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

Portfolio Manager's View

15 March 2021

Fund Management Department

Regional

1. In handling the Covid-19 pandemic, the US has jumped from being the worst back of the queue under President Trump to the front of the line. It makes so much difference, not just because suddenly we have a more rational President in Biden, but also when you can muscle your way to the front of the supply line for vaccines. It is a genuine concern that the US economic recovery will surprise on the upside forcing the US Federal Reserve's hands on her commitment to keep rates at zero-bound till 2023. How soon is too soon for this rate reversal? Sometime within 2021 will spook the markets.

2. At the time of writing till this hits the press, the US Federal Reserve FOMC meeting on 17th March will hopefully have given us some clues; talk about the need for transparency and communication. US Fed Chair Jerome Powell continues to commit to zero-bound interest rate until he sees a robust labour market and inflation sustained above 2%. But the markets want an explicit comment on the long-end of the yield curve, with 10-Year Treasuries yield back to pre-Covid 19 breakout level. Also, he will need to address the issue of the expiration of the relaxed Supplementary Leverage Ratio on banks come end March 2021. Is good news on one of two fronts sufficient for the markets? I think so.

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3. Meanwhile, China, learning from the excesses post Lehman Global Financial Crisis, has been quick to rein-in liquidity on this economic recovery. Last week at the National Party Congress, Premier Li Ke Qiang set a target of 2021 GDP growth of "only 6%". And for the first time, its 14th 5-Year Plan will have no GDP growth target. It is not that we do not think that China's 2021 GDP growth will not surprise on the upside. China's messaging is loud and clear. Relatively, Asean performance has lagged and in the immediate-term, the economic nationalisation trade unfolding in the US will likely play out in similar fashion in the coming months.

Malaysia

1. The KLCI closed at 1,624 @ 15.03.21, an increase of +2.7% M-o-M. Last week, Construction (+10.1%) and REITs (+6.1%) were the best performing sectors. Meanwhile, Technology (-7.0%) was the worst performing sector. Year-to-date @ 11.03.2021, the KLCI rose by a mere +0.1%.

2. Despite weakness in the Malaysia's technology sector over the past one month (Bursa's Tech Index declined by 7.8%), we maintain our positive view on the sector. The reasons are as follows :

   - EPS revisions for the Malaysia technology sector has lagged the earnings upgrades for Philadelphia Semiconductor Index (see Exhibit 1). For example, we see further upgrades for the local OSAT companies given current buoyant conditions. The 1Q reporting season in May will reinforce the earnings uptrend for the sector.

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- Exhibit 2 highlights the sectoral performance of Bursa Malaysia between 2013 and 2020. Since 2013, the technology sector had only 2 years of negative returns (2016 & 2018). In addition, our research shows that the simple average return for the technology sector between 2013 and 2020 was 31% vs 12% for the KLCI. Clearly, the technology sector was one of the best sectors to have been invested in on Bursa Malaysia in the last 8 years.

- Finally we believe that we have not reached the peak of semiconductor cycle. Exhibit 3 shows that Year-on-Year growth in global semiconductor sales is still trending up. As we believe YOY sales trend will continue to be robust as semiconductor companies are enjoying firm average selling prices (ASPs) and are believed to be shipping *below* their client demand levels. It may take a few quarters for supply to catch up with demand and perhaps longer for inventories to be replenished to their normal levels.

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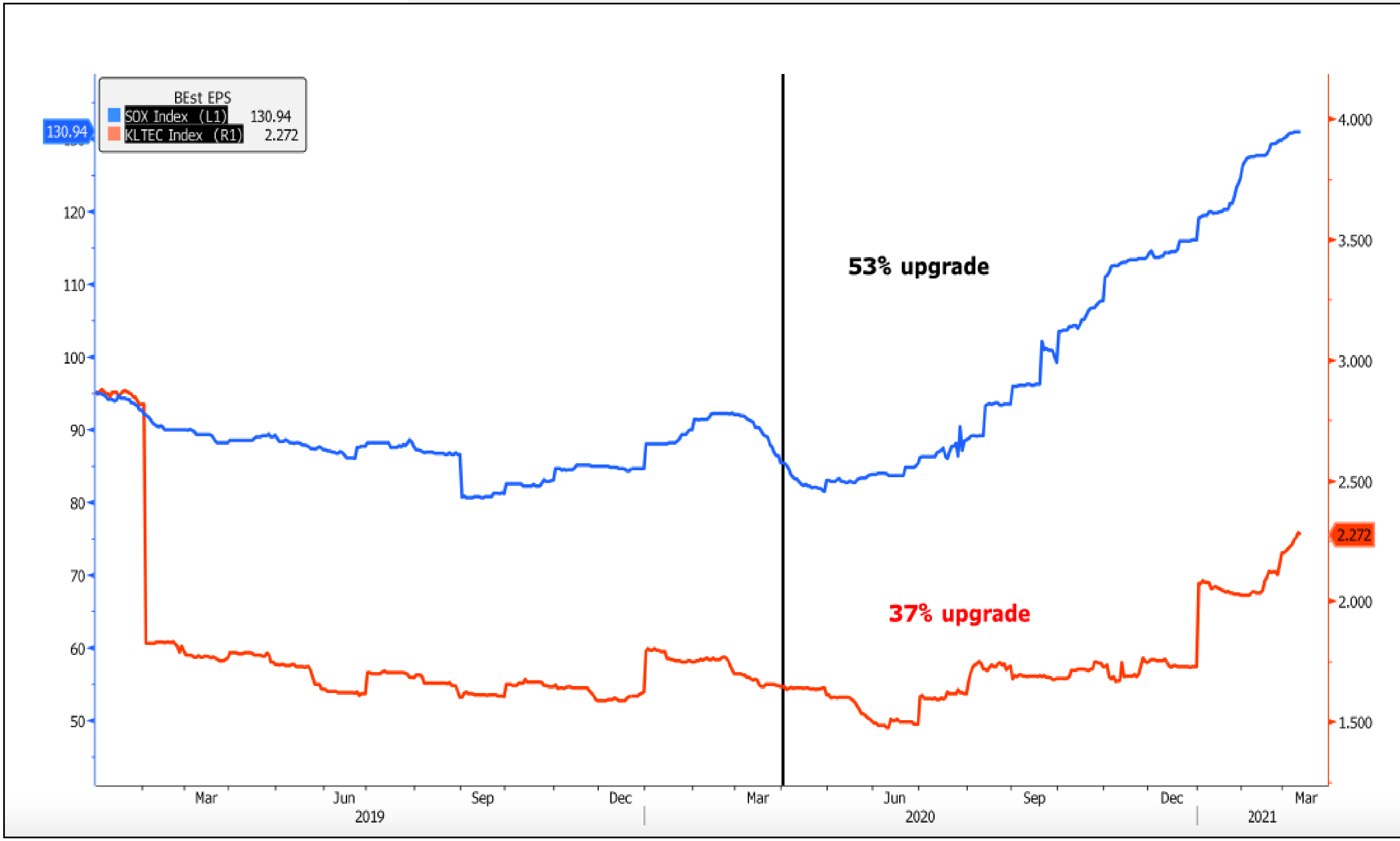
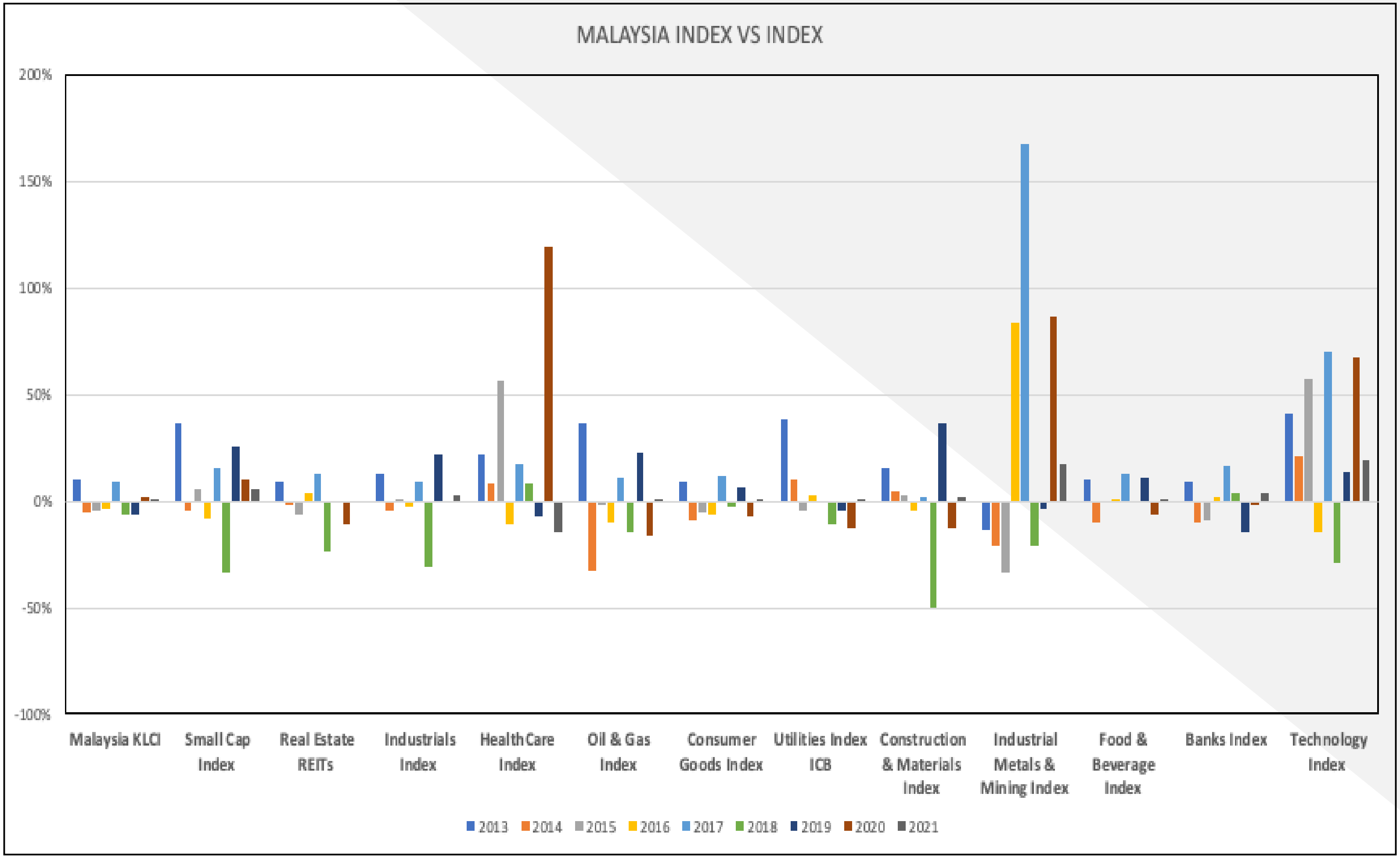
3. Consensus 2021 market eps estimate has risen from RM 88.8 in Dec-20 to RM 117.9 currently. This was due to earnings upgrades for companies such as Genting, Press Metal, CIMB, Petronas Dagangan, and Genting Malaysia. In 2021, the forecast EPS integer is flattered by the strong earnings of the glove makers (due to high selling prices and exceptionally strong demand). The EPS integer for 2022 is forecast to decline by -2.7% YoY to RM 114.7. At 1,624 @ 15.03.21, the market is trading at a PER of 13.8x for CY21 respectively. The market's valuation for 2021 is at a 14% discount to its 12M mean PER of ~16x. Separately, Malaysia is trading at a 21% discount to Asia ex-Japan's 2021 PER of 17.5x (see Exhibit 4). This is the steepest discount in the last 5 years and reflects the precipitous outflow of foreign funds from Malaysia in the last 5 years. As most foreigners are significantly Underweight Malaysia, we do not believe foreign selling is a major negative going forward.

Exhibit 1 : Bursa's Tech Index EPS vs SOX Index EPS upgrades



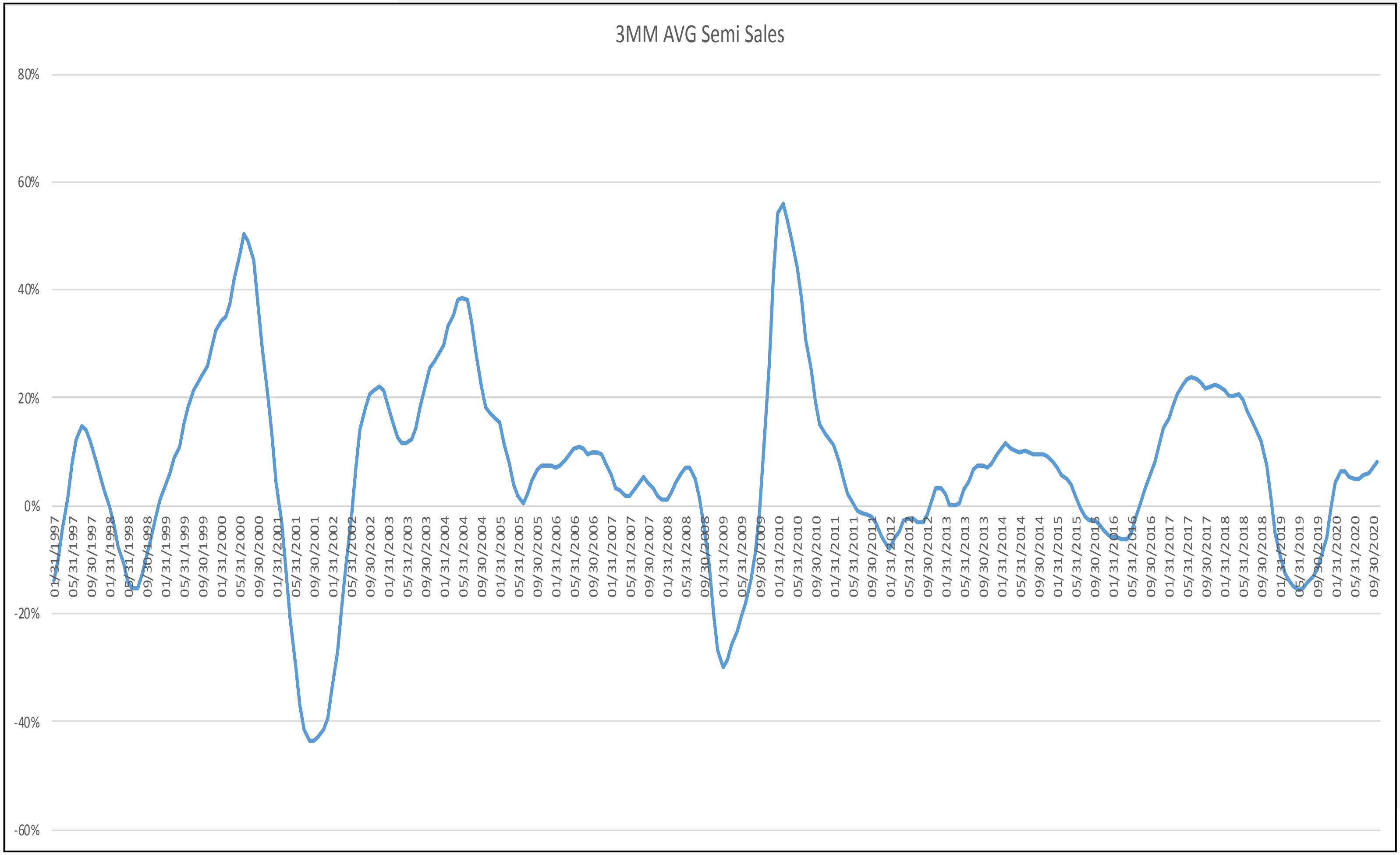
(Source: Bloomberg)

Exhibit 2: Malaysia's Sectors Performance since 2013-2021 YTD



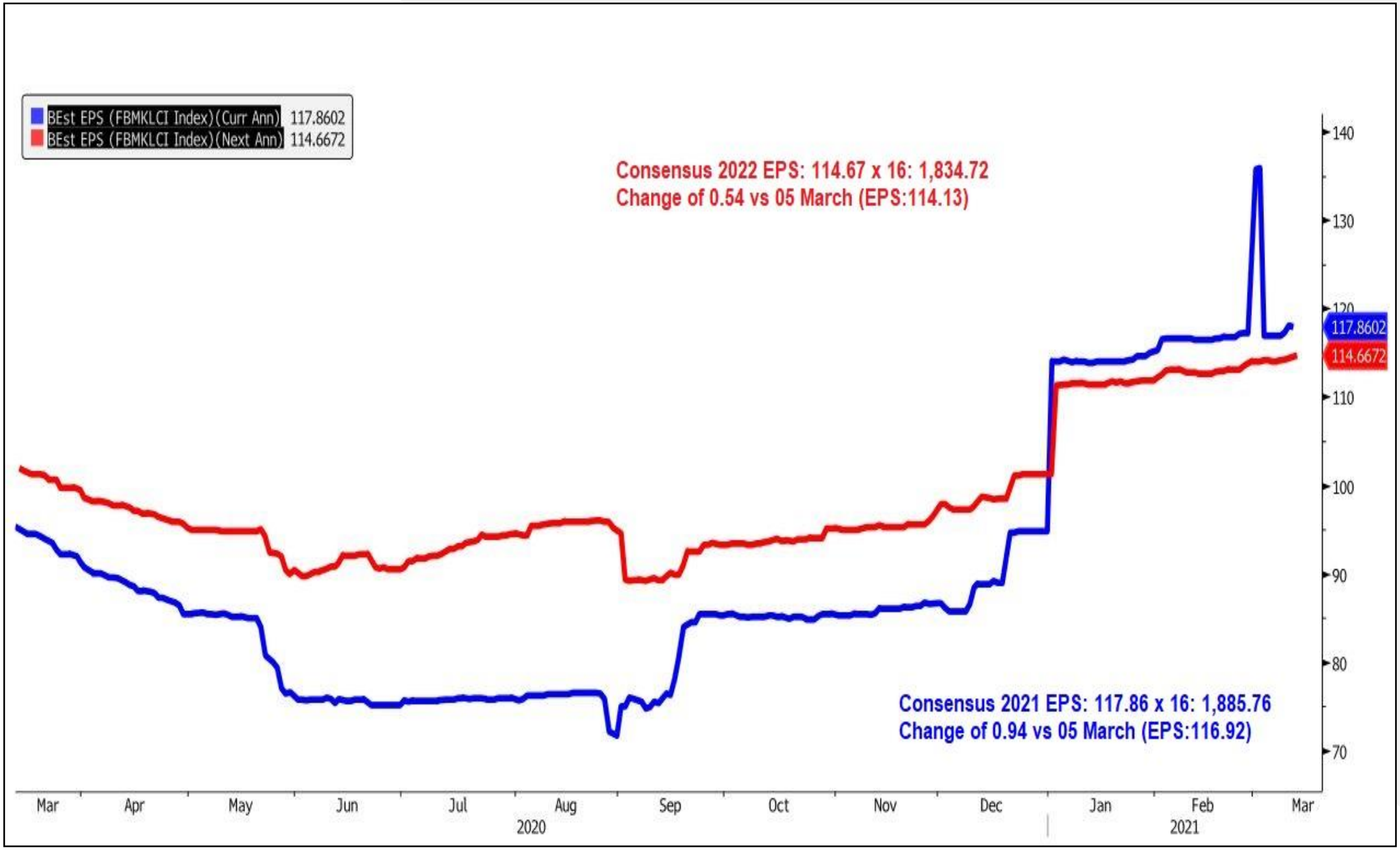
(Source: Bloomberg)

Exhibit 3: Global Semi Sales 3 months moving Avg since 1997



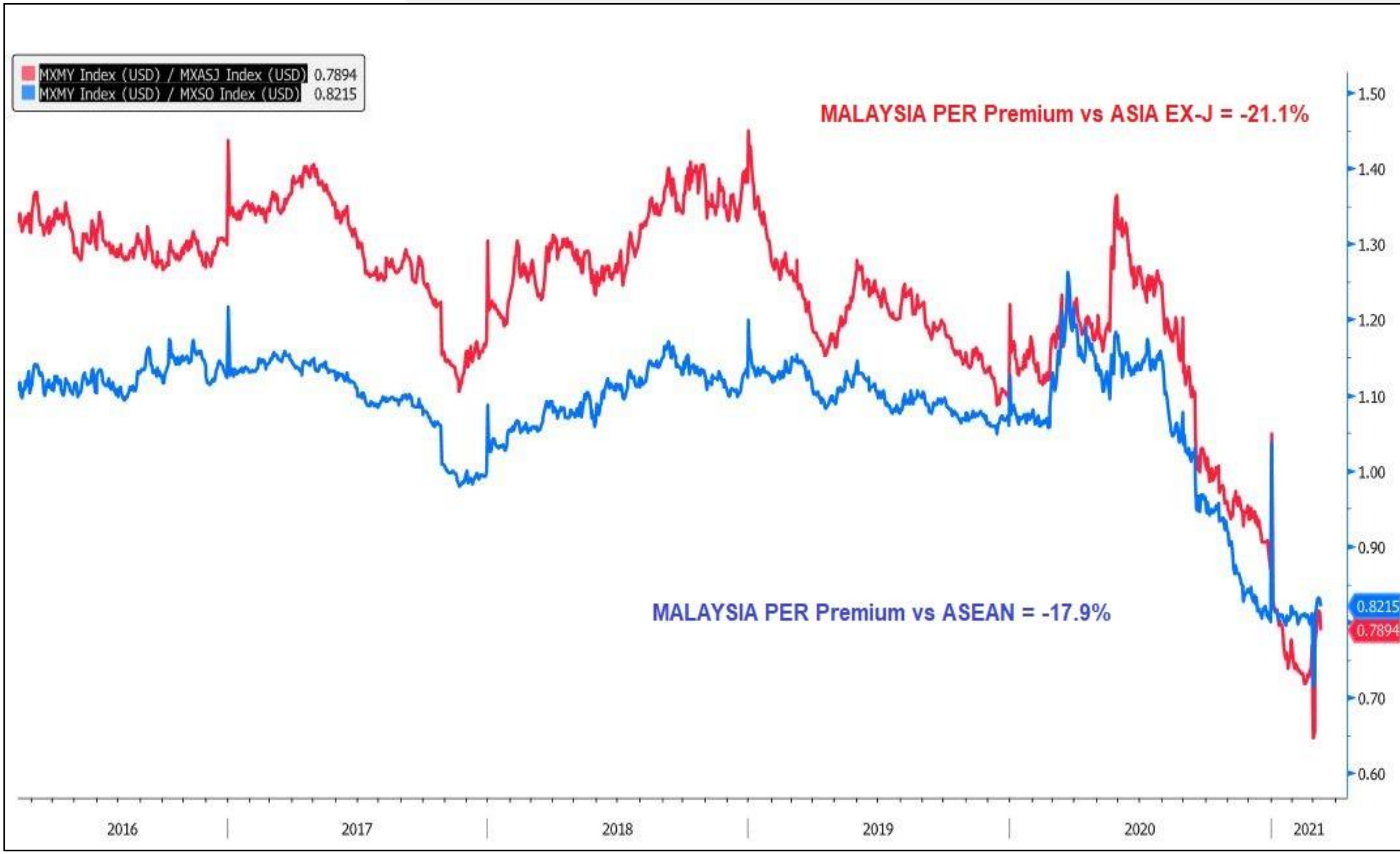
(Source: Bloomberg)

Exhibit 4: FBMKLCI Consensus Earnings Per Share (EPS) @ 11.03.21



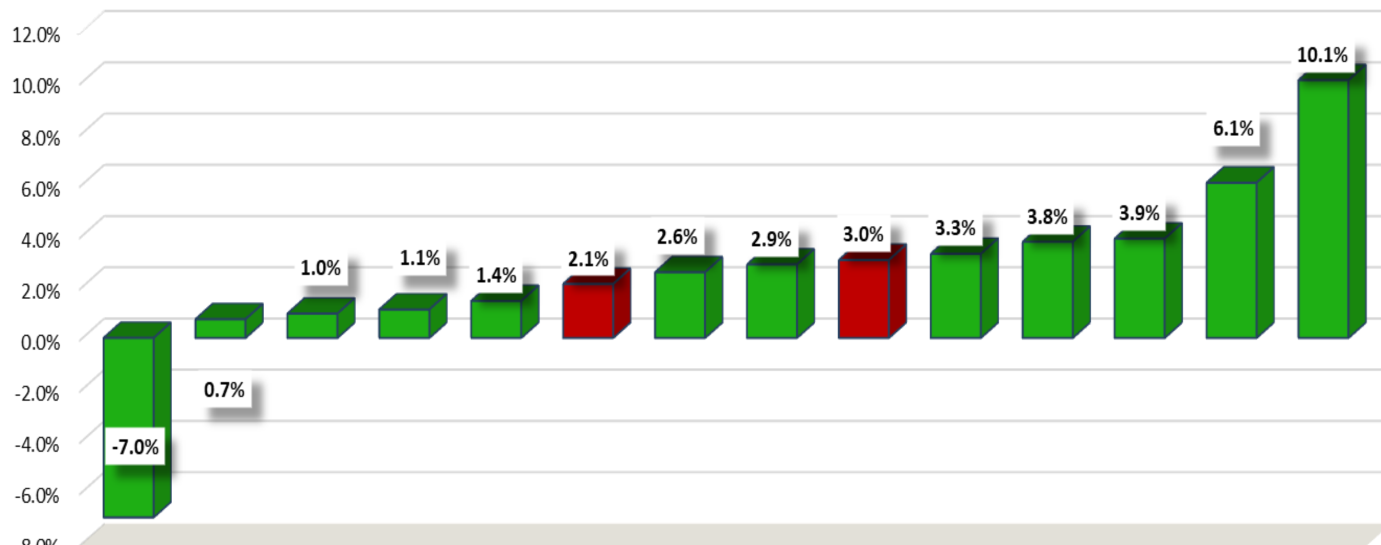
(Source: Bloomberg)

Exhibit 5: MALAYSIA P/E is at a discount to the region @ 11.03.21



(Source: Bloomberg)

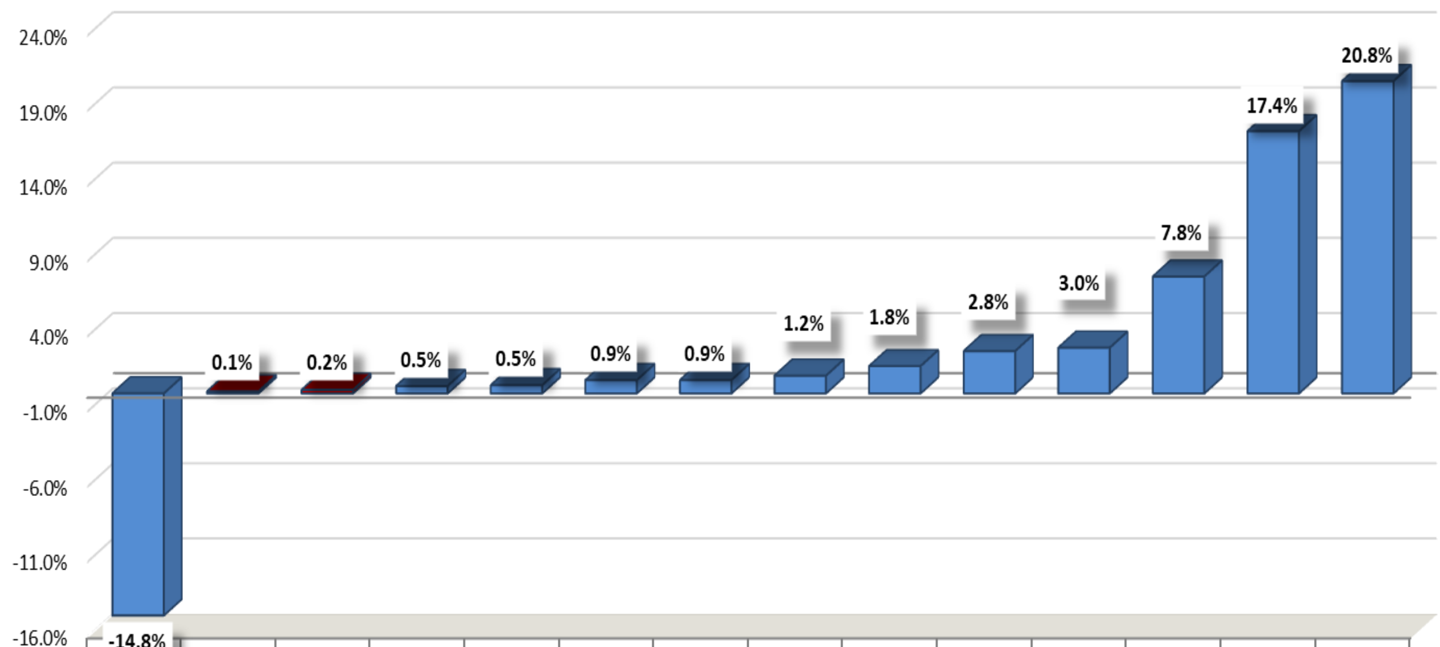
Exhibit 6: Sector Performance (Week-on-Week) @ 11.03.21



	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS HealthCare Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Industrials Index	FTSE Bursa Malaysia KLCI	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Construction & Materials Index
Change WoW	-7.0%	0.7%	1.0%	1.1%	1.4%	2.1%	2.6%	2.9%	3.0%	3.3%	3.8%	3.9%	6.1%	10.1%

(Source: Bloomberg)

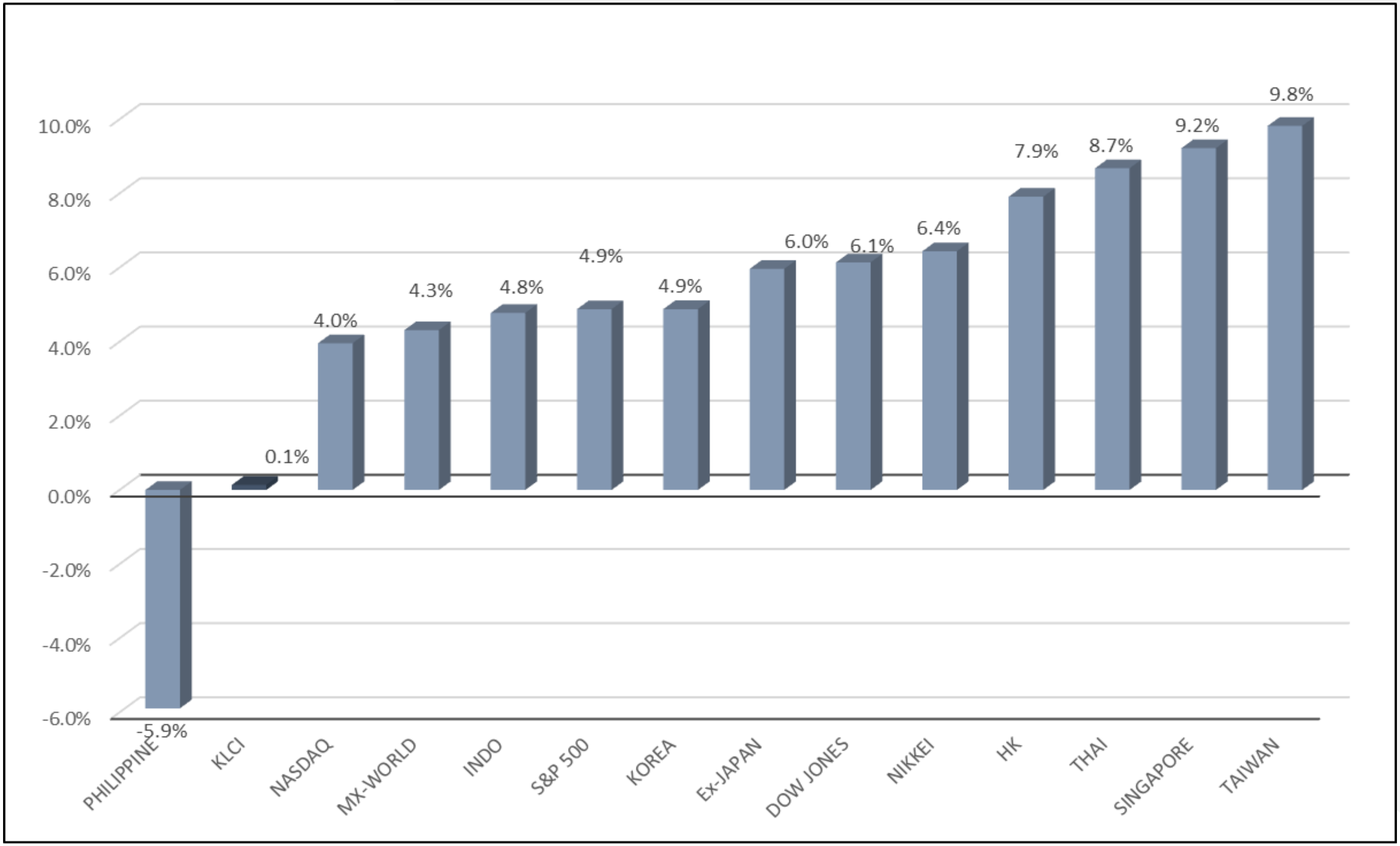
Exhibit 7 : Sector Performance (Year-to-Date) @ 11.03.21



	FTSE B/M EMAS HealthCare Index	FTSE Bursa Malaysia KLCI	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Construction & Materials 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	-14.8%	0.1%	0.2%	0.5%	0.5%	0.9%	0.9%	1.2%	1.8%	2.8%	3.0%	7.8%	17.4%	20.8%

(Source: Bloomberg)

Exhibit 8 : Performance of Indices (Year-to-Date) @ 11.03.21



(Source: Bloomberg)

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