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

Portfolio Manager's View

09 March 2021

Fund Management Department

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Regional

1. There is a tussle between state and markets. The elephant in the room is INFLATION. New US Treasury Secretary Janet Yellen spoke this week of the market concern of big inflation arising out of the US $1.9 trillion Covid-19 support package. In her own words, "I really don't think that's going to happen". Her tag-team partner US Fed Chair Jerome Powell and the Fed team agree.

2. Most of us have lived the post Paul Volcker era of benign inflation or structural disinflation. Is the recent rise in bond yields a mere expectation of economic recovery and normalisation? Or this carries the more sinister risk of inflation run-away that Central Banks have failed to see and eventually find difficult to control?

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3. Fiscal backstop has not been a great part of modern economic development, the exception being emerging countries in dire need to upgrade their economic conditions. One need to just look at the deplorable state of infrastructure in the US as evidence. US Fed Chair Jerome Powell took great lengths to argue for fiscal heavy lifting in tandem with supportive monetary policy to help tide through the real economy. For it is fiscal policy that has the more direct effect of instilling confidence to the consuming and spending public. In theory, this should reverse the declining velocity of money and consequently inflation. How far are we from a potential rethinking of the changing landscape and how significant is this change? Are there mitigating factors, such as the structural deflationary internet?

4. Meanwhile, it may still be the case of making hay while the sun shines. In recent history, markets have peaked only when the US Fed raised short-term rates and the yield curve flattened, not when the yield curve is steepening. However, it may be increasingly clear that sectoral calls may be more meaningful, as the rotation trade into cyclicals and value take on further hold with a successful exit from the Covid-19 pandemic.

Malaysia

1. The KLCI closed at 1,625 @ 09.03.21, an increase of +0.4% M-o-M. Last week, Banks (+3.5%) and Utilities (+1.9%) were the best performing sectors. Meanwhile, Technology (-4.5%) and Industrial Metal (-2.1) were the worst performing sectors. Year-to-date @ 05.03.2021, the KLCI has declined by -1.7%.

2. This month both NASDAQ and the Philadelphia Semiconductor Index (SOX) took a sharp tumble. This comes after the US10Y bonds rose from 1.06% to 1.52% during the month- a 12-month 1 YR high of (Exhibit 1). Technology stocks are sensitive to rising yields as their future cashflows will discount at a higher rate as bond yields rise. Also, higher 10Y bond yields imply a more robust economic outlook ahead which supports the case for cyclicals. The negative sentiment on NASDAQ and SOX caused the Technology Index on Bursa to fall by 6.8% MoM as investors took profit to fund their rotation into cyclical recovery plays. Notwithstanding, we maintain our positive view on technology stocks as we believe the outlook remains for the next 1-2 quarters at least.

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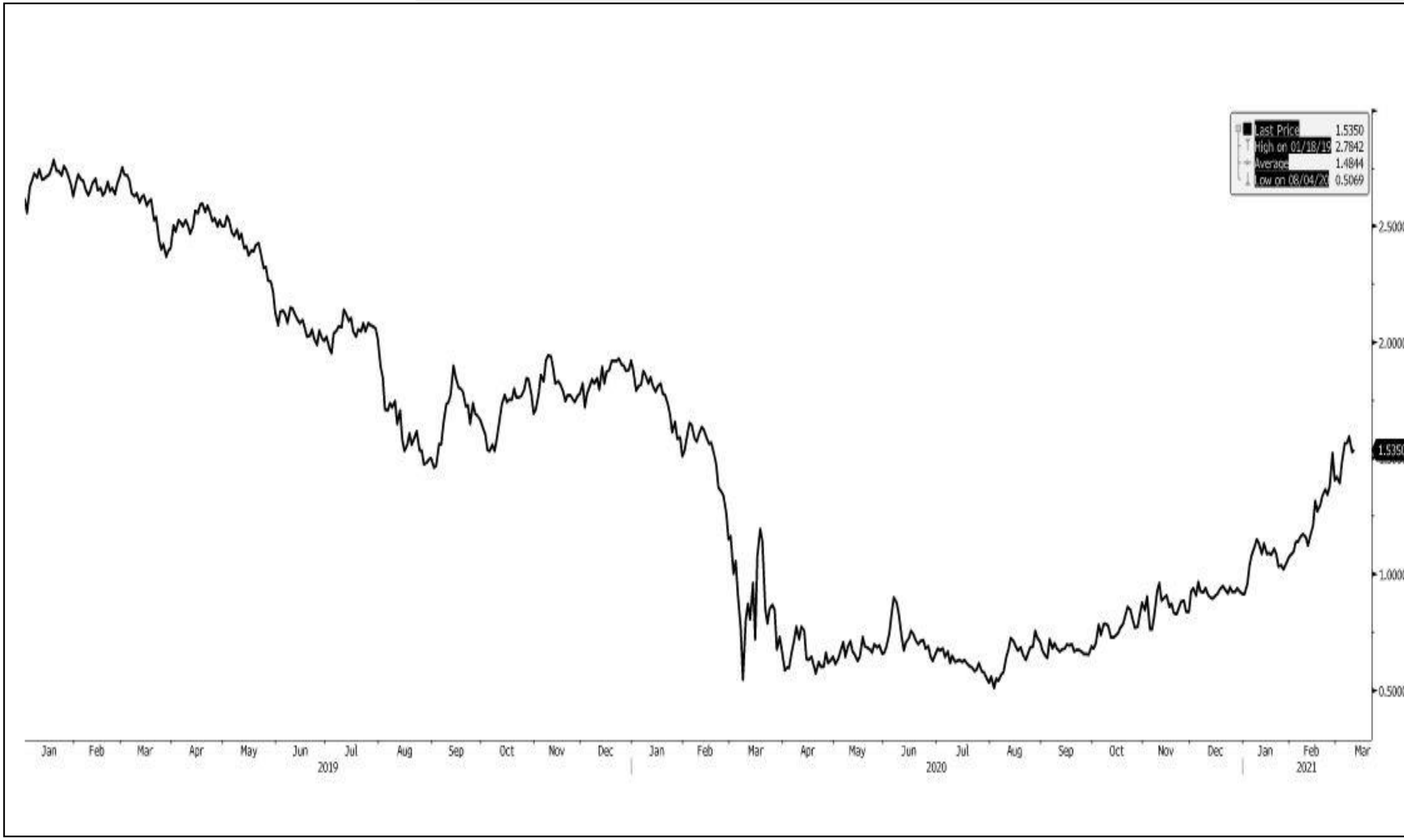
3. It is also worth highlighting the differences between the tech sector correction and the sell-down of the glove-makers. Firstly, we expect the demand upswing for semiconductors to last for several more quarters due to demand outstripping supply, recovery in autos, capex by data-centers, rising chip consumption in electronic devices, 5G, work and lifestyle trends (in the coming years). The massive surge in glove share prices was attributable to the price and volume effects arising from the Covid-19 pandemic. Secondly, it is hard for new entrants to come into the technology space due to stringent customer qualification criteria's and technological complexity. In contrast, the barriers to entry for glove makers are relatively low. Thirdly, the level of exuberance in the technology sector did not reach the level of euphoria enjoyed by the glove companies which saw aggressive buying from both retailers and institutions. While we have taken some profit recently, we continue to Overweight the sector across our portfolios.

4. Exhibit 2 highlights the technology stocks year-to-date performance. In our view, the technology stocks which performed best were (i) companies which delivered above expectation results (eg. OSAT players like Inari, MPI and Unisem, (ii) affordable penny stocks which suit retailers (eg. small cap equipment players such as QES & Visdynamics) and/or (iii) companies which

provide exposure to the long-term demand shift to Electric Vehicles (eg. D&O and Greatech). The top 10 underperformers were technology stocks which reported in-line to below consensus. Going forward, we like: (i) Dufu Technology which is benefiting from a re-acceleration of data-center capex in 2021) and (ii) equipment players like Mi Technovation & Pentamaster (the upswing in OSAT capex will translate to strong demand for semiconductor equipment).

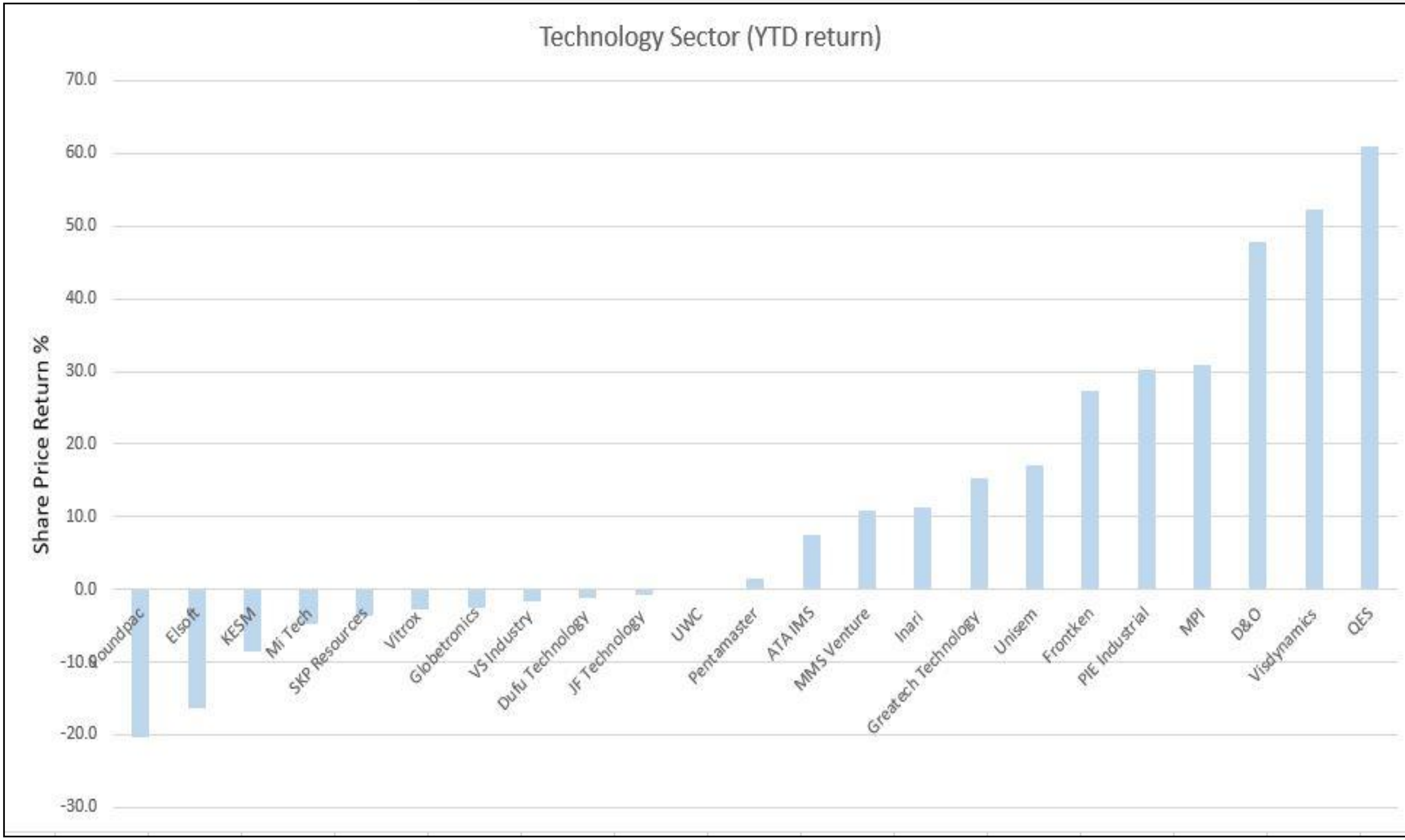
5. Consensus 2021 market eps estimate has risen from RM 88.8 in Dec-20 to RM 116.9 currently. This was due to earnings upgrades for companies such as Genting, Press Metal, CIMB and Genting Malaysia. In 2021, the forecast EPS integer is flattered by the strong earnings of the glove makers (due to high selling prices and exceptionally strong demand). The EPS integer for 2022 is forecast to decline by -2.4% YoY to RM 114.1. At 1,625 @ 09.03.21, the market is trading at a PER of 13.9x for CY21 respectively. The market's valuation for 2021 is below its 12M mean PER of ~16x. Separately, Malaysia is trading at a 21% discount to Asia ex-Japan's 2021 PER of 17.6x (see Exhibit 4). This is the steepest discount in the last 5 years.

Exhibit 1 : US Govt 10 year yield Curve



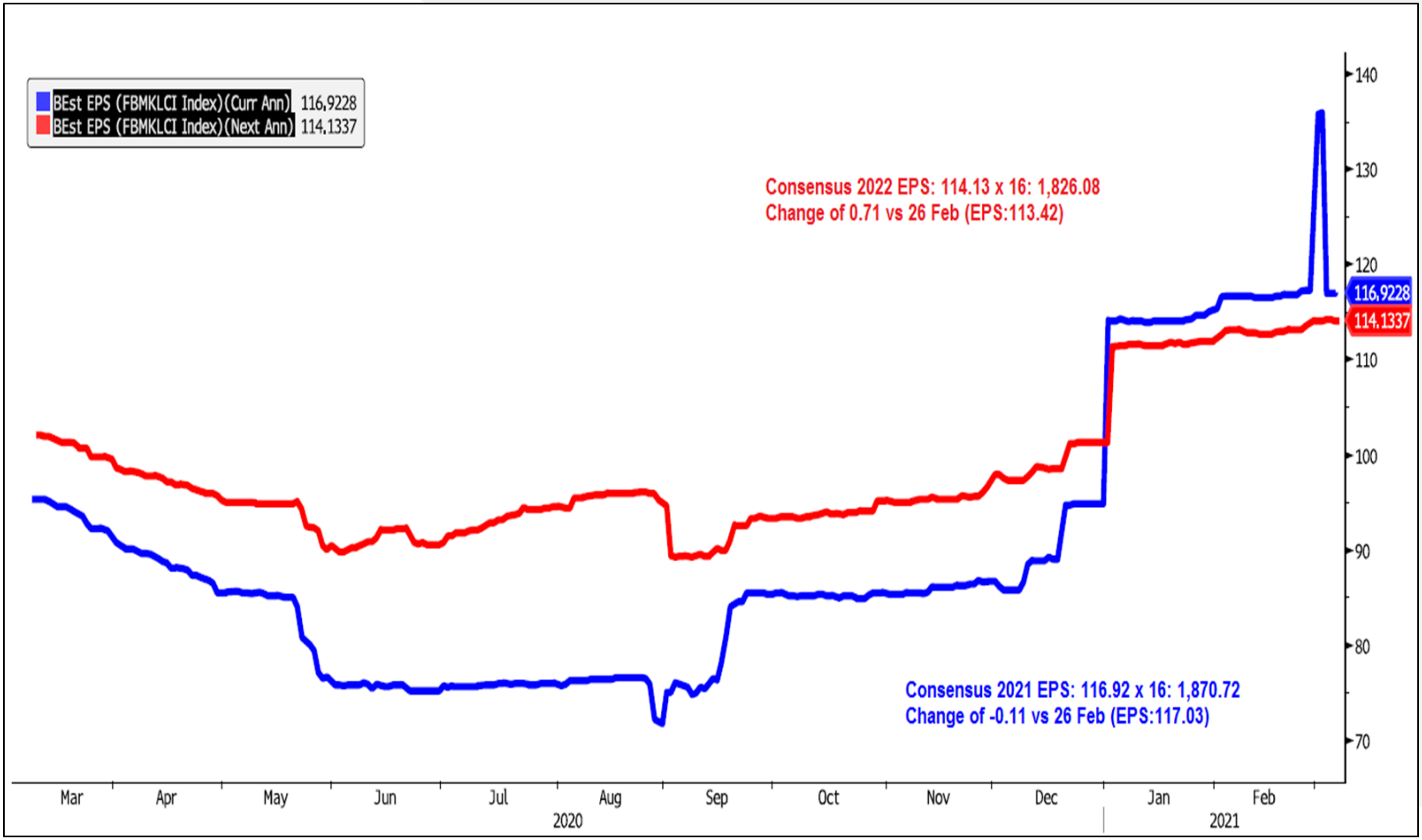
(Source: Bloomberg)

Exhibit 2: Malaysia’s Technology Sectors Performance



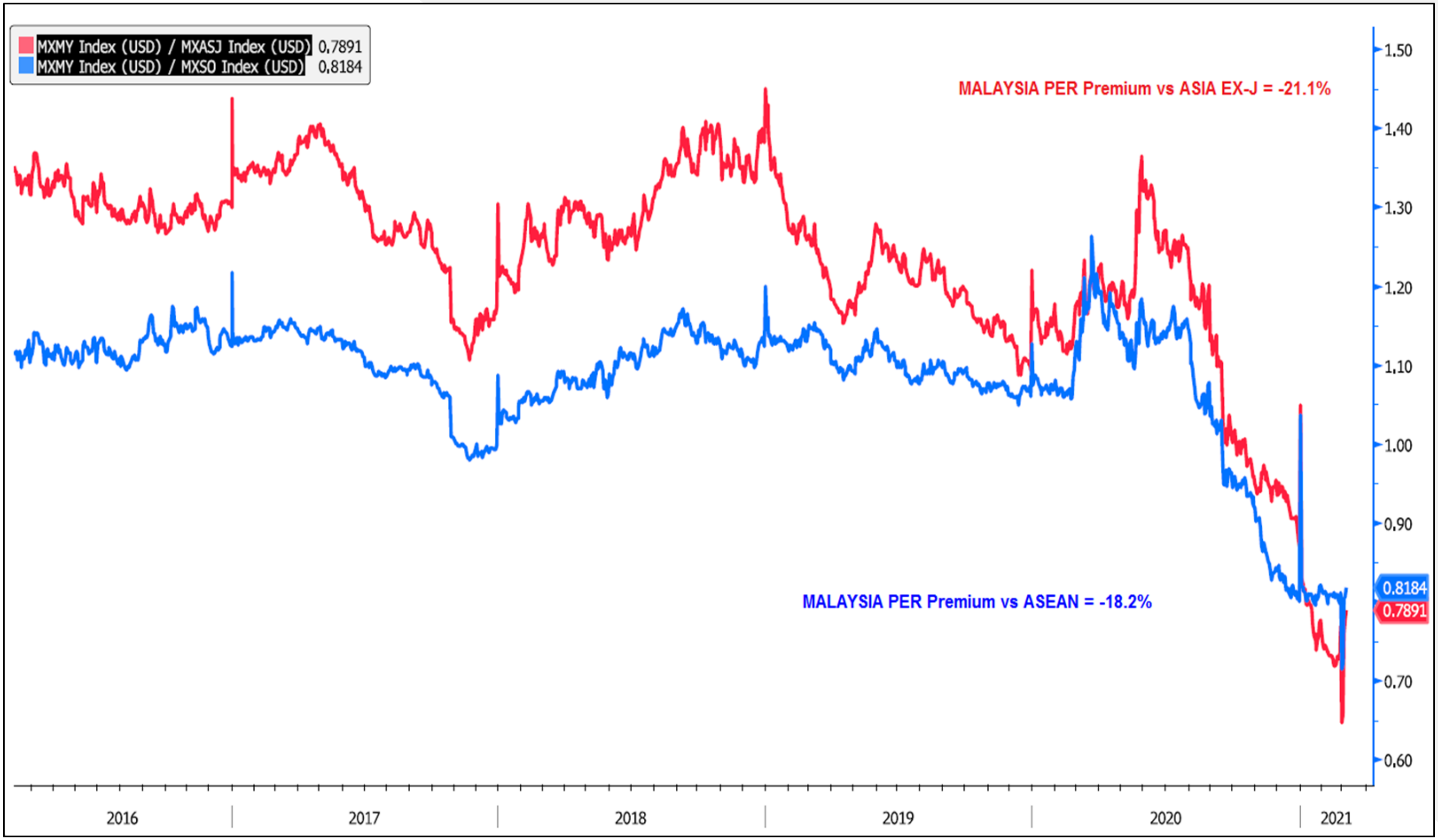
(Source: Bloomberg)

Exhibit 3: FBMKLCI Consensus Earnings Per Share (EPS) @ 05.03.21



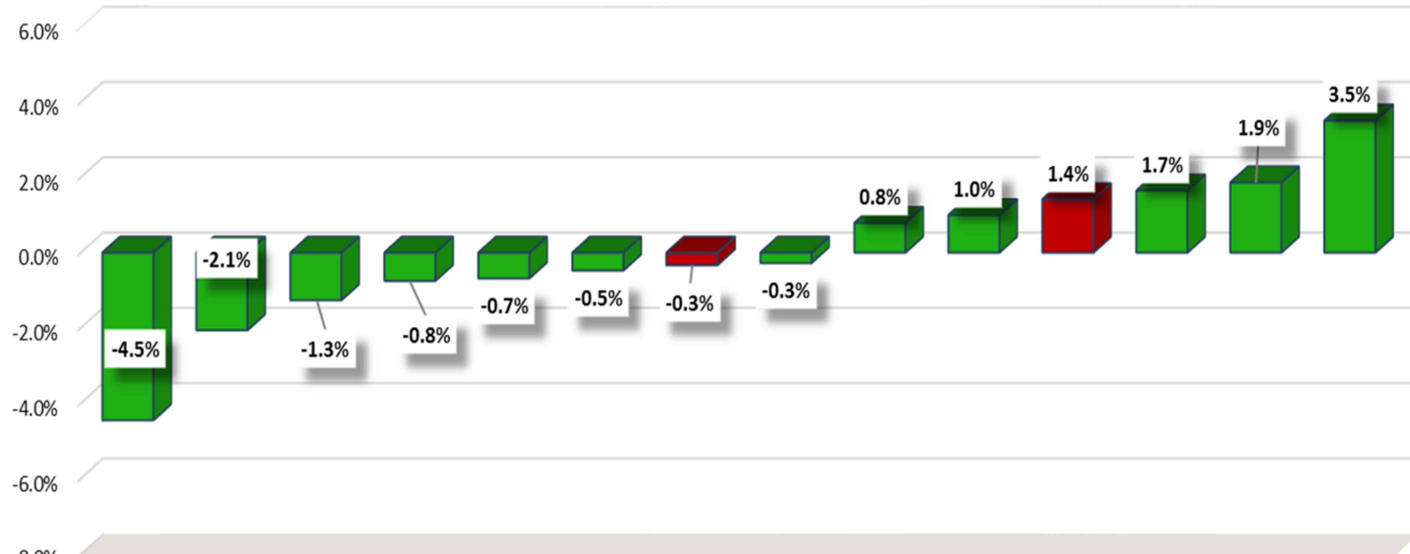
(Source: Bloomberg)

Exhibit 4: MALAYSIA P/E is at a discount to the region @ 05.03.21



(Source: Bloomberg)

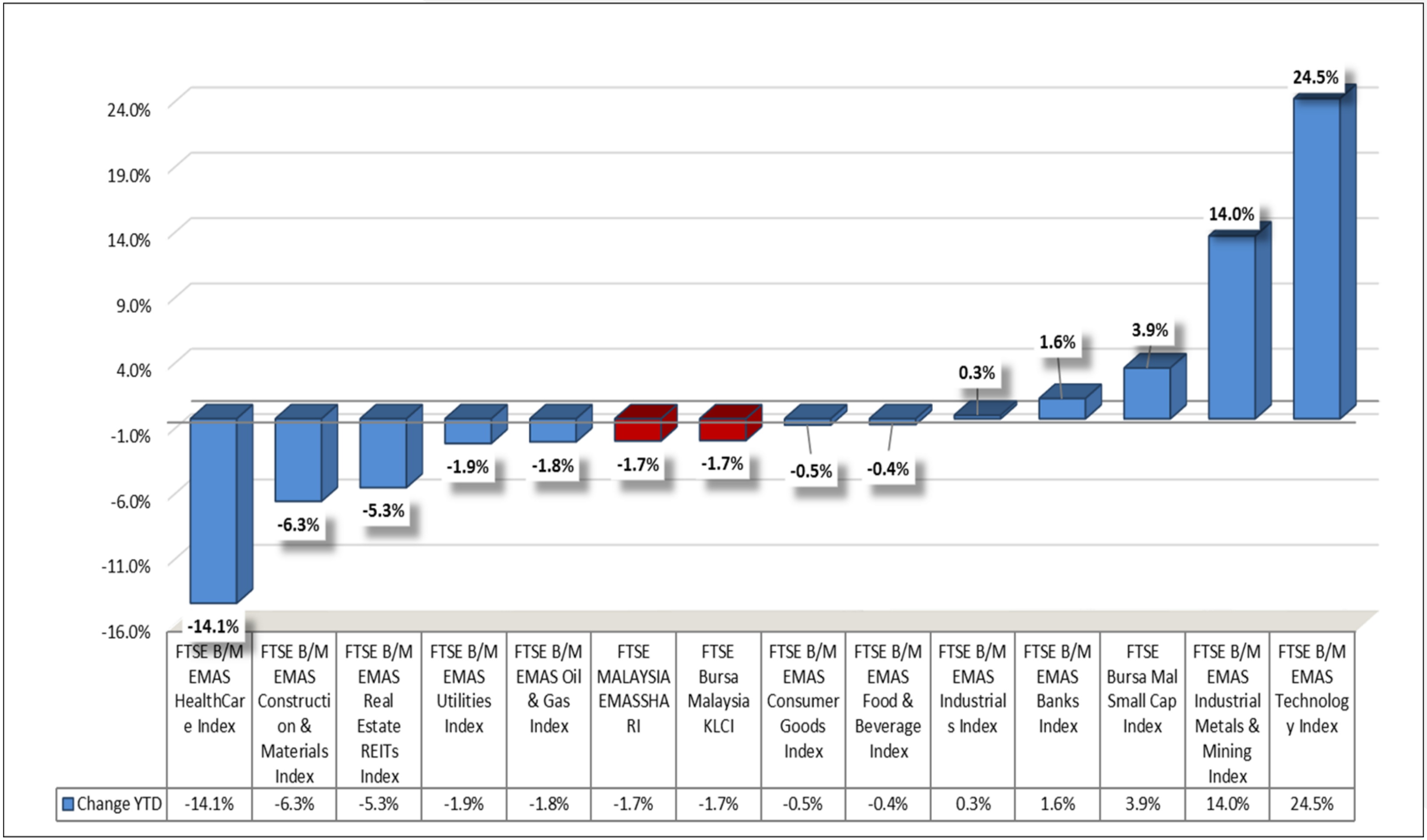
Exhibit 5: Sector Performance (Week-on-Week) @ 05.03.21



	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Oil & Gas Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks Index
Change WoW	-4.5%	-2.1%	-1.3%	-0.8%	-0.7%	-0.5%	-0.3%	-0.3%	0.8%	1.0%	1.4%	1.7%	1.9%	3.5%

(Source: Bloomberg)

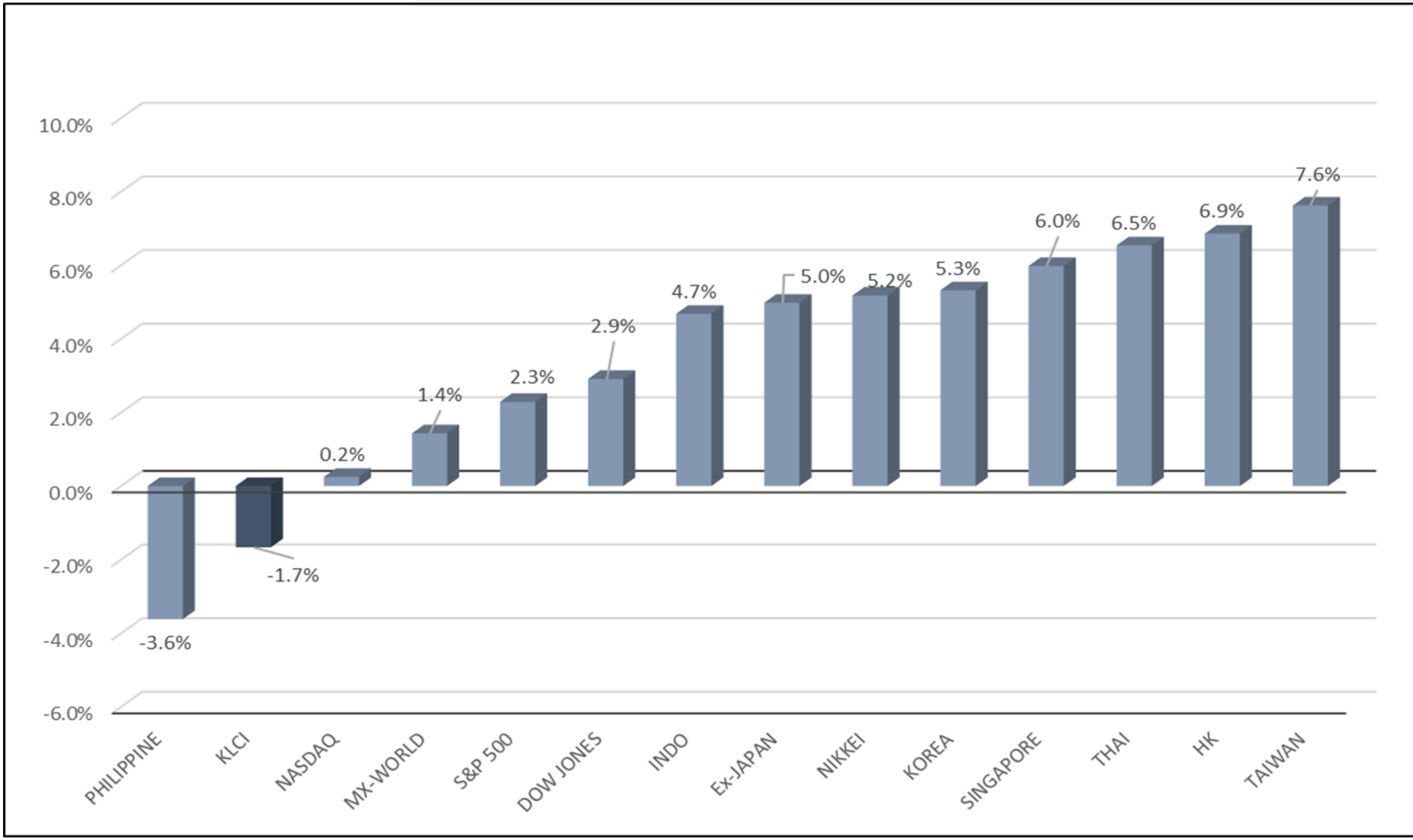
Exhibit 6 : Sector Performance (Year-to-Date) @ 05.03.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Oil & Gas Index	FTSE MALAYSIA EMASSHARI	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage 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	-14.1%	-6.3%	-5.3%	-1.9%	-1.8%	-1.7%	-1.7%	-0.5%	-0.4%	0.3%	1.6%	3.9%	14.0%	24.5%

(Source: Bloomberg)

Exhibit 7 : Performance of Indices (Year-to-Date) @ 05.03.21



(Source: Bloomberg)

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