Portfolio Managers' View

As at 19 January 2021

Fund Management Department

Malaysia

1. The KLCI closed at 1,605 @ 19.01.20, down -1.6% M-o-M. Last week, Technology (+8.9%) and Healthcare (+7.2%) were the best performing sectors while Utilities (-2.6%) and Oil & Gas (-1.1%) were the worst performing sectors. YTD @14.01.2020, the KLCI has increased marginally by 0.5%.

2. The advent of 5G, usage of video conferencing for work and social purposes, growth of e-commerce and online gaming products are catalysts for spending on cloud data center investments in 1H21. Technology publication, Digitimes, reported that Seagate expects global data usage to rise by more than 40% in the next 2 years. It plans to expand its storage capacity per hard disk drive to 30 Terabyte (TB) by 2023 and 40 TB by 2026. In our view, our holding in Dufu Technology which manufactures spacers used in hard disk drives will benefit from these positive trends.

3. As shown in Exhibit 3, the Malaysia's Technology sector has outperformed the broader market. Technology companies are enjoying an upsurge in orders, longer visibility, high utilisation and average selling price (ASP) increases. Multiple factors are driving this – including higher end-demand, new 5G smartphones, technology innovation, inventory building, work-from-home and learn from home trends. We continue to be Overweight technology across our funds as we believe the structural drivers for the sector remain intact.

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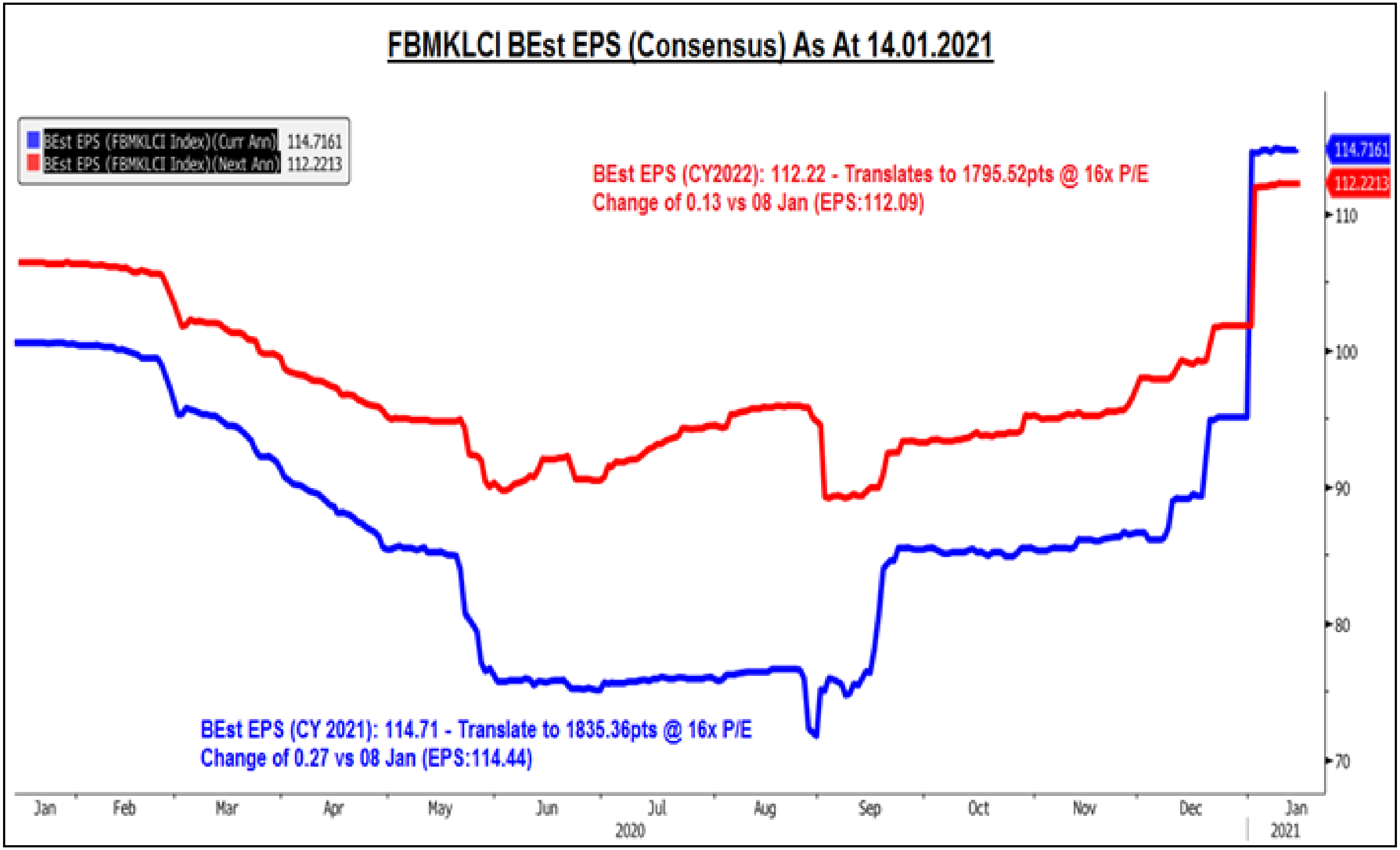
4. On 18 Jan, PM Tan Sri Muhyiddin announced a 4th stimulus package worth RM 15bil under PERMAI. Analysts estimate part of this expenditure is a repackaging of Budget 2021 and an extension of 2020's stimulus measure. The additional new funding is estimated at approximately RM 3 billion. MOF forecast Malaysia's GDP for 2021 to record a 6.5%-7.5% growth and fiscal deficit target of 5.4% of GDP in 2021. More analysts are now expecting a further rate cut in 1H 2021 by 25 bps to a new low of 1.5%.

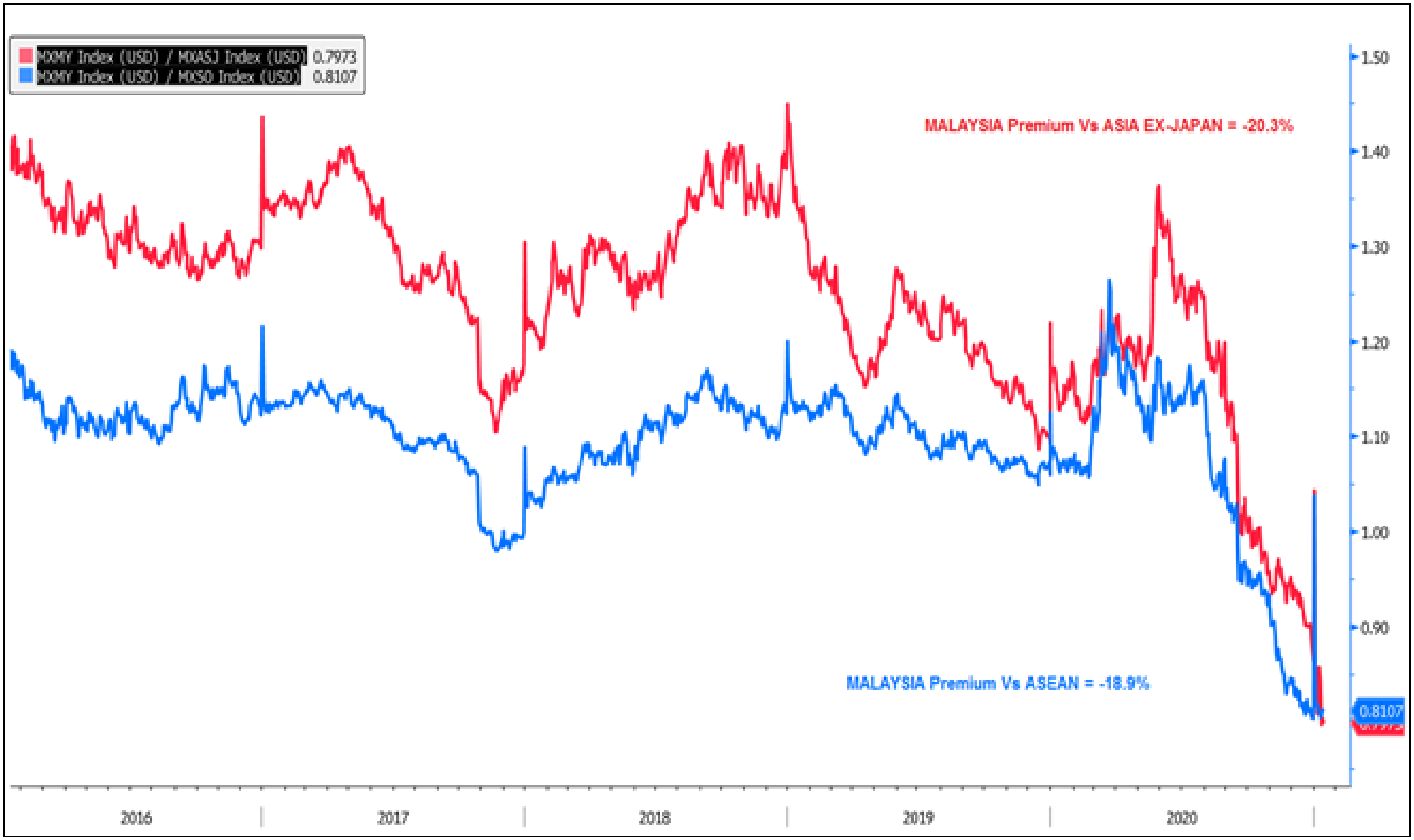
5. Consensus 2021 market eps estimate has moved up from RM 88.8 in Dec-20 to RM 114.7 currently. At 1,605 @ 19.01.21, the market is trading at a PER of 14x for CY21 respectively. The market's valuation for 2021 is below its 12M mean PER of ~16x. Separately, Malaysia is cheap vs the Asian region. Malaysia is currently trading at a 20% discount to Asia ex-Japan's 2020 PE multiple (please see Exhibit 3). This is the steepest discount in the last 5 years.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS)



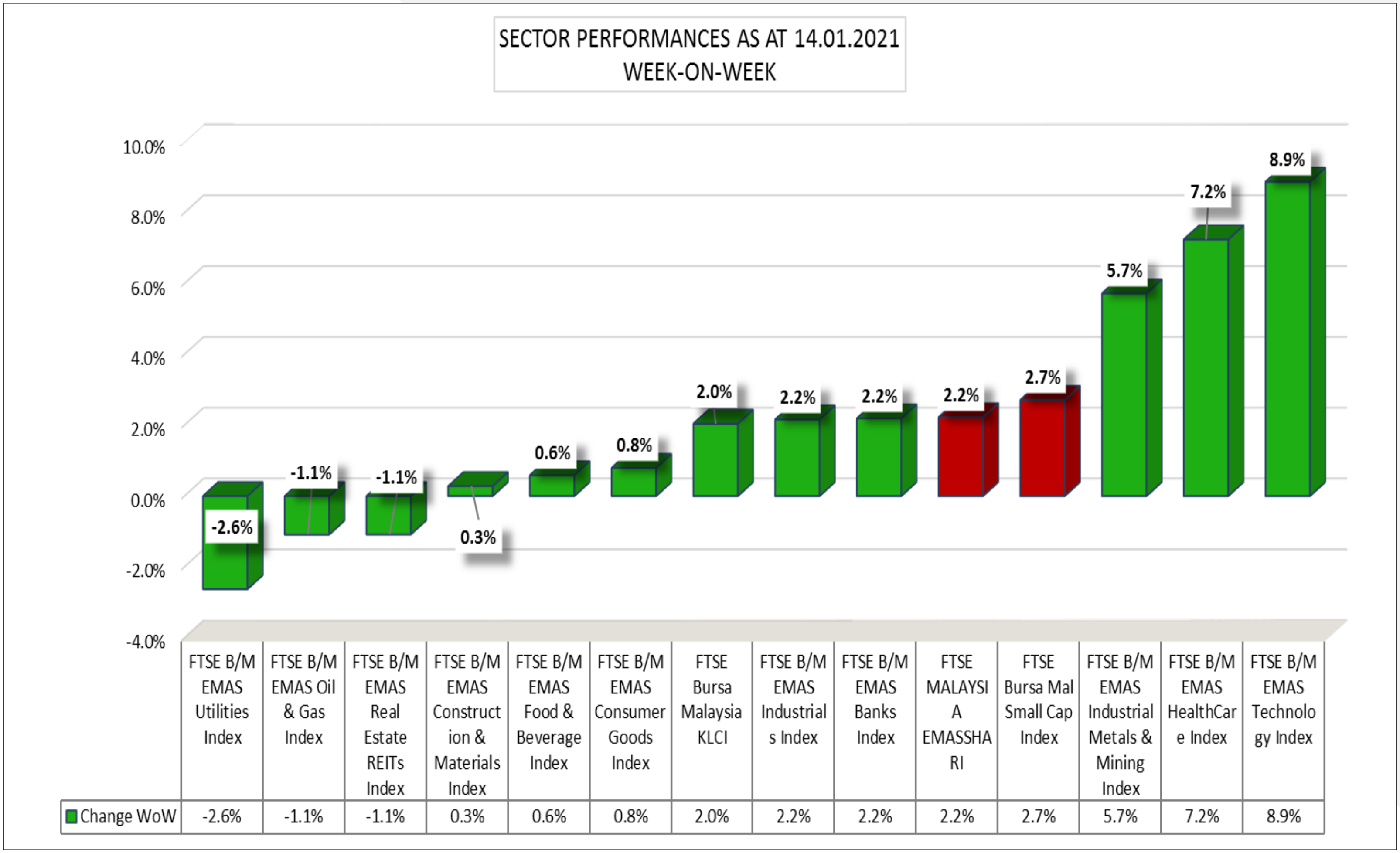
(Source: Bloomberg)

Exhibit 2: MALAYSIA P/E vs ASIA EX-JAPAN P/E vs ASEAN P/E



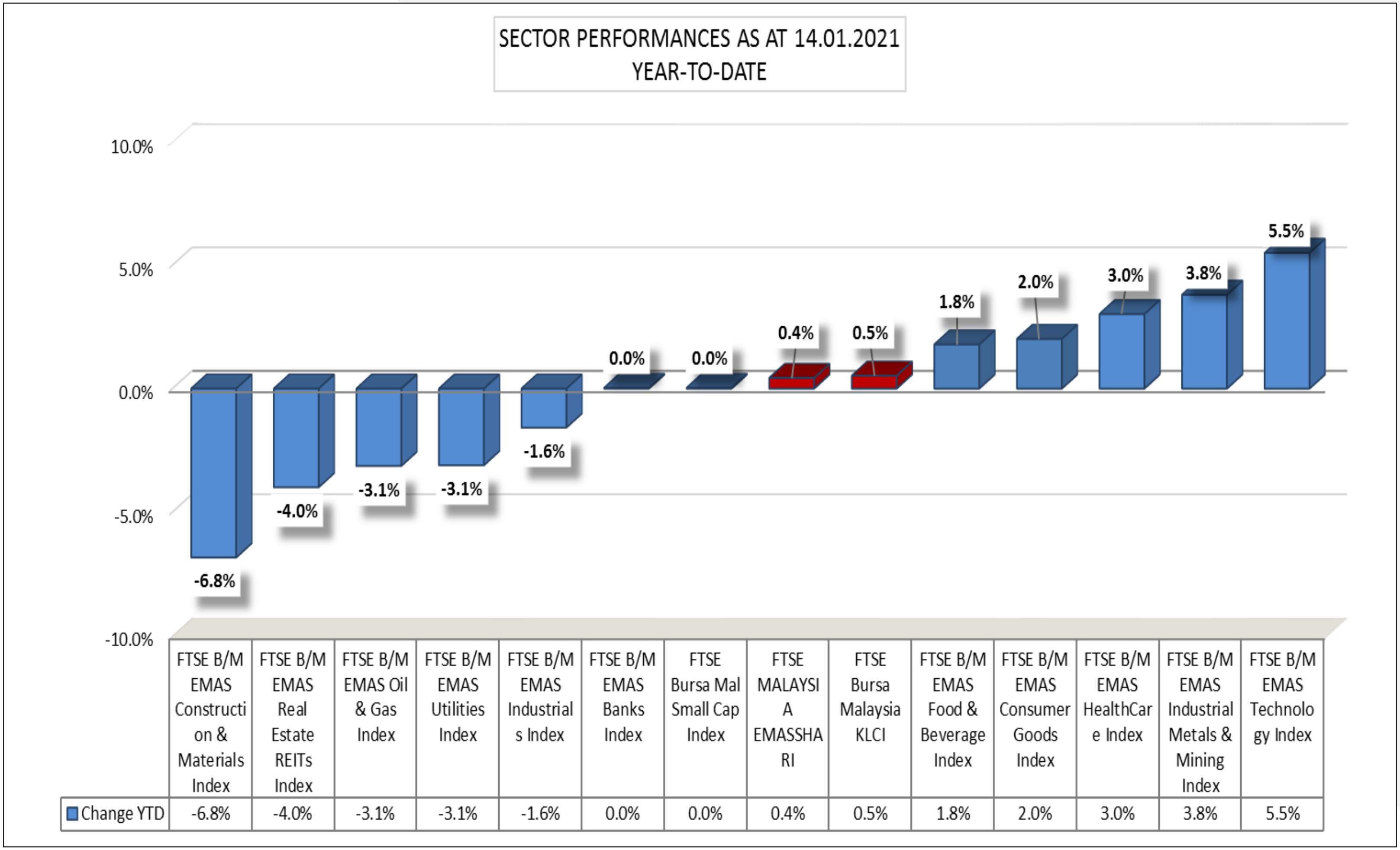
(Source: Bloomberg)

Exhibit 3: Sector performances (Week-on-Week)



(Source: Bloomberg)

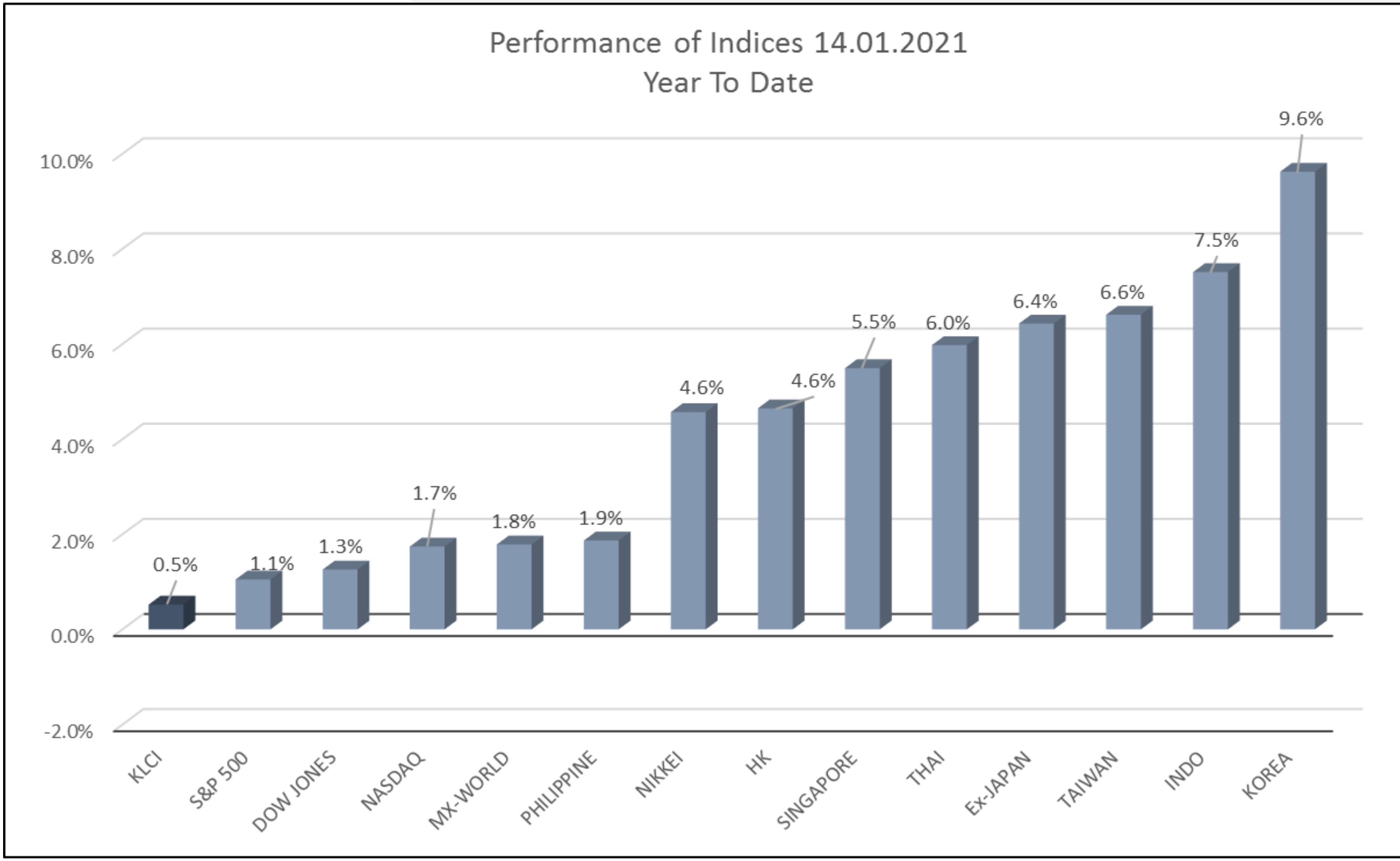
Exhibit 4: Sector performances (Year-to-Date)



	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Oil & Gas 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 MALAYSIA EMASSHARI	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index
Change YTD	-6.8%	-4.0%	-3.1%	-3.1%	-1.6%	0.0%	0.0%	0.4%	0.5%	1.8%	2.0%	3.0%	3.8%	5.5%

(Source: Bloomberg)

Exhibit 5: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. Buy on rumours, sell on fact? As promised, incoming US President Joe Biden will push hard for a US$1.9 trillion fiscal support package. Global equity markets got off to a good start and continued the momentum following the Georgia run-off that produced a Senate-House Democrat majority. Nonetheless, the possibility that this slim majority may not get full support coupled by security concerns running up to Joe Biden's 20th January inauguration has taken some of the sails off this market momentum. News that the Pfizer vaccine has produced less than desirable results in Norway including the deaths of 23 elderly did not help sentiment either, especially when newly Covid-19 confirmed cases have also taken a turn for the worse since the turn of the year.

2. China's GDP growth for 4Q20 surprised on the upside +6.5% yoy with full year 2020 GDP +2.3% yoy, the only country in the world to register a positive GDP growth number. More importantly, China's GDP growth has never been this strong since 2015. First half 2021 GDP growth is likely to be very strong due to the low base effect of Covid-19 1H20. And considering the scramble for raw materials and parts across most manufacturing and industrial chains, with China being the world's largest factory, we are optimistic that 2021 GDP has

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further room to surprise on the upside. This is not a temporary phenomenon; even post Covid-19, and particularly with the relocation/disbursement of supply chains across Asia, higher inventory hoarding will become the new norm in business models.

3. A new era for Asia is not a dream anymore; a stronger China economically is positive for her Asian neighbours whose trade are increasingly more aligned to that of China. Political barbs will just be noises; when it comes to the walk, everyone will follow where the money flows......

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