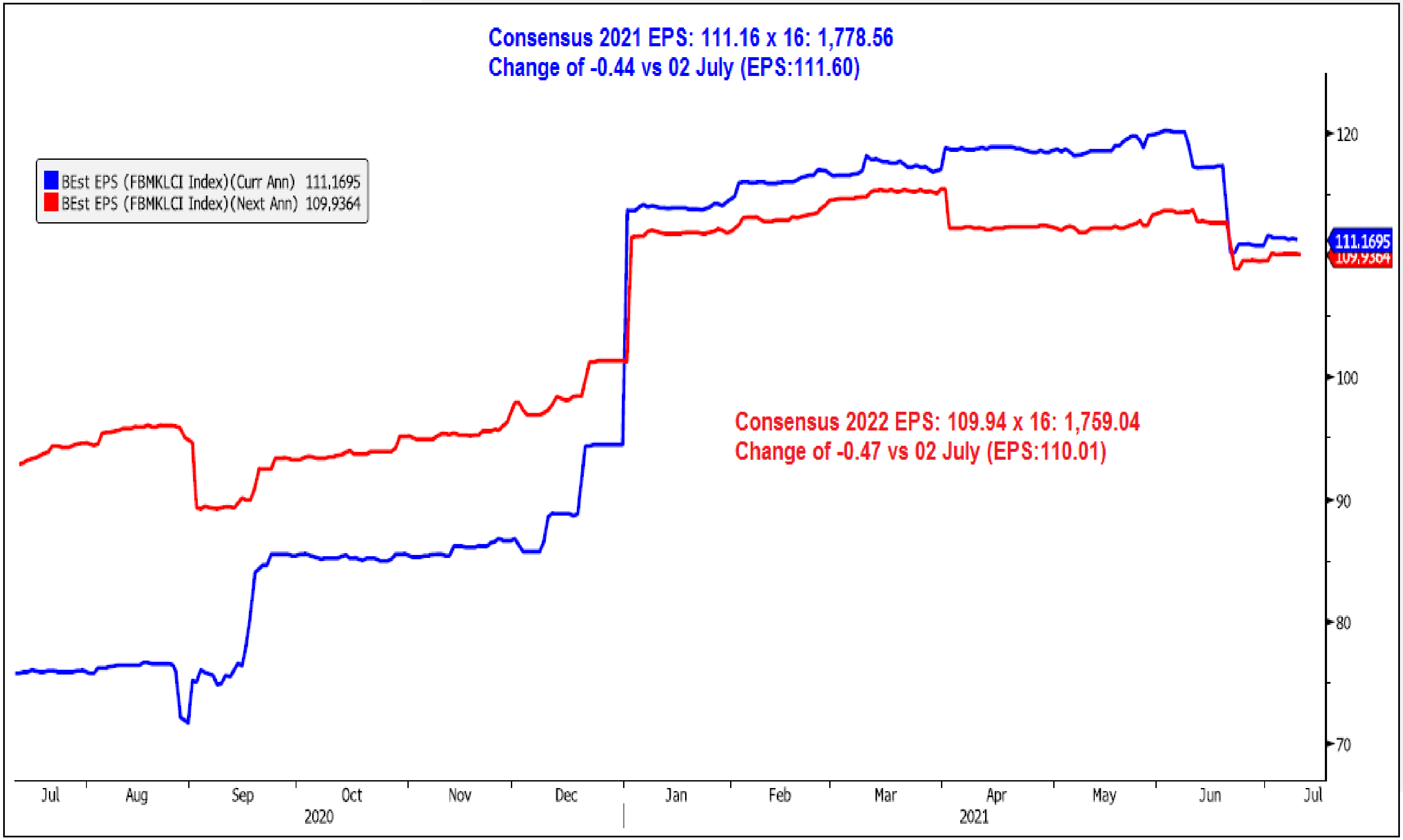
-continued

4. UMNO has withdrawn its support for the Perikatan Nasional ("PN") government led by PM Muhyiddin. We estimate this leaves the ruling PN government with 77 seats in Parliament vs 143 seats held by the non-PN aligned parties ("Opposition"). Political uncertainty remains a headwind for the stock market. We expect the PM to remain in office *until/unless* it is clear that he no longer commands the support of the majority of MPs in Parliament. This may happen if there was a no confidence vote or if a motion by the government was defeated in Parliament.

5. Indonesia will lower its export tax levy on CPO exports at the end of this month. This may encourage more exports of CPO from Indonesia in the coming months.

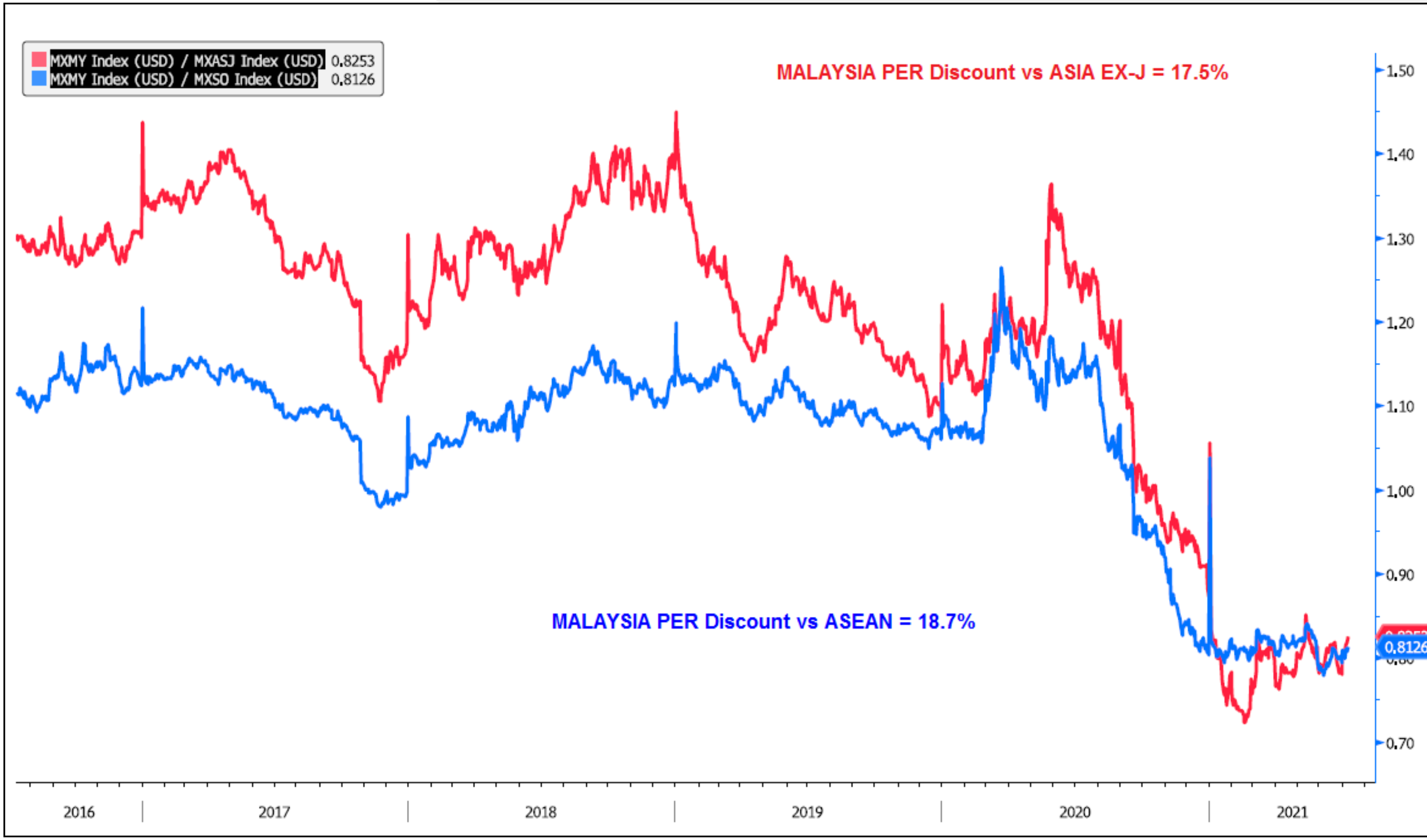
6. The market has drifted lower as negative news continue to dominate. However, valuation remains the market's biggest positive. Based on KLCI at 1,519 @ 13.07.2021 and assuming a market eps integer of 111/110, the market is trading at a PER of 13.7x/13.8x for CY21/CY22 respectively. This is -1 standard deviation below its mean PER of 16x. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.0x and 15.7x in CY21/CY22 respectively vs the 5 year average <u>ex-gloves</u> PER of 19.4x. While there is no short-term impetus, we believe that the risk to reward ratio for the KLCI is favourable on a longer-term basis.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS) @ 09.07.21



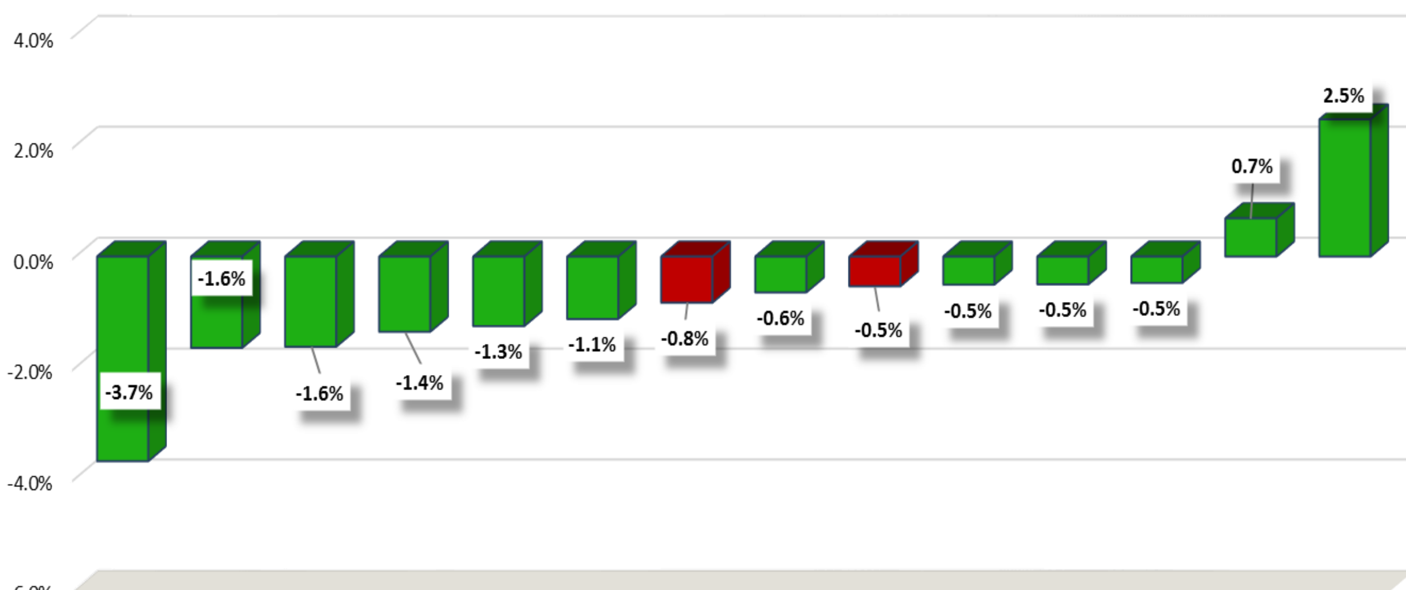
(Source: Bloomberg)

Exhibit 2: MALAYSIA P/E is at a discount to the region @ 09.07.21



(Source: Bloomberg)

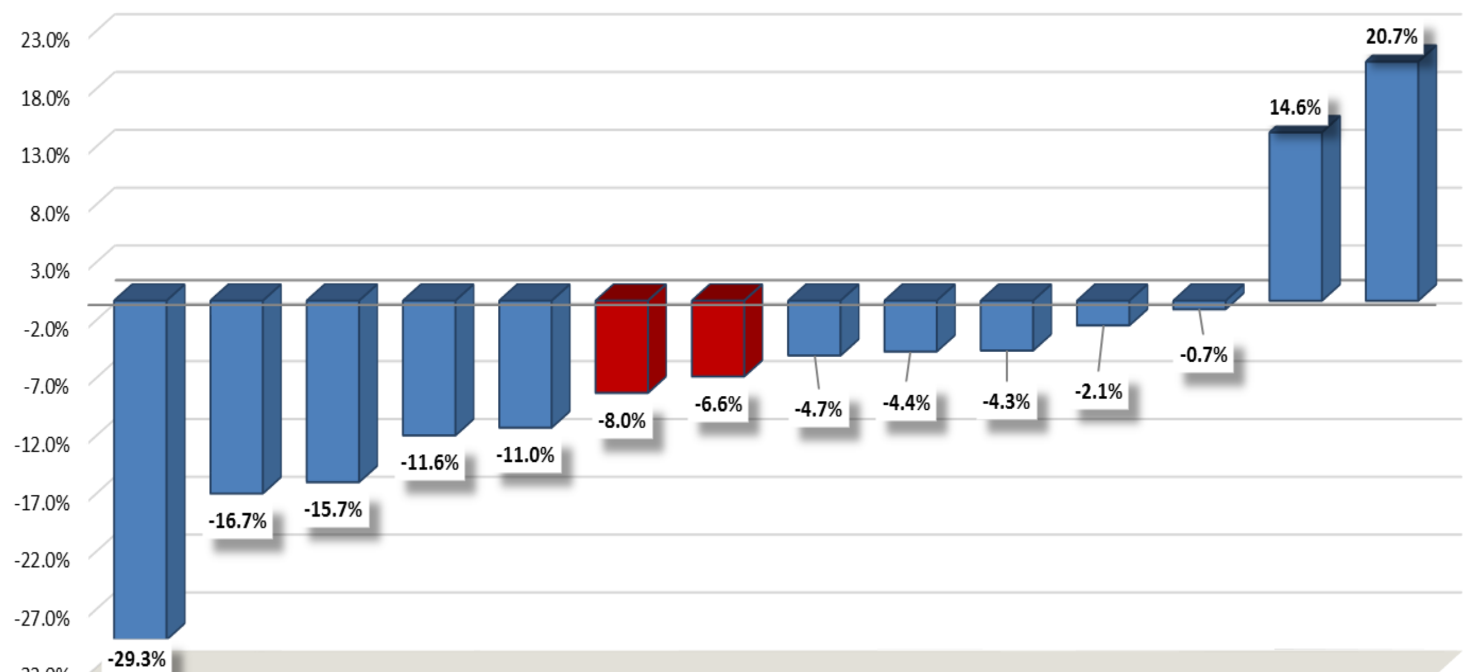
Exhibit 3: Sector Performances (Week-on-Week) @ 09.07.21



	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Industrials Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Utilities Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change WoW	-3.7%	-1.6%	-1.6%	-1.4%	-1.3%	-1.1%	-0.8%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	0.7%	2.5%

(Source: Bloomberg)

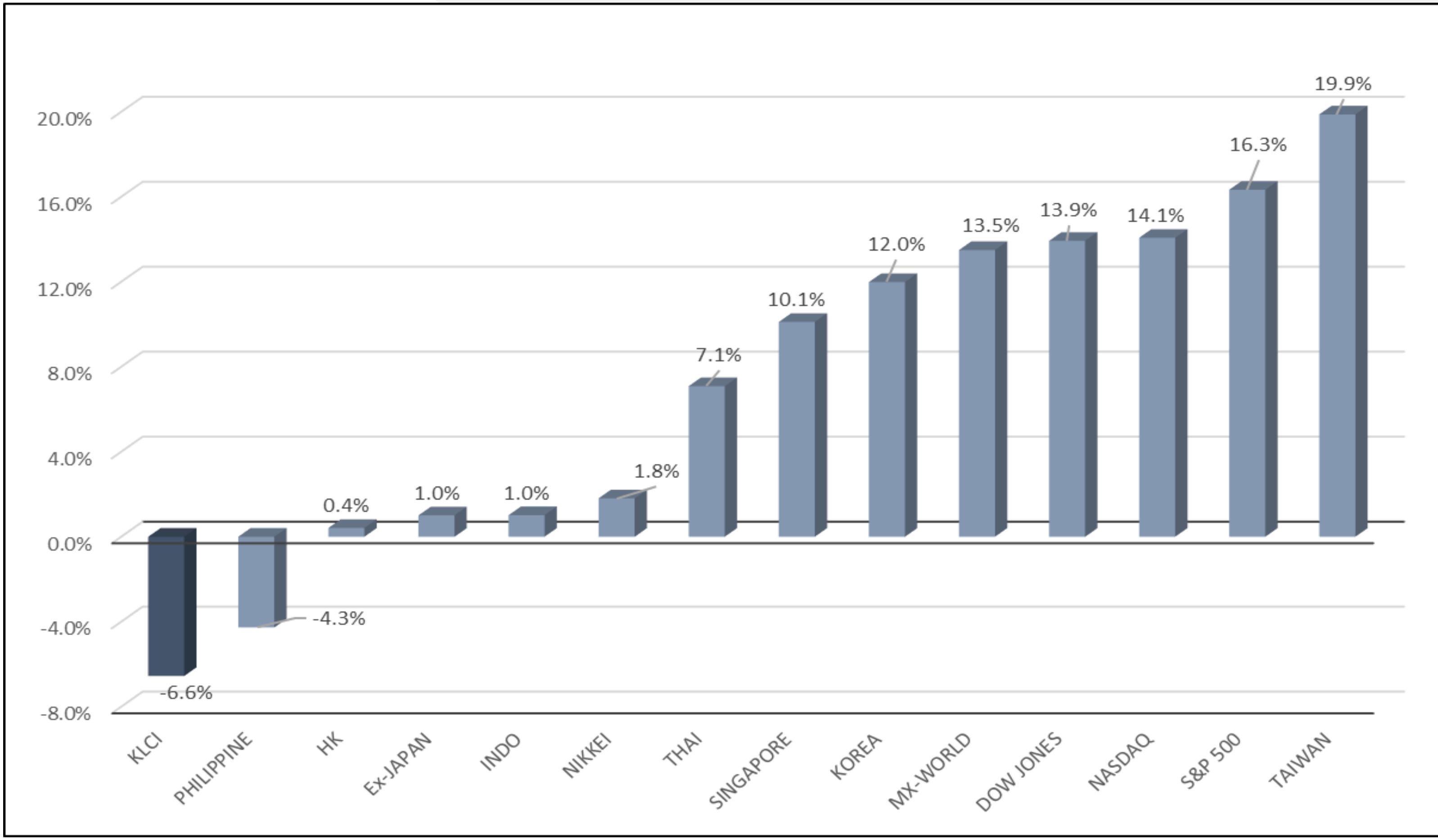
Exhibit 4 : Sector Performances (Year-to-Date) @ 09.07.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE MALAYSIA EMASSHA RI	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index
Change YTD	-29.3%	-16.7%	-15.7%	-11.6%	-11.0%	-8.0%	-6.6%	-4.7%	-4.4%	-4.3%	-2.1%	-0.7%	14.6%	20.7%

(Source: Bloomberg)

Exhibit 5 : Performance of Indices (Year-to-Date) @ 09.07.21



(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.