



Portfolio Managers' View

As at 26 January 2021

Fund Management Department

Malaysia

1. The KLCI closed at 1,575 @ 26.01.21, down -3.2% M-o-M. Last week, Technology (+4.5%) was the best performing sectors while Healthcare (-5.3%) and Oil & Gas (-3.2%) were the worst performing sectors. YTD @ 21.01.2020, the KLCI has declined by -2.0%.
2. Month-to-date @ 22.1.2021, foreigners net sold RM 299.1mil of equities. In 2020, Malaysia recorded its highest ever annual foreign outflow of RM 24.6bil. Foreigners have been net sellers of Malaysia equities in 6 out of the last 7 years. Based on : (a) the low foreign participation as a % of Average Daily Trading Value on Bursa (usually below 20%) and (b) decline in foreign holdings to 20.8% on Bursa as at end Nov-20, we do not expect foreign selling to be a major negative for the market moving forward.
3. Health Director-General Tan Sri Dr Noor Hisham stated that the Movement Control Order (MCO) is likely to end on Feb 4 followed by 3 months of Conditional Movement Control Order (CMCO). This will provide some relief for the market as an extension of the MCO will weigh down on economic growth and earnings estimates. We believe there is a growing likelihood of a 25 bps rate cut by Bank Negara Malaysia (BNM) (to a new low of 1.5%) in 1H 2021.

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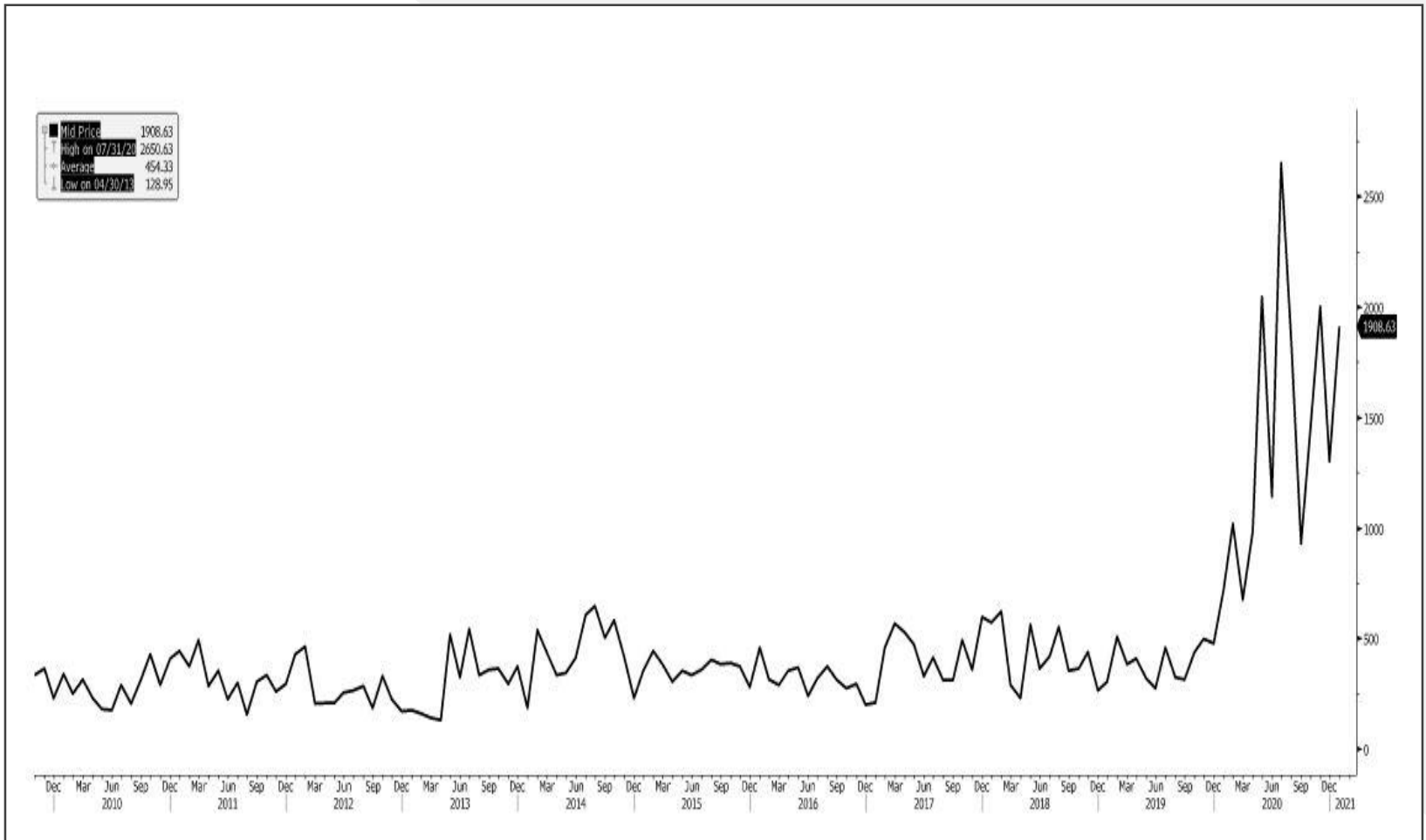
4. Global semiconductor companies are expected to announce robust 4Q 2020 earnings and better than expected guidance for the upcoming quarters. This comes as semiconductor demand continues to expand and supply-side dynamics remain tight. The main demand drivers are re-acceleration of data center investments, deployment of 5G infrastructure and an increase in shipments of 5G smartphones. These are positive trends for the Malaysia technology companies.
5. The data center industry continues to enjoy positive newsflow. Seagate Technology which produces Hard Disk Drive (“HDD”) for data centers announced above expectation results in 4Q20. Seagate Technology expects demand for storage capacity to grow by 35% in 2021. They also expects an increase in shipment of bigger capacity HDDs such as 16 and 18 Terabyte HDDs. In our view, Dufu Technology which manufactures spacers used in hard disk drives will benefit from these positive trends.
6. Our research shows that in 2020, 107 companies on Bursa Malaysia enjoyed more than 10% appreciation in their share prices. Of the 107 companies, 62 companies rose >50%, 12 companies rose by 40%-50% and 10 companies rose

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by 30%-40% (see Exhibit 2). This compares with the KLCI which grew by 2.4% in 2020. While the performance of the KLCI has been tepid since 2014, the analysis shows that there has consistently been ample opportunities from a bottom-up perspective.

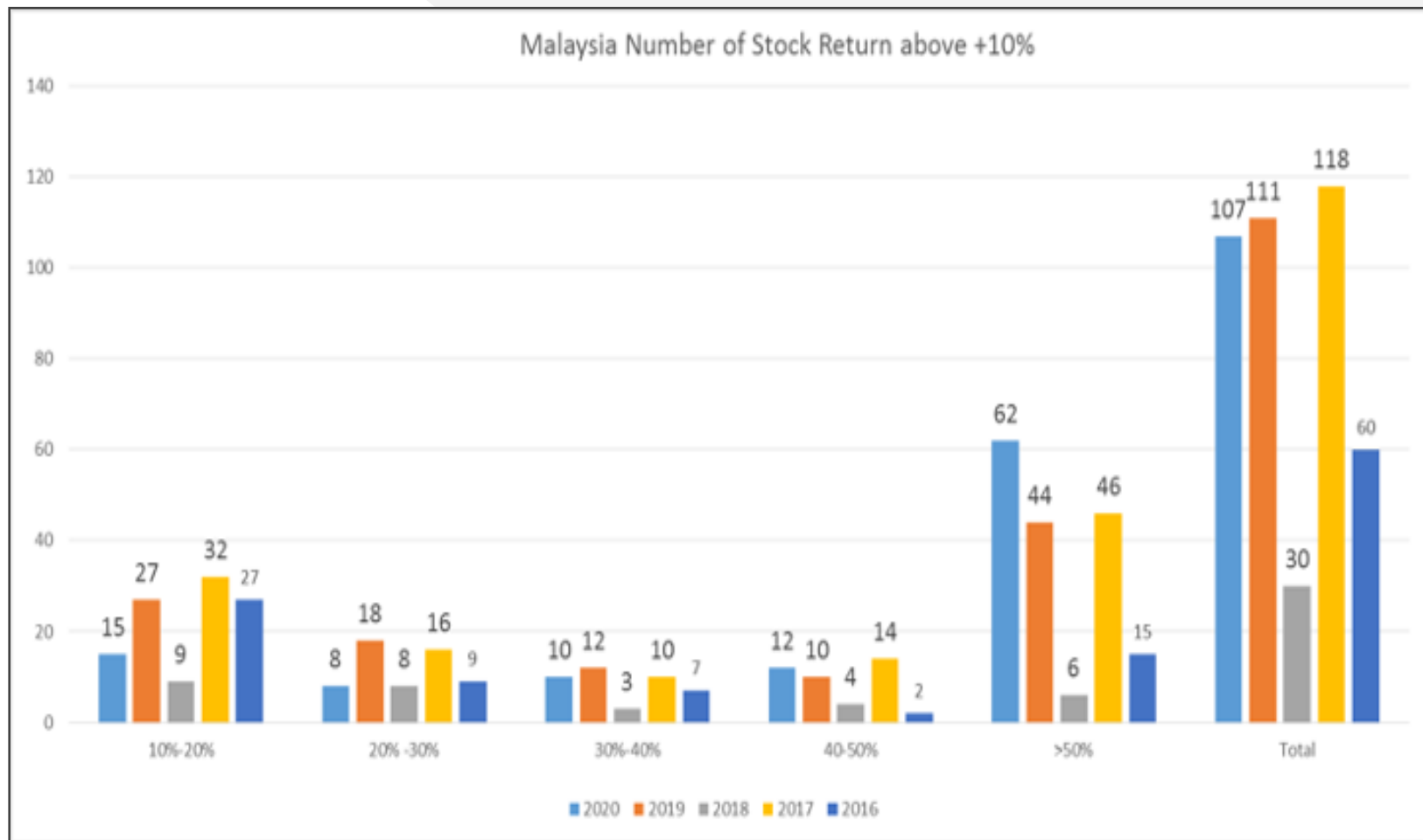
7. Consensus 2021 market eps estimate has moved up from RM 88.8 in Dec-20 to RM 114.6 currently. At 1,575 @ 26.01.21, the market is trading at a PER of 13.7x for CY21 respectively. The market's valuation for 2021 is below its 12M mean PER of ~16x. Separately, Malaysia is cheap vs the Asian region. Malaysia is currently trading at a 25.5% discount to Asia ex-Japan's 2020 PE multiple (see Exhibit 4). This is the steepest discount in the last 5 years.

Exhibit 1: Malaysia Trade Participation by Investors Local Retail Buy Value



(Source: Bloomberg)

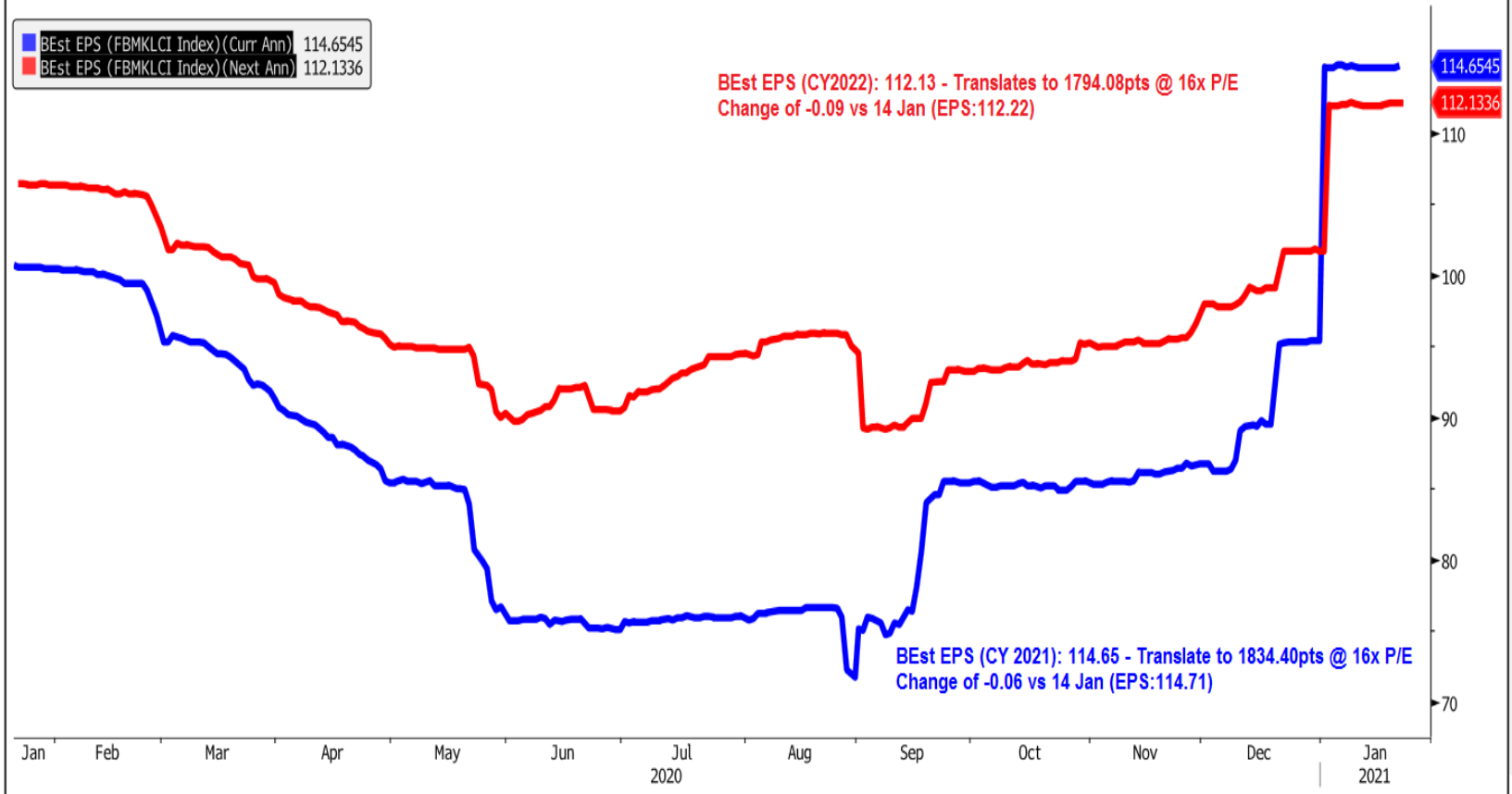
Exhibit 2 : Malaysia Number of stock return above +10% 2016-2020



(Source: Bloomberg)

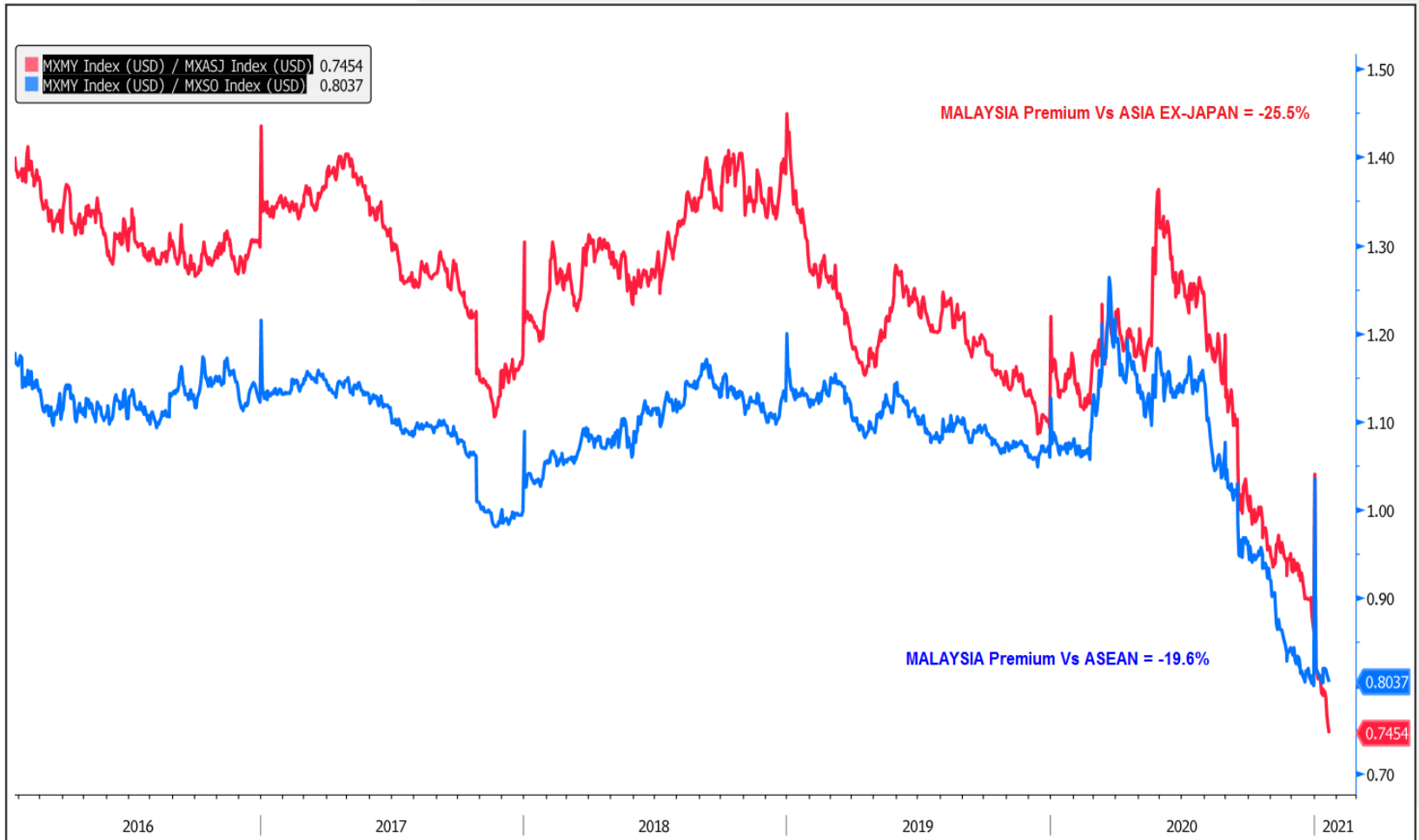
Exhibit 3: FBMKLCI Consensus Earnings Per Share (EPS)

FBMKLCI BEst EPS (Consensus) As At 21.01.2021



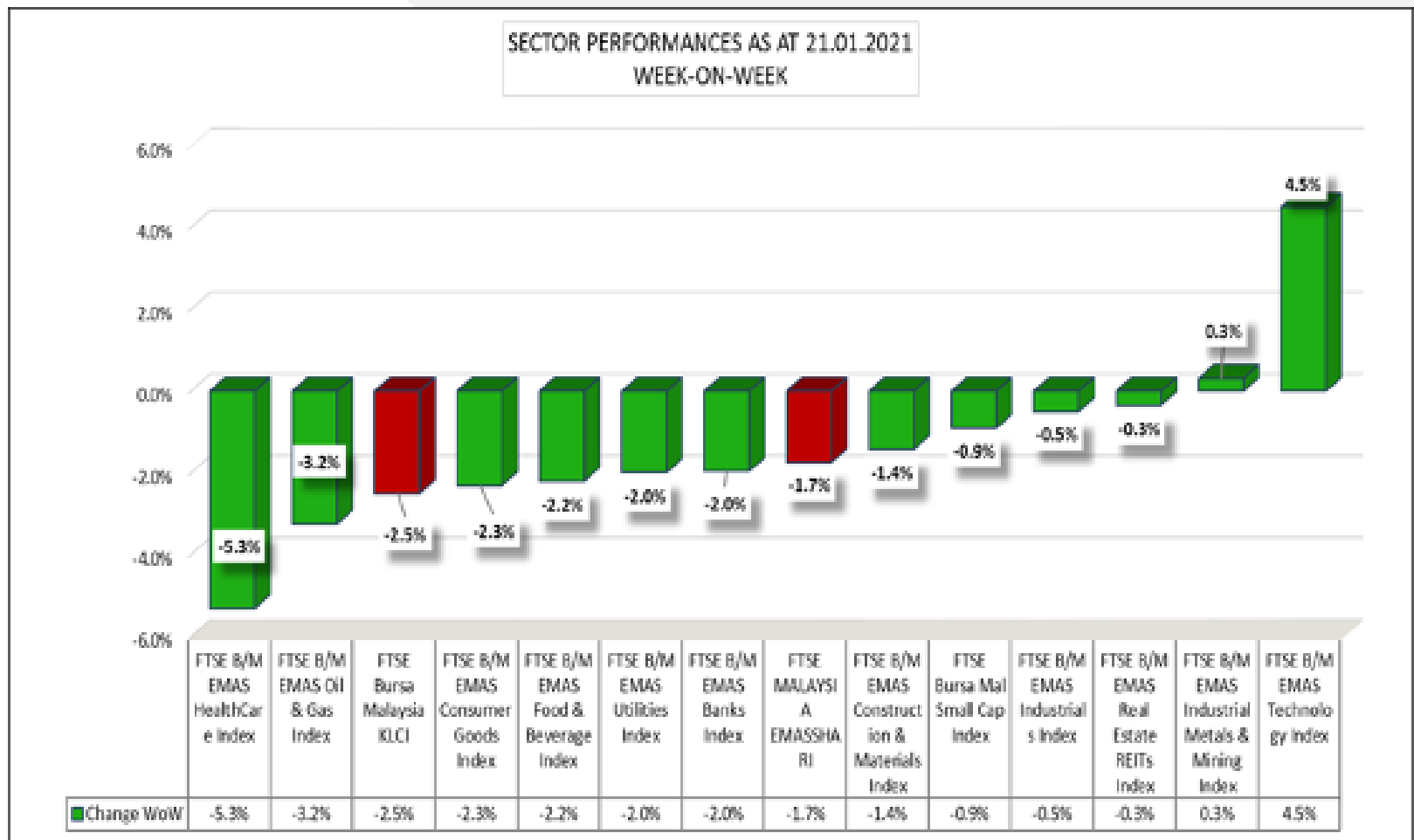
(Source: Bloomberg)

Exhibit 4: MALAYSIA P/E vs ASIA EX-JAPAN P/E vs ASEAN P/E



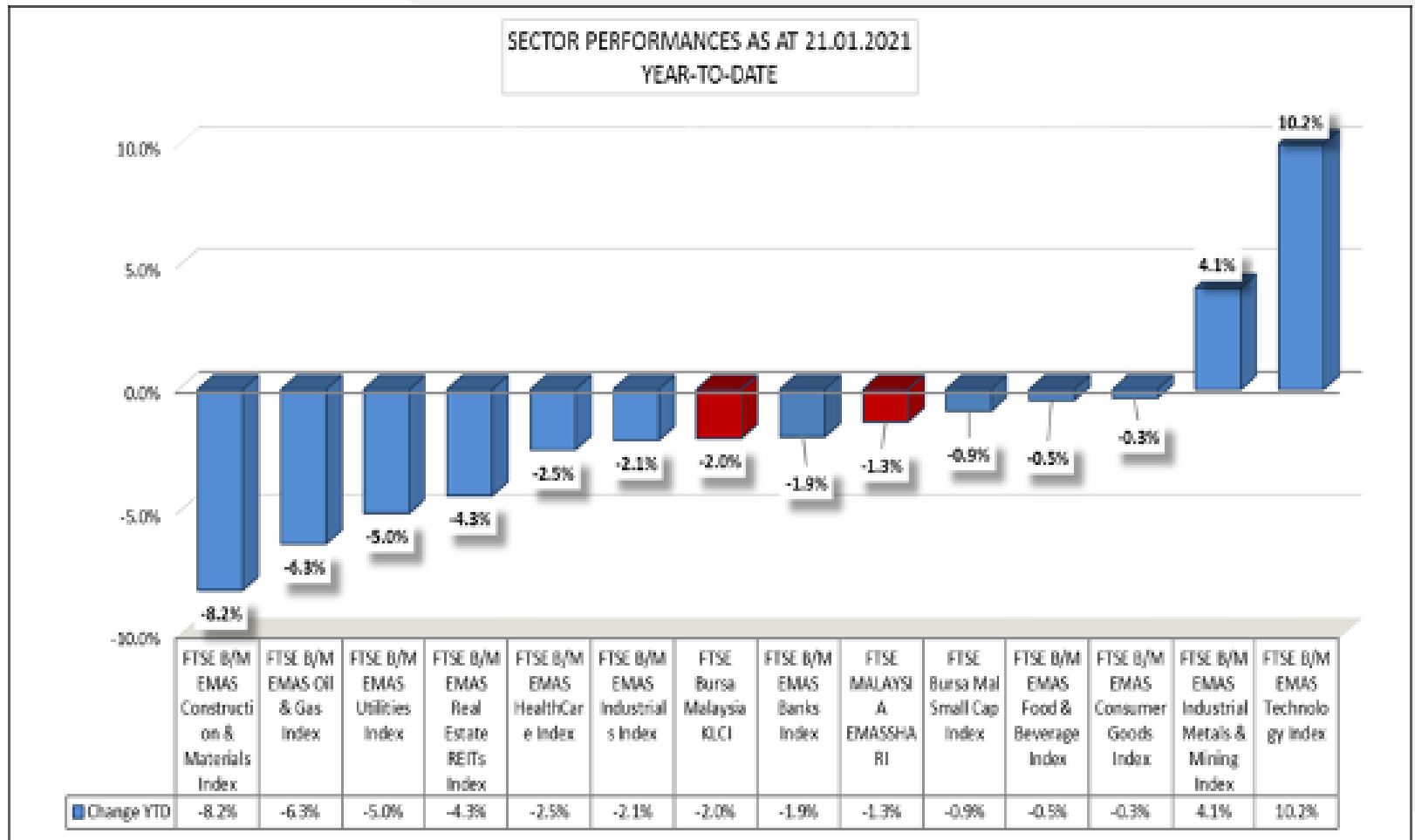
(Source: Bloomberg)

Exhibit 5: Sector performances (Week-on-Week)



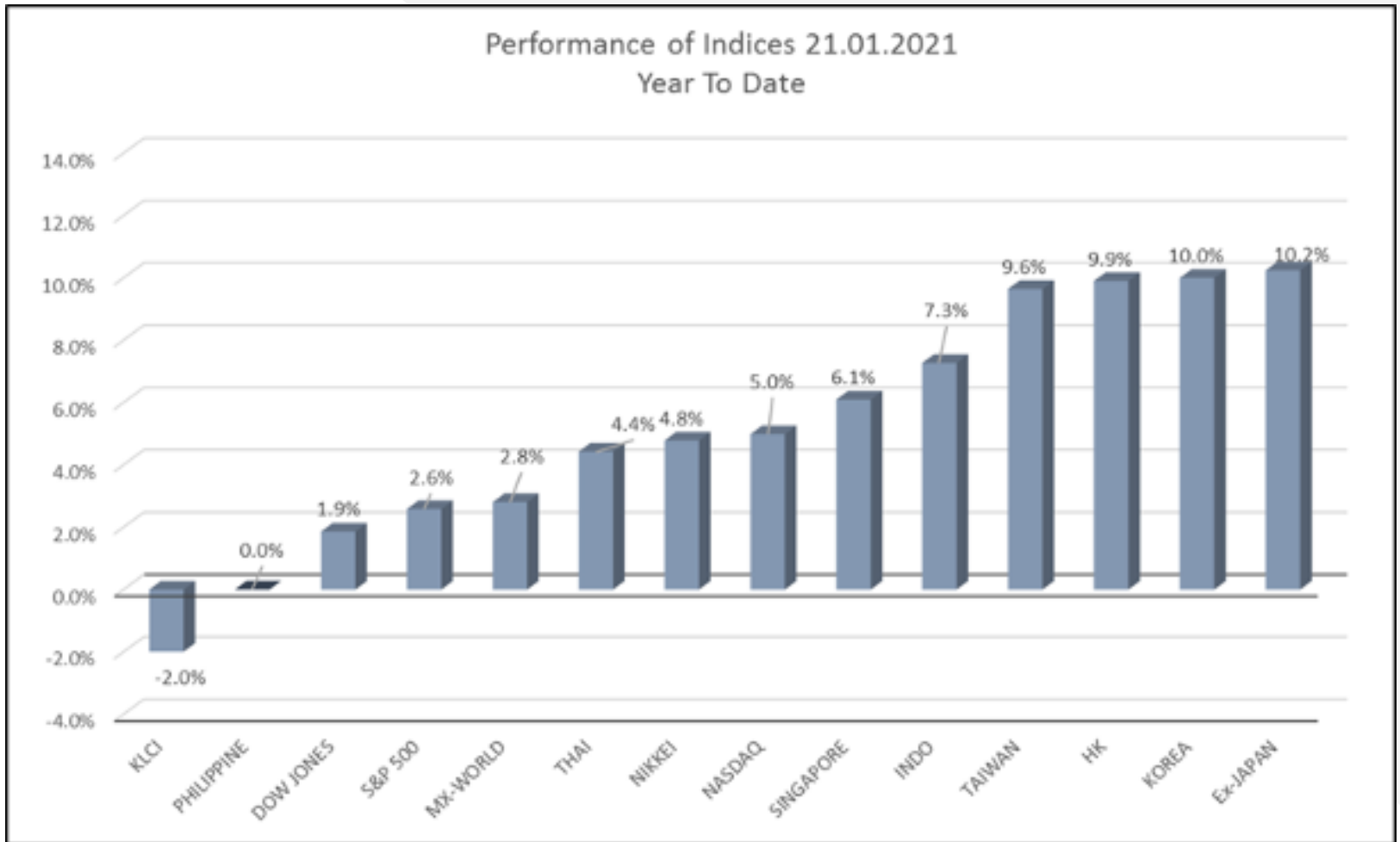
(Source: Bloomberg)

Exhibit 6: Sector performances (Year-to-Date)



(Source: Bloomberg)

Exhibit 7: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. On 25th January 2021, Janet Yellen won an 84-15 vote from Senate to become the first woman to hold the position of the Treasury Secretary of the USA in the Treasury's 232-year history. We have spoken for weeks about the Treasury-US Federal Reserve dream tag team of Janet Yellen and Jerome Powell. In Janet Yellen's confirmation hearing to the Senate, she commented, "Neither the President-elect, nor I, propose this relief package without an appreciation for the country's debt burden. But the world has changed. In a very low interest rate environment like we're in, what we are seeing is that even though the amount of debt relative to the economy has gone up, the interest burden hasn't.....Right now, with interest rates at historic lows, the smartest thing we can do is act BIG".
2. Even if Joe Biden's US\$1.9 trillion fiscal support package gets watered down, it is likely that this may just be the first of many as we continue to face a dire Covid-19 situation, logistics difficulties in getting the Covid-19 vaccine out in a meaningful quantum to achieve herd immunity, and even the need to ensure that vaccine development keeps the vaccines effective against new variants of the Covid-19 virus. Partner in crime US Federal Reserve Chair will need to make

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sure that the Treasury is able to continue to sustain its interest obligations of a burgeoning debt situation. More money will be printed and interest rate will be kept low for a long time.

3. Joe Biden signed 15 Executive Orders in his first day in office as US President. In contrast, recent Presidents, including Donald Trump, only signed one on their first day in charge. There is a lot of damage to be unwound, the halting of the construction of the US-Mexico border wall, and the intention to rejoin the Paris Climate Accord and WHO, making total logical sense. Others such as the sanction of Iran over her nuclear program and the US-China trade tensions remain sensitive political potatoes. However, investors will take assurance that the approach taken by the incoming Administration will be a more rational approach with reason rather than the unpredictability of the outgoing Administration.
4. Global equity markets have baked in lots of expectations. Nonetheless, the easy monetary environment coupled with strong fiscal support will continue to be the backstop to the feel-good sentiment.

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