



Portfolio Managers' View

As at 16 February 2021

Fund Management Department

Malaysia

1. The KLCI closed at 1,606 @ 16.02.21, down -3.8% M-o-M. Last week, Industrial Metal & Mining (+4.9%) and Banks (+3.3%) were the best performing sectors. Meanwhile, Healthcare (-5.9%) and REITs (-1.7%) were the worst performing sectors. Year-to-date @ 05.02.2020, the KLCI has declined by -1.7%.
2. Investor interest is likely to vacillate between growth stocks and cyclical/recovery plays. We maintain our positive view on semiconductor stocks as we believe forecast earnings for the Malaysian semiconductor companies are conservative and will be revised up after the 4Q (Dec-20) reporting season. Industry reports suggest that end-demand continues to be robust across nearly every segment of the semiconductor market (autos, industrial, cloud computing/networks/storage, PCs, smartphones and gaming) while supply dynamics remains tight. Semiconductor companies are enjoying pricing power and are believed to be shipping *below* the current demand levels. It may take several quarters for supply to catch up with demand and even longer for inventories to be replenished to their normal levels. These positive trends indicate that the current super-cycle is far from its peak and we continue to see upside for the semiconductor share prices from here.

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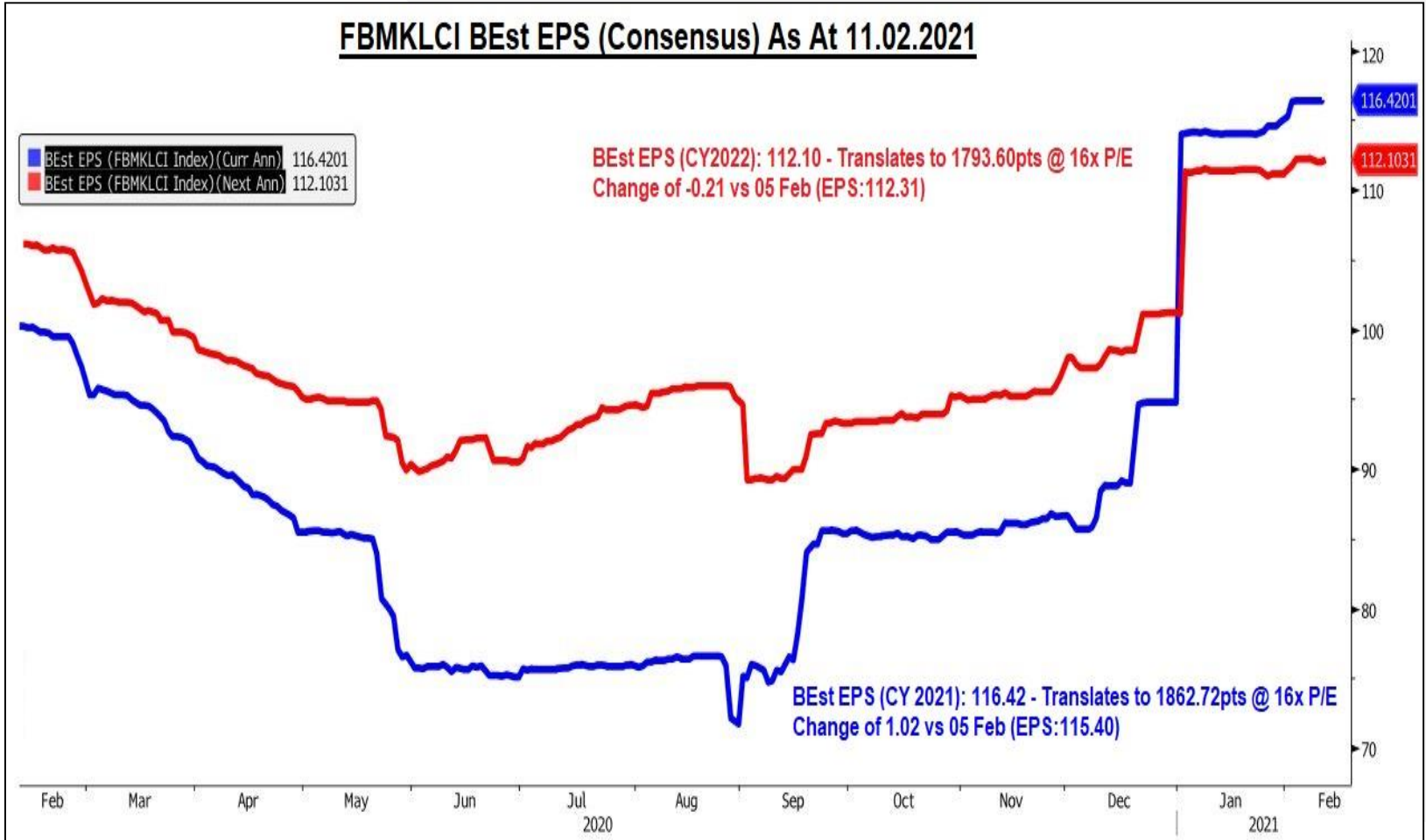
3. Malaysia 4Q20 growth contracted by -3.4% YoY. The full year GDP growth contracted by -5.6% in 2020 vs +4.3% in 2019. This was the worst annual decline since the Asian Financial Crisis when GDP growth contracted by -7.4% in 1998. The re-implementation of MCO 2.0 in 1Q21 is expected to be less severe than MCO 1.0 , as most of the critical industries such as manufacturing, construction, services, trading, farming and commodities are able to operate. Daily economic losses under MCO2 is estimated at RM 0.75 bil per day (vs RM 0.2 bil under CMCO and RM 2.4 bil under MCO1 in 2020). Every fortnight of MCO2 will reduce full year GDP by RM 10 bil or 0.7% points (source: CGS-CIMB). We would not discount a further lowering of OPR currently at 1.75%. Economists expect Bank Negara Malaysia (BNM) to downgrade its GDP forecast of 6.5%-7.5% growth in 2021.
4. Consensus 2021 market eps estimate has risen from RM 88.8 in Dec-20 to RM 116.4 currently. This was due to earnings upgrades for companies such as Supermax, Genting, Hartalega, Sime Darby Plantation and KL Kepong. In 2021, the forecast EPS integer is inflated by the strong earnings of the glove makers (due to high selling prices and exceptionally strong demand conditions).

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The EPS integer for 2022 is forecast to decline by -3.7% YoY to RM 112.1. At 1,606 @ 16.02.21, the market is trading at a PER of 13.8x for CY21 respectively. The market's valuation for 2021 is below its 12M mean PER of ~16x. Separately, Malaysia is trading at a 26% discount to Asia ex-Japan's 2020 PE multiple (see Exhibit 2). This is the steepest discount in the last 5 years.

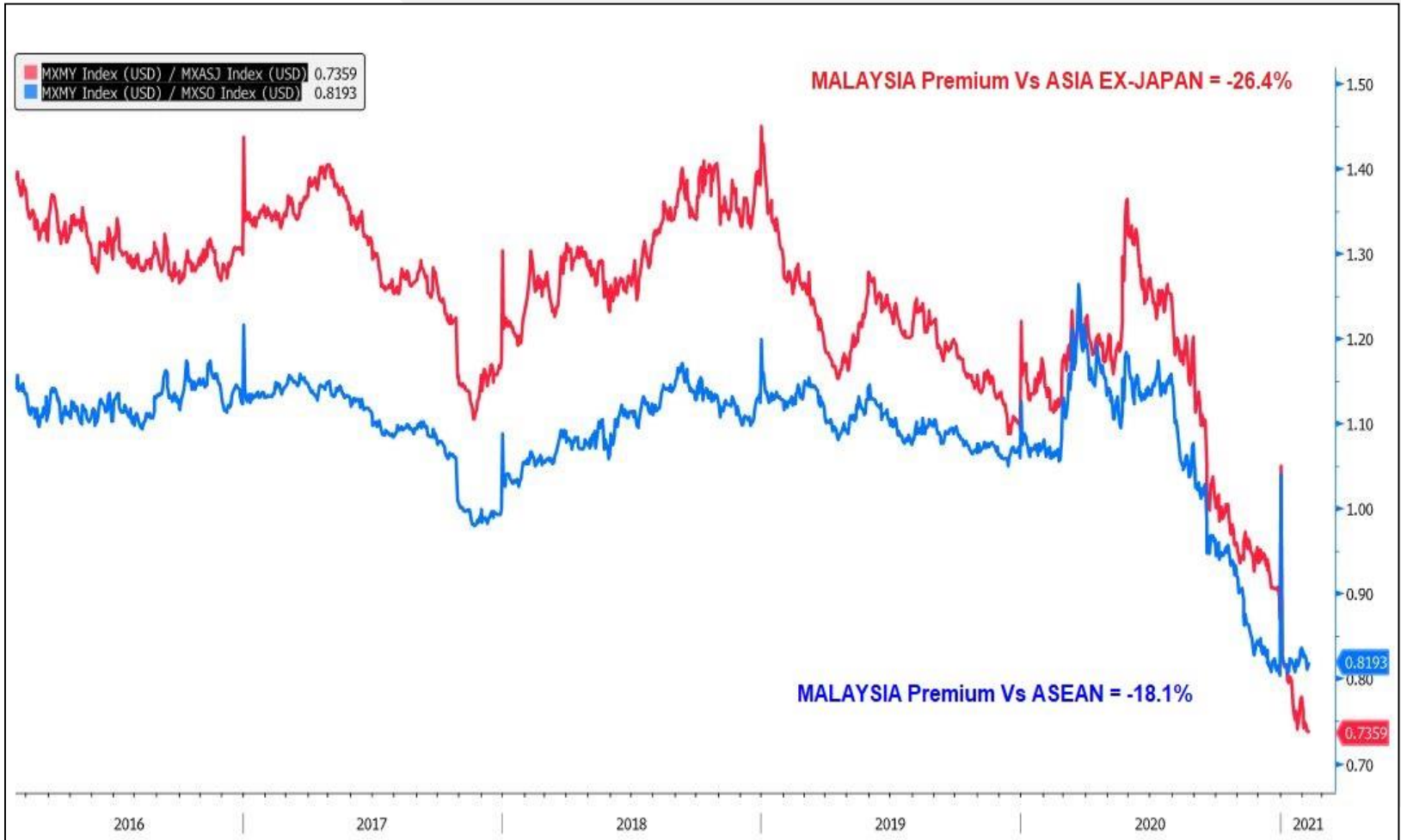
Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS)

FBMKLCI BEst EPS (Consensus) As At 11.02.2021



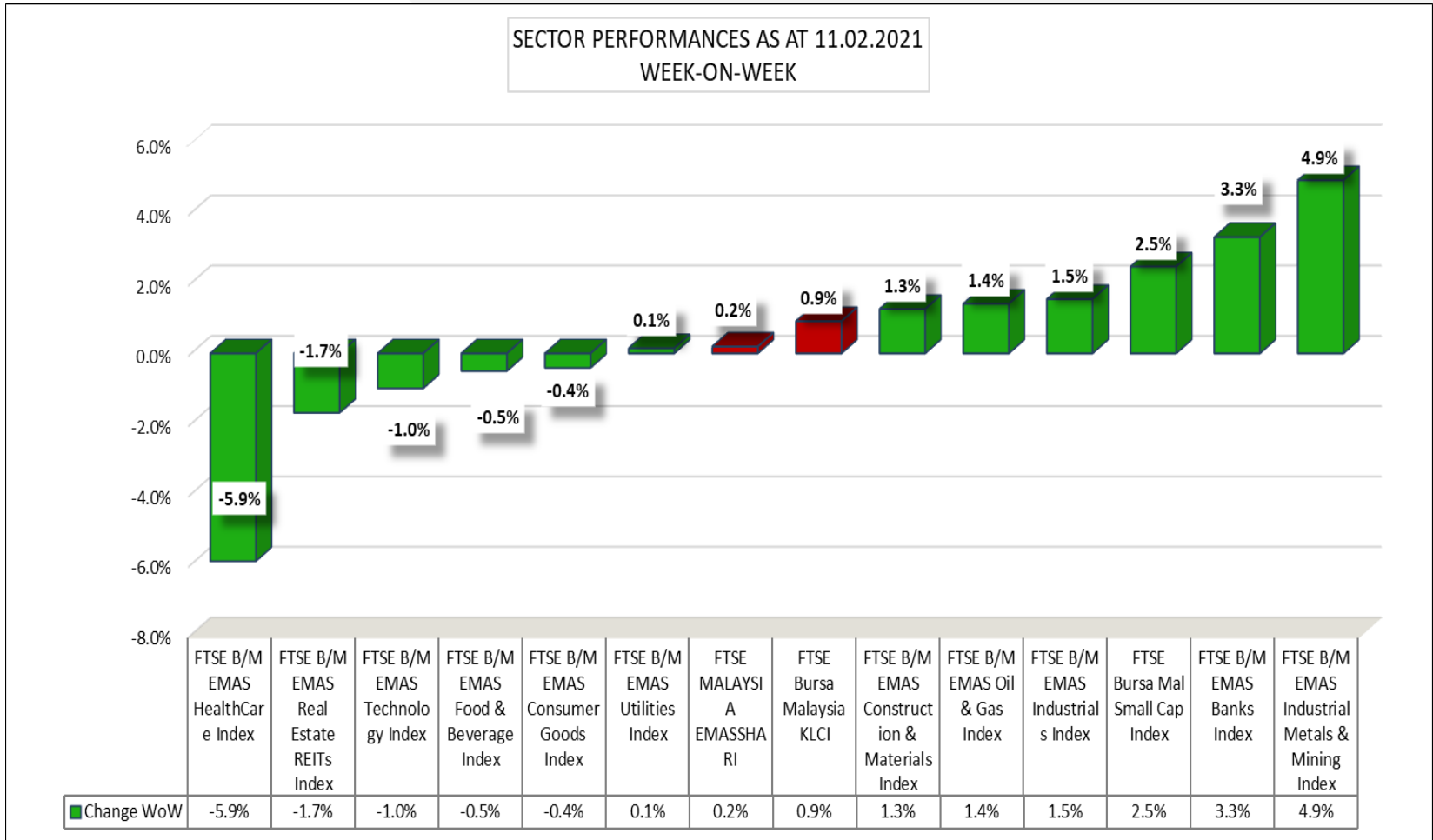
(Source: Bloomberg)

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



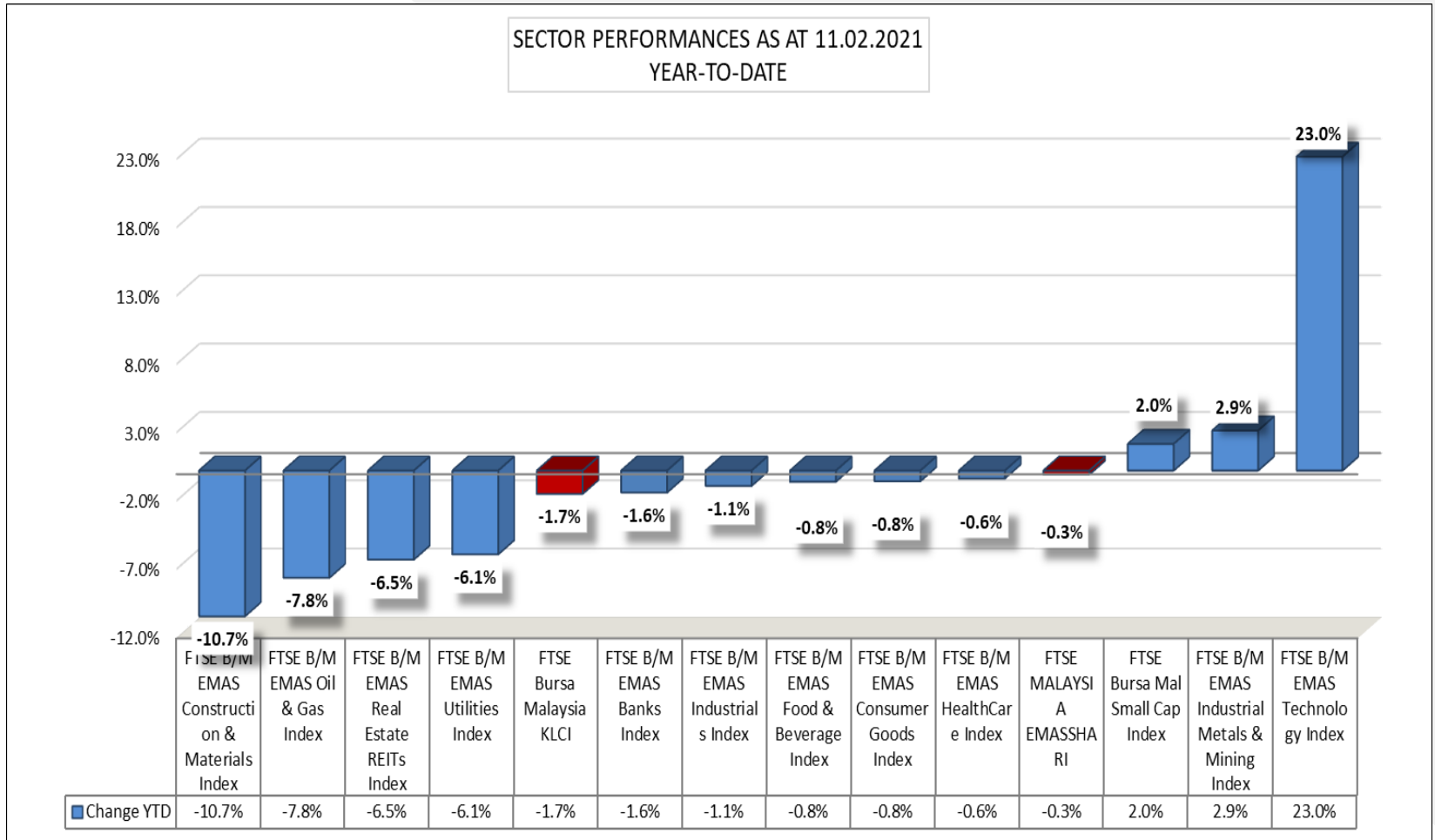
(Source: Bloomberg)

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



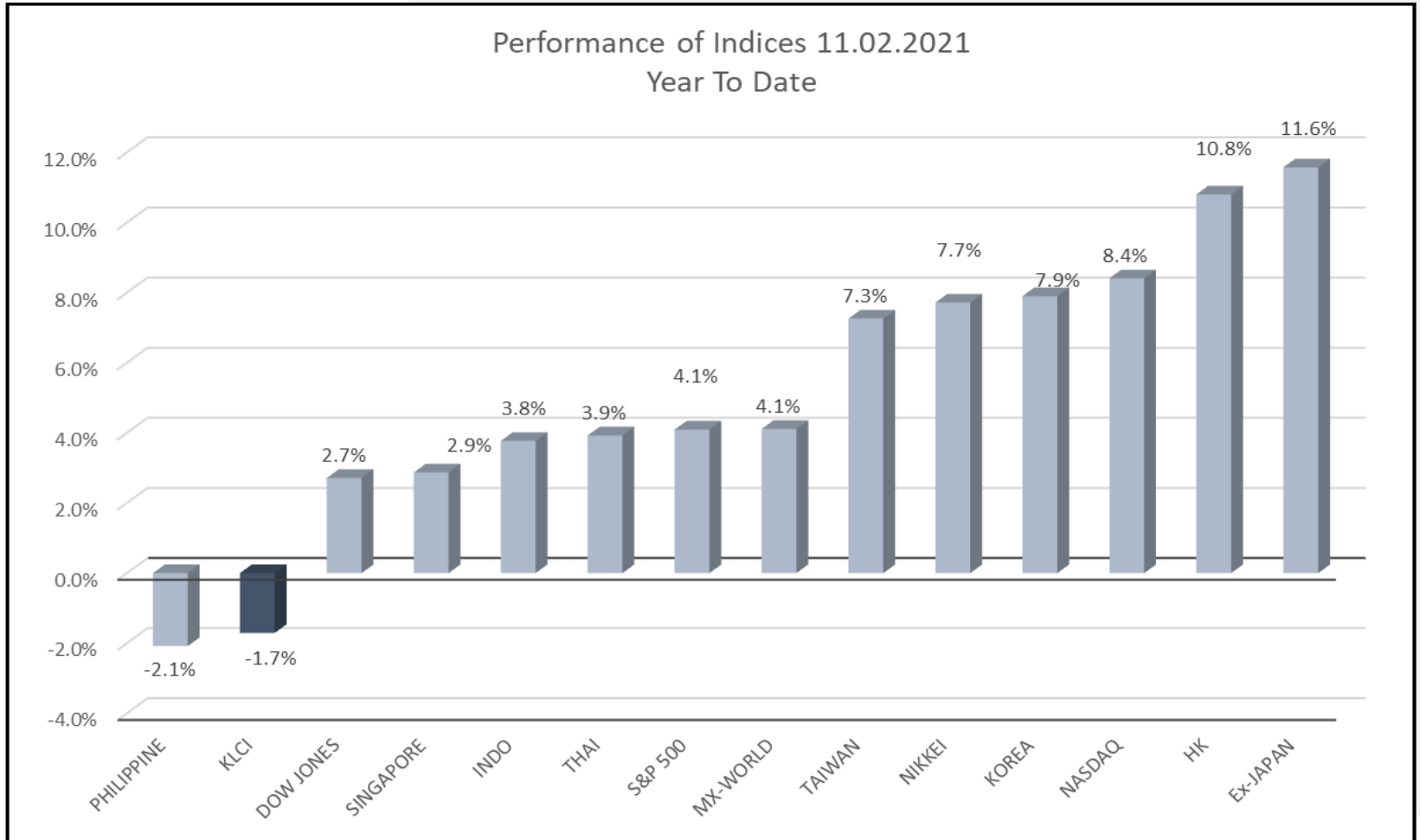
(Source: Bloomberg)

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



(Source: Bloomberg)

Exhibit 5: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. In a controversial speech in 1984, former Prime Minister and founding father of Singapore Lee Kuan Yew made the case that the one man-one vote system is a very difficult form of government, when people vote for change for change's sake leading to erratic results. This is how the 'greatest democracy' elected Donald Trump as President. This is also how we got Senate Republican Leader and Kentucky Senator Mitchell McConnell Jr, who last week launched a scorching speech assailing Donald Trump as 'practically and morally responsible' for the attack on the Capitol and yet voted to acquit the former President on the impeachment charge.
2. 14th March 2021 is the date when the latest US emergency unemployment benefits expire. The range of expectations for the passing of Joe Biden's Covid-19 relief fiscal support program is wide at US\$1 trillion to US\$1.9 trillion. We are optimistic that the final agreement will be closer to the upper-end than the lower-end. We have also been of the view that this will not be the last of support, with infrastructure stimulus touted as the next push. There are two schools of thought; either further stimulus has to be supported through higher US Government indebtedness or through the taxation of corporates and the wealthy. Either of which cannot be positive for the US Dollar. But positive for emerging markets and currencies.

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3. Therefore, it is also no coincidence that Bank Indonesia Governor Perry Warjiyo in an address to lawmakers for House of Representatives Commission overseeing Finance commented on the importance to continue to pursue lower interest rate and loose liquidity condition policies until inflation materialises. For Indonesia, a country that historically faced capital deficiency and outflows leading to Rupiah weakness, this is a bold confident statement.

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