Portfolio Manager's View

21 July 2021

Fund Management Department

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Regional

1. The world does not appear out of the woods with this Covid-19 pandemic. The US is now starting to see a resurgence of new Delta variant cases with rising hospitalisations and deaths. The UK, reopening on the 19th July, with removal of face masks and social distancing rules, will be another test-bed. It is for this very reason that we have been of the view that the US Federal Reserve has a concern over the sustainability of this economic recovery momentum in her monetary policy. For the developed world, it is the high expectations of economic normalisation against the possibility that the new normal may not be the same old normal. For the emerging world falling so far behind the developed world in her struggles towards normalisation, a longer runaway of easy monetary conditions may actually allow us to narrow the gap.

2. Two weekends back, the Chinese Central Bank PBOC surprised the world with 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 and was the first Central Bank to tighten monetary policy starting from the beginning of 2021. If one takes the view that this is a counter-cyclical shift in priority towards growth, it should help mark the bottom of this China economic cycle. A reflating China is positive for the world and especially for the Asia region that now counts China as her largest trading partner.

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3. We are of the view that the Asia region has an additional catalyst for our equity markets. Since 2018, the world has been clouded by the US-China trade tensions from which the Asia region suffered more than others. In an interview with the New York Times, US Treasury Secretary said that her own personal view is that tariffs were not put in place on China in a way that was very thoughtful, that tariffs became a tax on American consumers, and did not address in many ways the fundamental problems with China. We see the likelihood that as Phase One of the US-China trade deal comes up for negotiations, that scrutiny continues on the national security front and competition also continues on the critical technological sector, but possibly the removal/reduction in tariffs in most other areas. This will be a very good uplift to Asian fundamentals and sentiment.

Malaysia

1. The KLCI closed at 1,516 @ 21.07.21, a decline of -3.8% M-o-M. Last week, Healthcare (+7.0%) and Technology (+4.2%) were the best performing sectors. In contrast, F&B (-1.4%) and Consumer (-1.4%) were the worst performing sectors. Year-to-date @ 9.7.2021, the KLCI has retreated by -6.5%. Year-to-date, *local* and *foreign* institutions have been large net sellers. Local retailers have remained the biggest net buyers.

2. Last week, Apple announced it has asked its suppliers to build as many as 90 mil next generation–iPhones this year. Separately, a recent sell-side report by a US broker mentioned that iPhone suppliers-expect 20% YoY growth for new iPhone builds in 2H21. If this materialises it would be higher than market estimates of 10% YoY unit growth. This is a positive read through for Malaysia's Outsource Semiconductor Assembly and Test (OSAT) players specifically for Inari which have high exposure to Apple's smartphones.

3. Globally we are seeing a rise in Covid-19 cases caused by the new Delta variant. On 21 July, Malaysia recorded a new high of 15,573 new Covid-19 cases. On a brighter note, a total of 16.02 mil vaccine doses have been administered so far with 33% of the population receiving one dose and ~16% of the population receiving two doses. The increased momentum in vaccination rate has put the country in a realistic position to achieve a vaccination rate of 80% by end of Oct-21.

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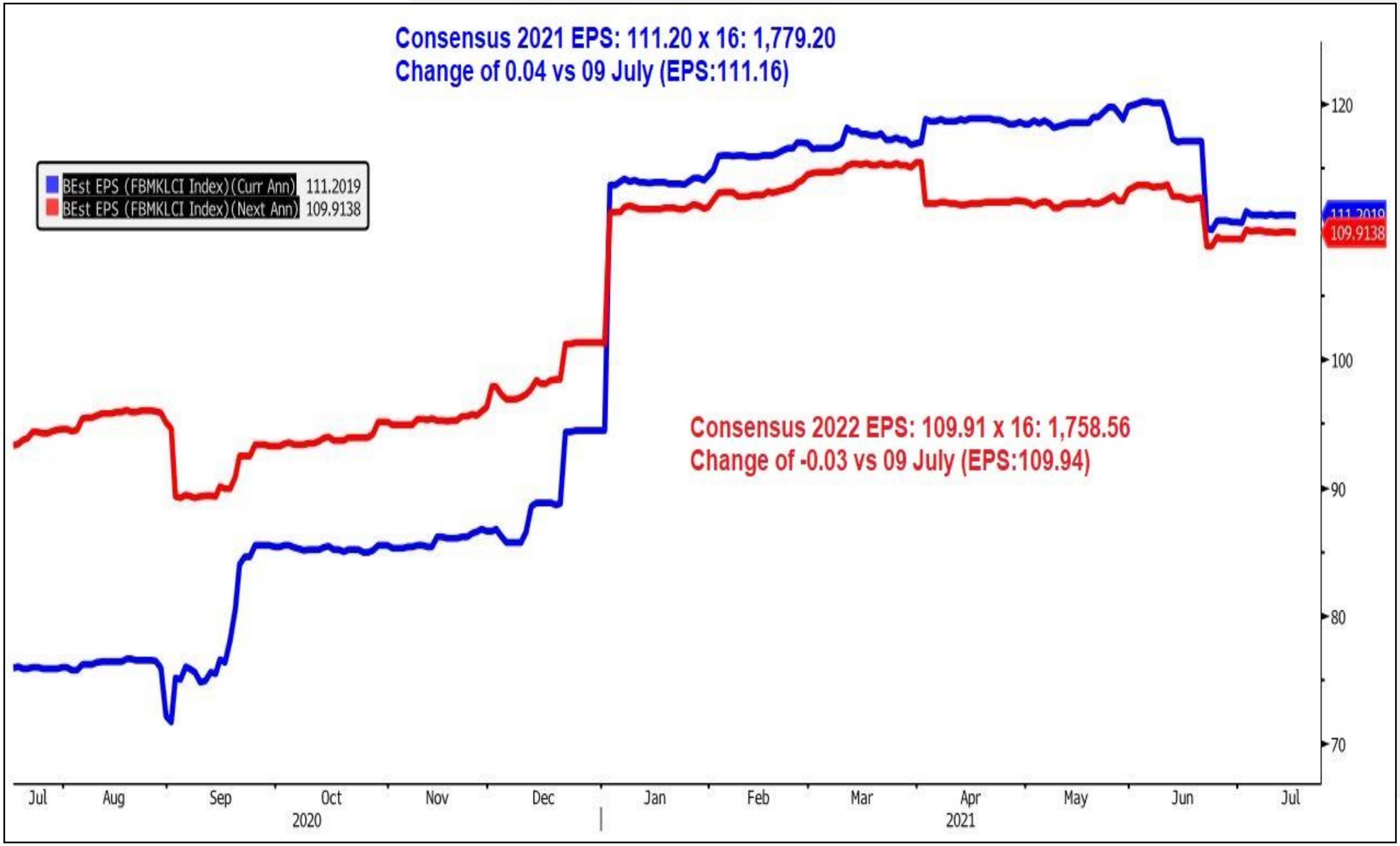
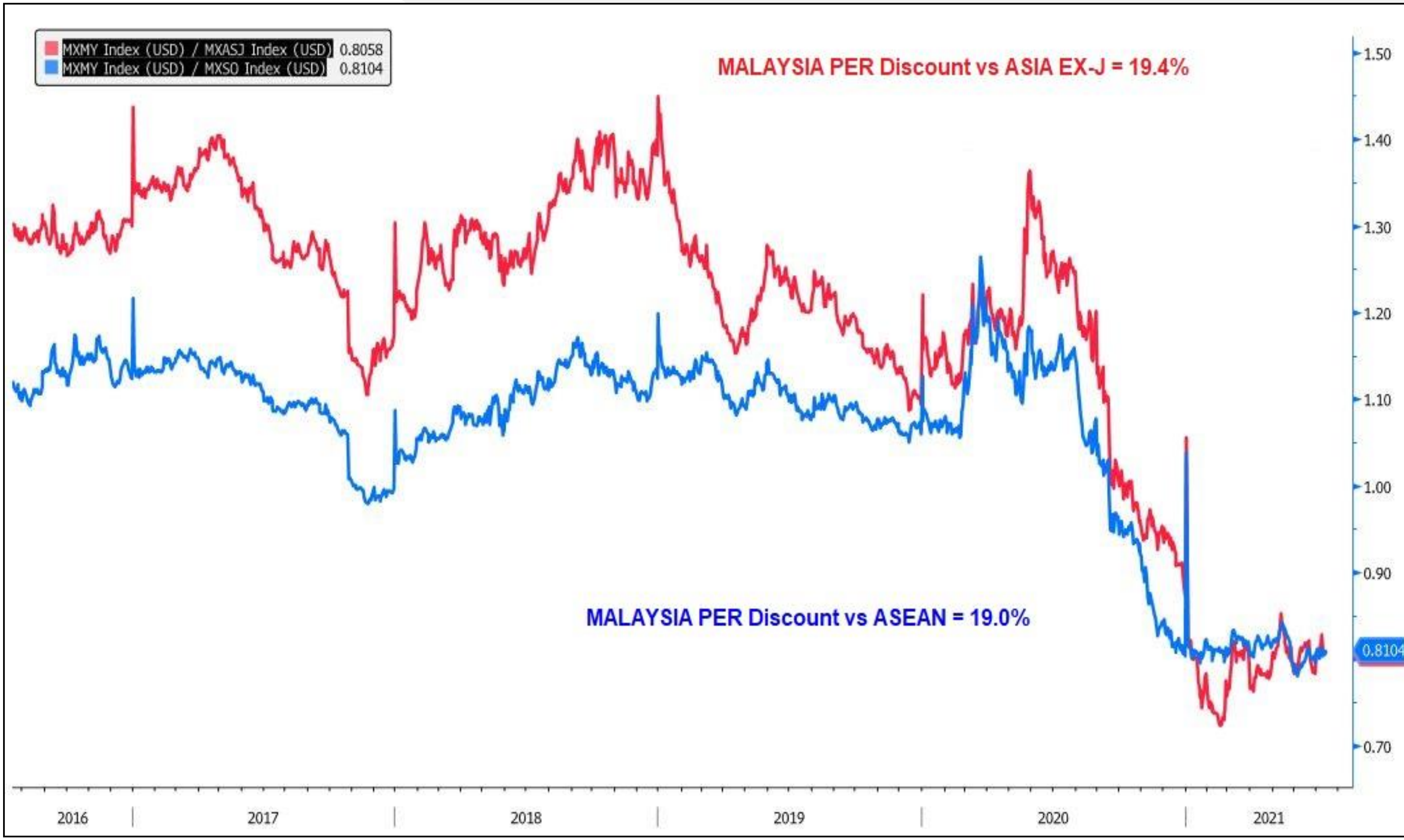
4. Based on KLCI at 1,516 @ 21.07.2021 and assuming a market eps integer of 111/110, the market is trading at a PER of 13.7x/13.8x for CY21/CY22 respectively. This is more than -1 standard deviation below its mean PER of 16x. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.0x and 15.7x in CY21/CY22 respectively vs the 5 year average ex-gloves PER of 19.4x. While there is no short-term impetus, we believe that the risk to reward ratio for the KLCI is favourable in the longer-term.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 15.07.21



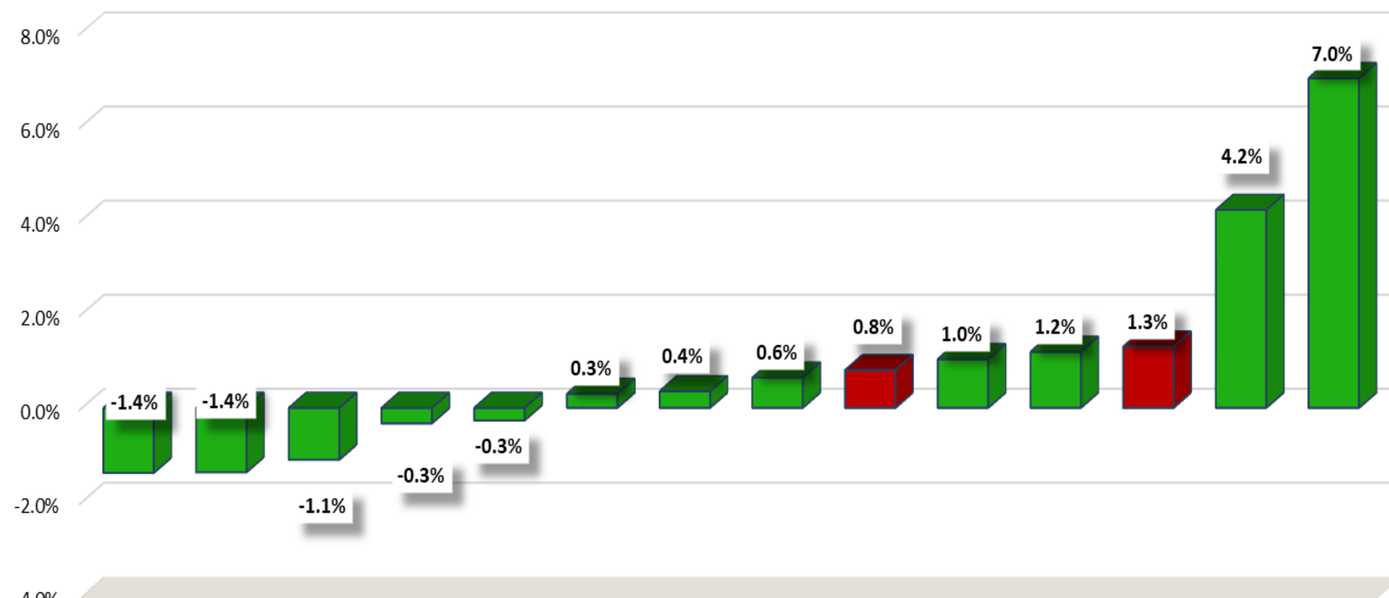
(Source: Bloomberg)

Exhibit 2 : MALAYSIA P/E is at a discount to the region @ 15.07.21



(Source: Bloomberg)

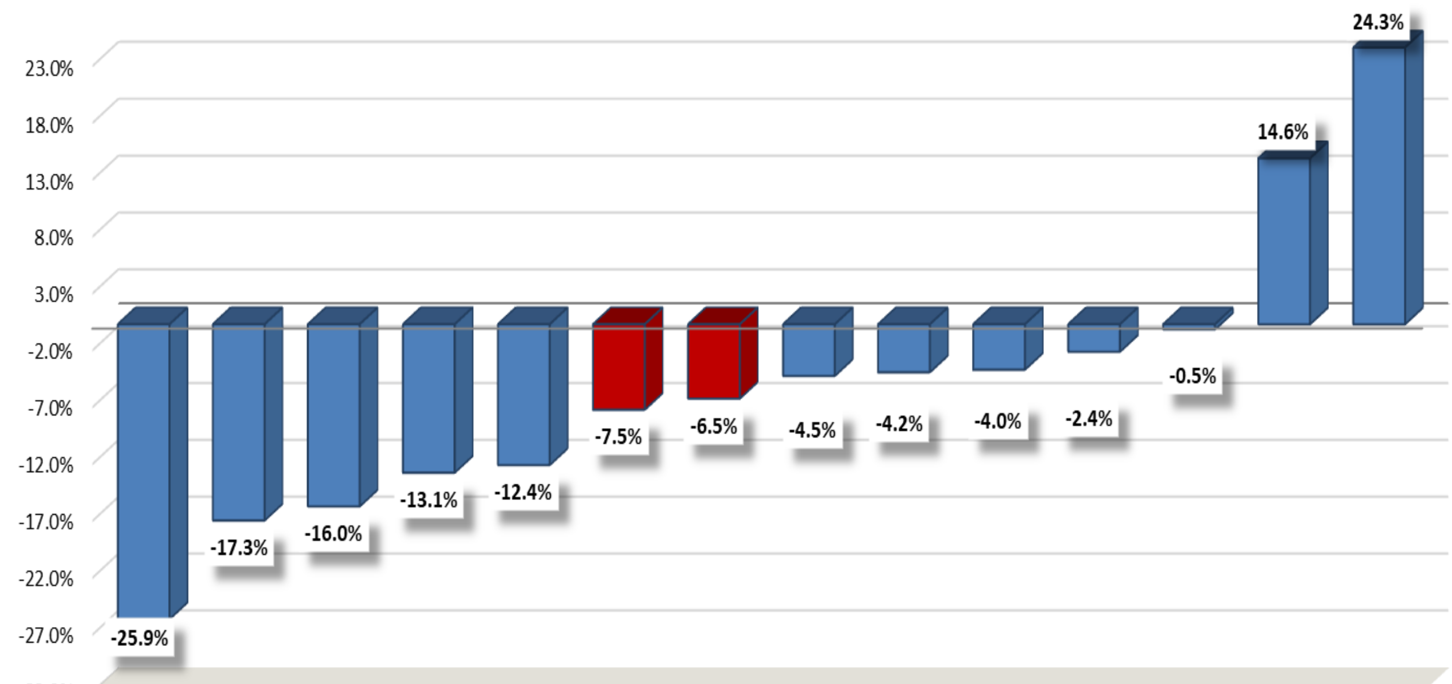
Exhibit 3 : Sector Performances (Week-on-Week) @ 15.07.21



	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Utilities Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Industrials Index	FTSE Bursa Mal Small Cap Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Technology Index	FTSE B/M EMAS HealthCare Index
Change WoW	-1.4%	-1.4%	-1.1%	-0.3%	-0.3%	0.3%	0.4%	0.6%	0.8%	1.0%	1.2%	1.3%	4.2%	7.0%

(Source: Bloomberg)

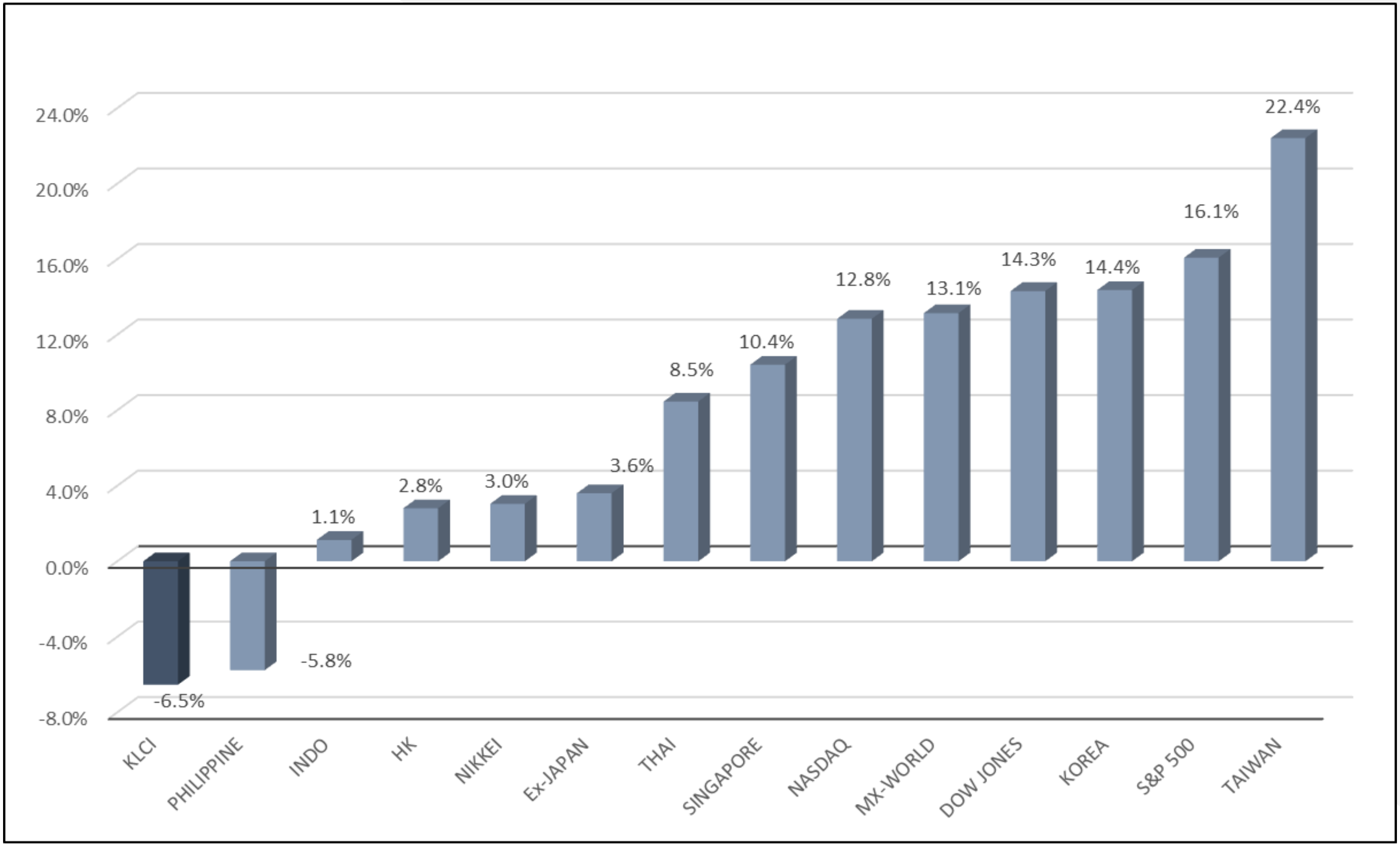
Exhibit 4 : Sector Performances (Year-to-Date) @ 15.07.21



	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 EMASSHARI	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Industrials 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	-25.9%	-17.3%	-16.0%	-13.1%	-12.4%	-7.5%	-6.5%	-4.5%	-4.2%	-4.0%	-2.4%	-0.5%	14.6%	24.3%

(Source: Bloomberg)

Exhibit 5 : Performance of Indices (Year-to-Date) @ 15.07.21



(Source: Bloomberg)

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