



Portfolio Manager's View

06 April 2021

Fund Management Department

Regional

1. In our previous Soundbytes, we asked the question if inflation is good inflation or bad inflation. US economic data-points in the last week appear to validate our reasoning of a higher trajectory of economic growth. Therefore, investors may brush off the issue of higher inflation numbers in the next couple of months. The consequence of this optimism will be a stronger US Dollar and the break-out to new high for the S&P500. In the interim, this will not be as good for emerging equity markets and currencies.
2. However, as we move into the second half of the year, it will no longer be just the speed of the US's economic normalisation but equally about the speed of the catch-up from emerging region that has fallen behind the US in their vaccination roll-out. As long as the US Federal Reserve remains committed to keeping monetary policy loose until a sustained economic recovery is in place, Central Banks in this part of the world will have the leeway navigating through this difficult short-term. This will also mean that any trace-back in Asian equity markets will be shallow. Relatively, Asean performance has lagged and the economic normalisation trade unfolding in the US will likely play out in similar fashion.

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3. New US Treasury Secretary Janet Yellen spoke of a harmonised global corporate tax rate. In particular, this is directed at (1) American corporates using tax havens and (2) low tax regimes in a race to the bottom to attract FDIs. One could also argue with another potential US\$2 to 3 trillion fiscal spend that the funding burden could fall on American corporates paying higher taxes. Besides, increasing regulatory scrutiny is also not good for sentiment, just ask Tencent and Alibaba about the reaction to their share prices. In such a scenario, Asia could also become more attractive to investors worried about uncertainty amid elevated valuations.

Malaysia

1. The KLCI closed at 1,579 @ 06.04.21, an increase of +2.1% M-o-M. Last week, Technology (+5.2%) and Industrial Metal and Mining (+2.0%) were the best performing sectors. Meanwhile, Healthcare (-5.5%) was the worst performing sector. Year-to-date @ 2.04.2021, the KLCI decreased by -2.6%.
2. World Semiconductor Trade Statistics (WSTS) published its Feb 2021 semi sales data. Overall, most sectors continues to record growth despite the disruption in supply chains and shortages of chip. For Feb-21, total semiconductors sales increased by 16% YoY (vs 19.5% YOY for Jan-21) and -2.7% MoM (+0.1% MoM for Jan-21). As we mentioned in our previous publication on 15.3.2021, we believe that we have not reached the peak of the semiconductor cycle. Exhibit 1 shows that growth in global semiconductor sales is still trending up. We maintain our positive view on technology stocks as we believe the positive outlook remains for the next 1-2 quarters at least. We continue to Overweight the technology sector across our portfolios. Exhibit 2 shows the duration and magnitude of the semis cycle. On average the duration of a cycle will last 31 months with a % monthly sales order increase of 23% start to peak. We are currently 12 months in the 7th semis cycle since 1997 with a % monthly sales order increase of 15% start to peak.

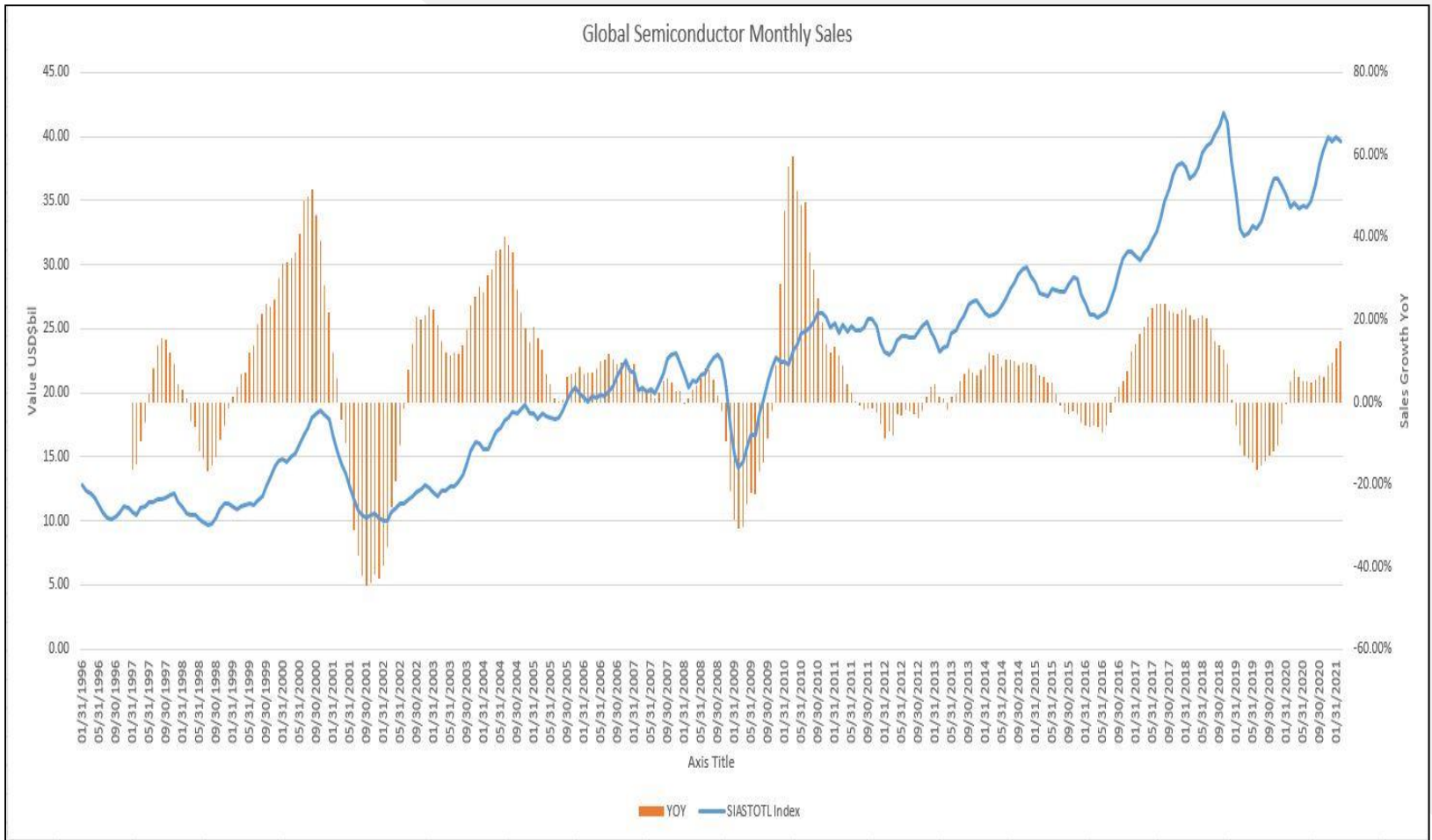
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3. Micron Technology which operates in the memory space reported results for Feb-quarter which was in line with consensus. Revenues came in at US\$ 6.2bil (vs consensus of US\$ 6.2bil) while EPS was US\$ 0.97sen (consensus: US\$ 0.95sen). What surprised the market was Micron's May-quarter guidance was significantly above consensus due to strong demand and higher ASPs. Its revenue guidance for May quarter was US\$ 7.1bil (vs consensus of US\$6.8bil) while EPS guidance was US\$ 1.62 (vs consensus of \$1.30). The key takeaway from the briefing was data center demand is expected to be strong in 2021 due to the recovery in enterprise demand ie. office server demand and cloud demand continue to be robust. Separately, Malaysia's 1Q reporting season will begin in a month's time. Micron's Feb quarter results are a positive read through for Malaysia's Outsourced Semiconductor Assembly And Test (OSAT) players and Dufu Technology.
4. Last week, Taiwan Semiconductor Manufacturing Co reported its plan to spend US\$ 100bil over the next 3 years to expand its chip fabrication capacity. This is positive for Frontken as TSMC is one of its largest customers.

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5. At 1,579 @ 06.04.21, the market is trading at a PER of 13.3x for CY21 respectively. The market's valuation for 2021 is at a 17% discount to its 12M mean PER of ~16x. Separately, Malaysia is trading at a 23% discount to Asia ex-Japan's 2021 PER of 16.9x (see Exhibit 4). This is the steepest discount in the last 5 years. The latter reflects the consistent outflow of foreign funds from Malaysia in recent years. As most foreigners are significantly Underweight Malaysia, we do not foresee foreign selling to be a major negative going forward.

Exhibit 1: Global Semiconductor Monthly Sales



(Source: Bloomberg)

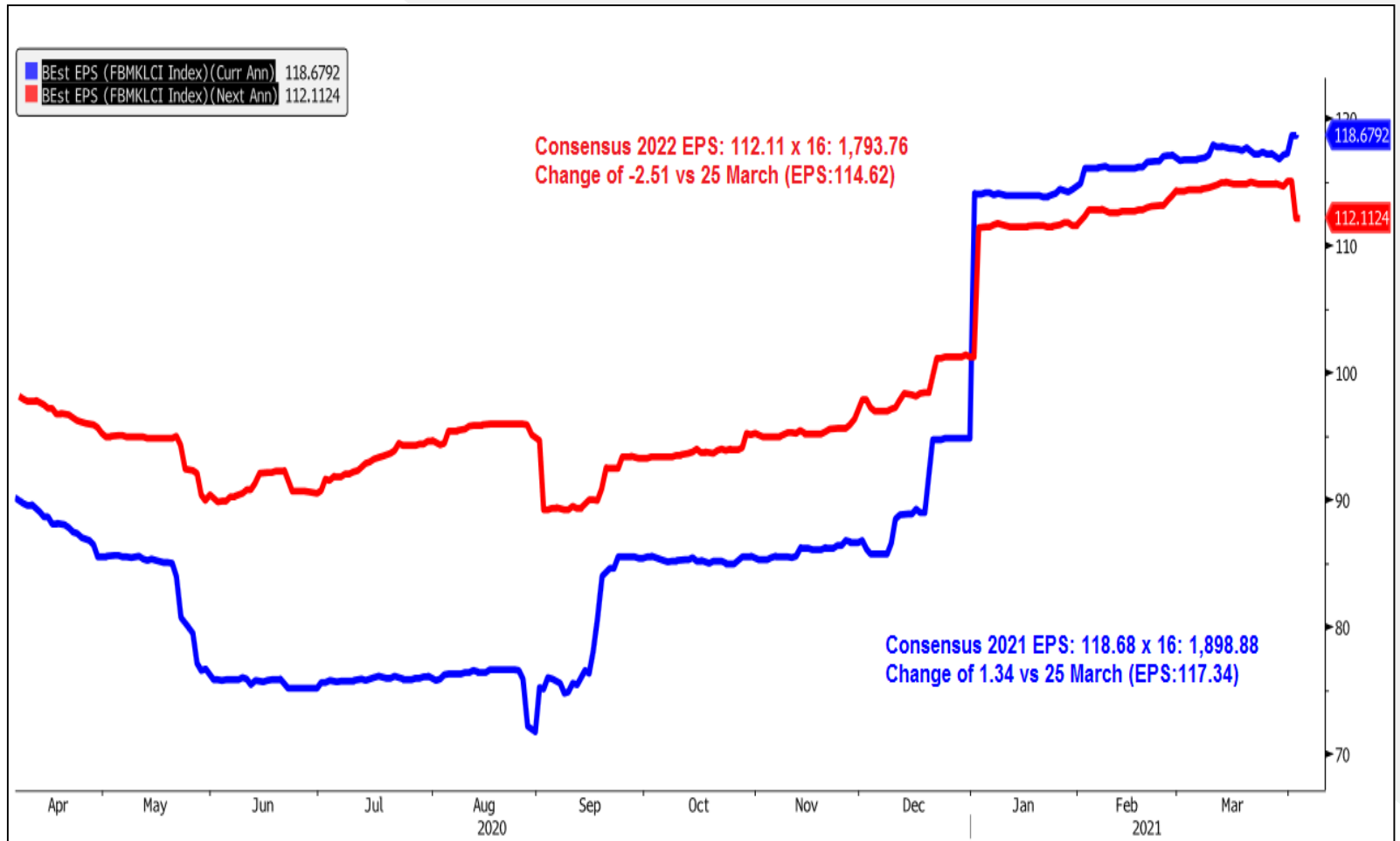
Exhibit 2: Semis Cycle – Duration and Magnitude

	Dates			Duration (Months)		Monthly Orders
	Start	Peak	End	Start to end	Start to peak	% Increase to Peak
1	06/30/1997	08/31/1997	02/28/1998	9	3	2%
2	02/28/1999	08/31/2000	02/28/2001	25	19	66%
3	08/31/2002	06/30/2004	09/30/2008	74	23	49%
4	12/31/2009	03/31/2010	06/30/2011	19	4	4%
5	12/31/2012	02/28/2014	06/30/2015	31	15	5%
6	09/30/2016	06/30/2017	12/31/2018	28	10	11%
7	03/31/2020	01/31/2021	02/28/2021	12	12*	15%
Average -excluding current cycle				31	12	22%

* Current cycle

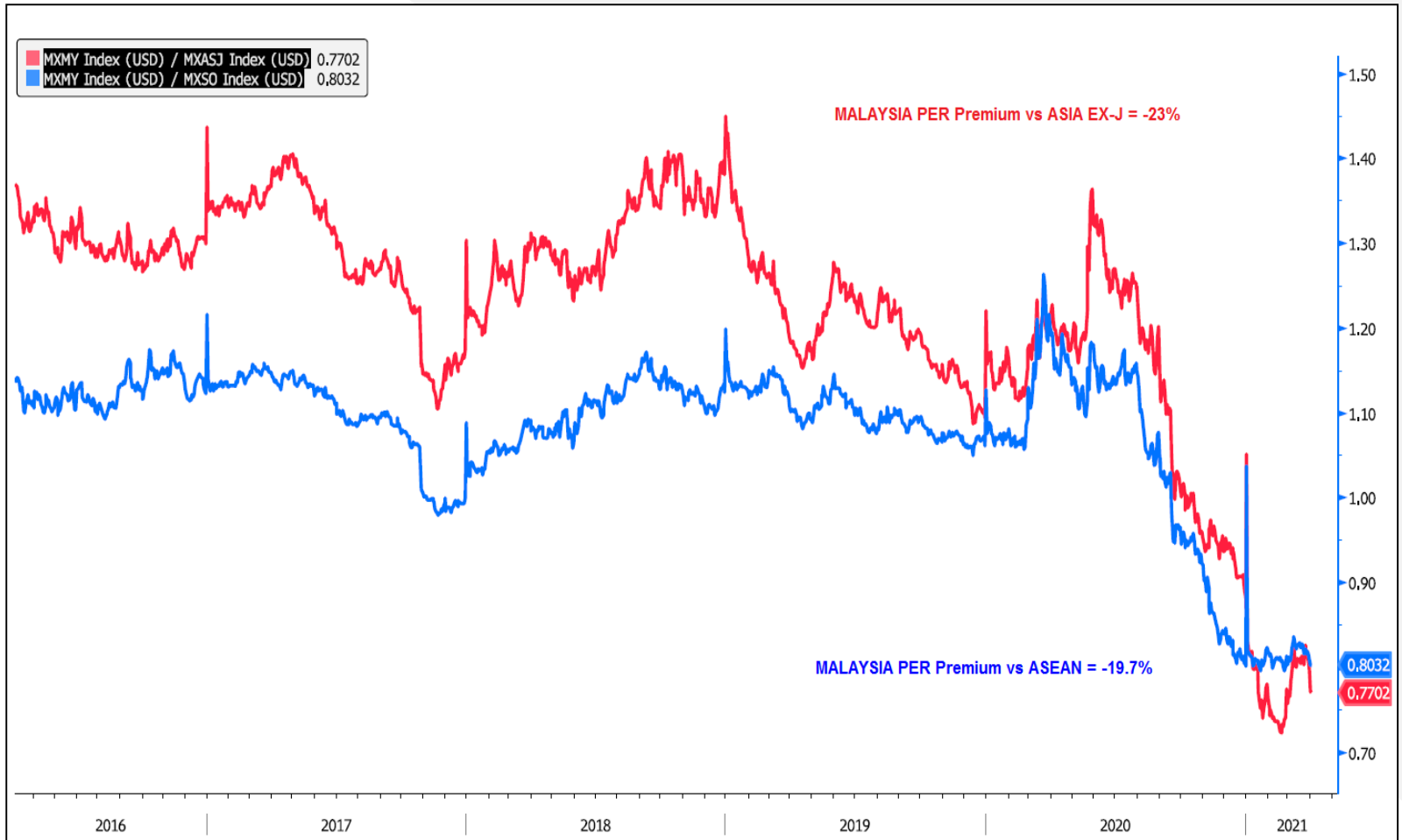
(Source: AISB, Bloomberg)

Exhibit 3: FBMKLCI Consensus Earnings Per Share (EPS) @ 02.04.21



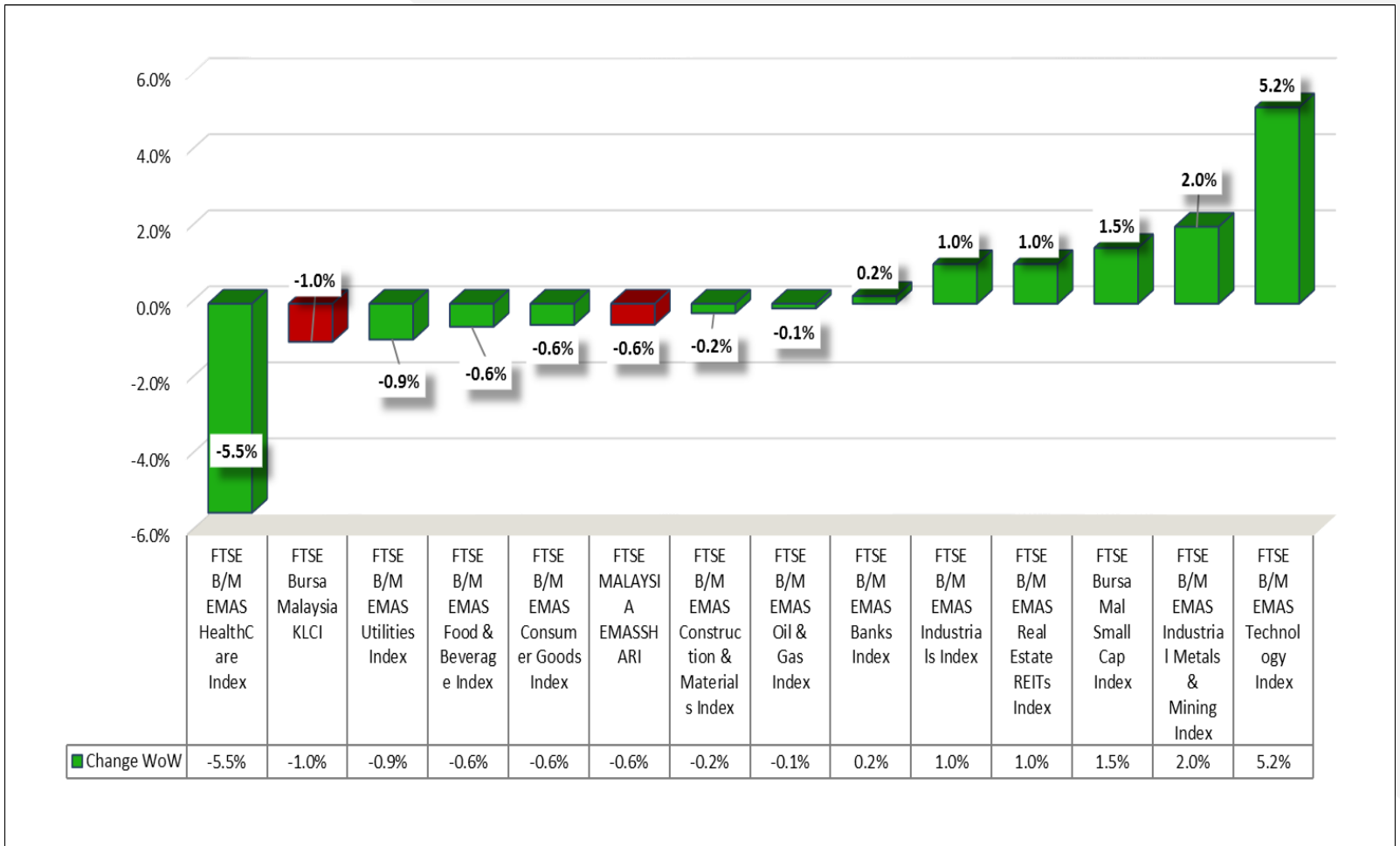
(Source: Bloomberg)

Exhibit 4: MALAYSIA P/E is at a discount to the region @ 02.04.21



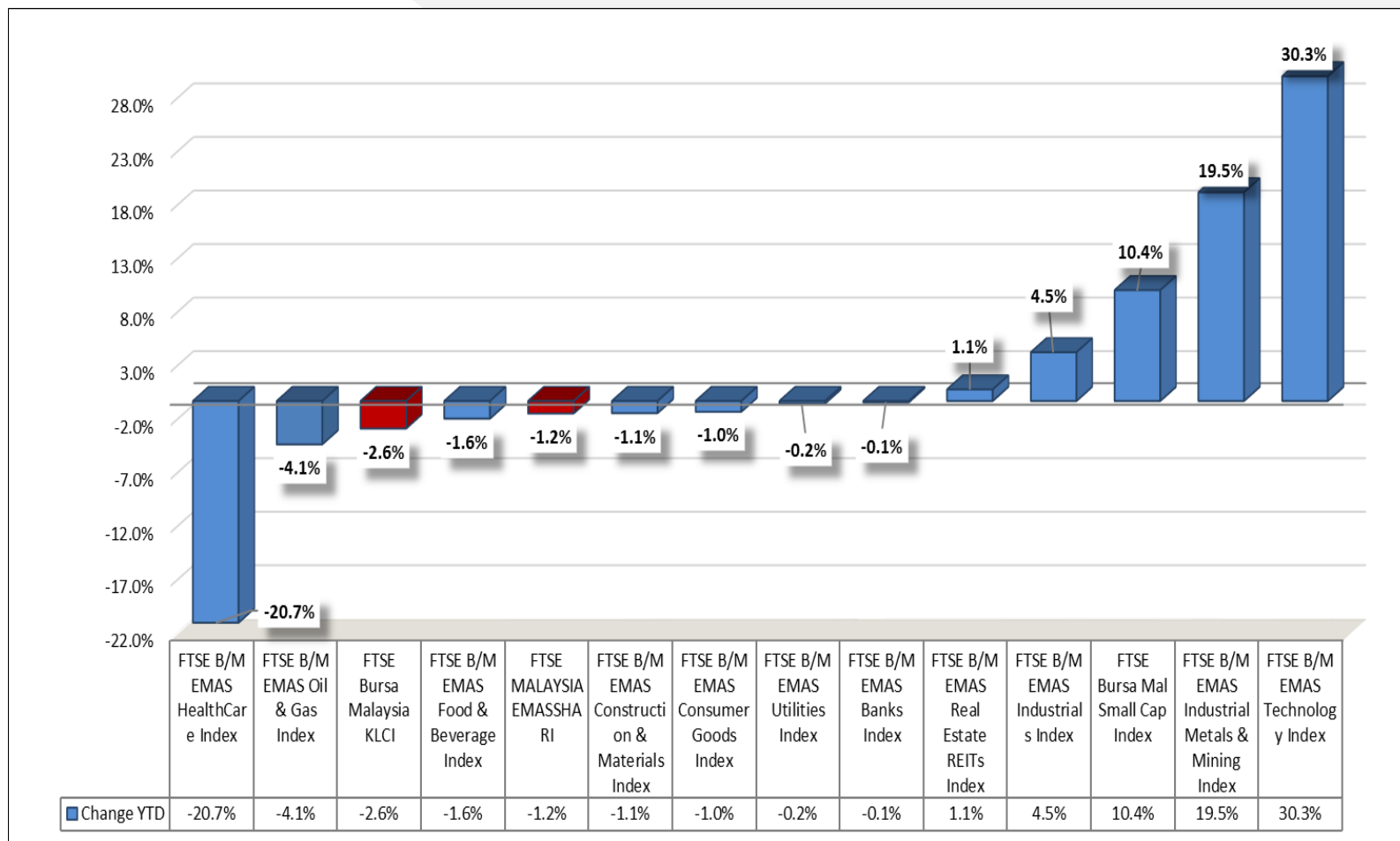
(Source: Bloomberg)

Exhibit 5: Sector Performance (Week-on-Week) @ 02.04.21



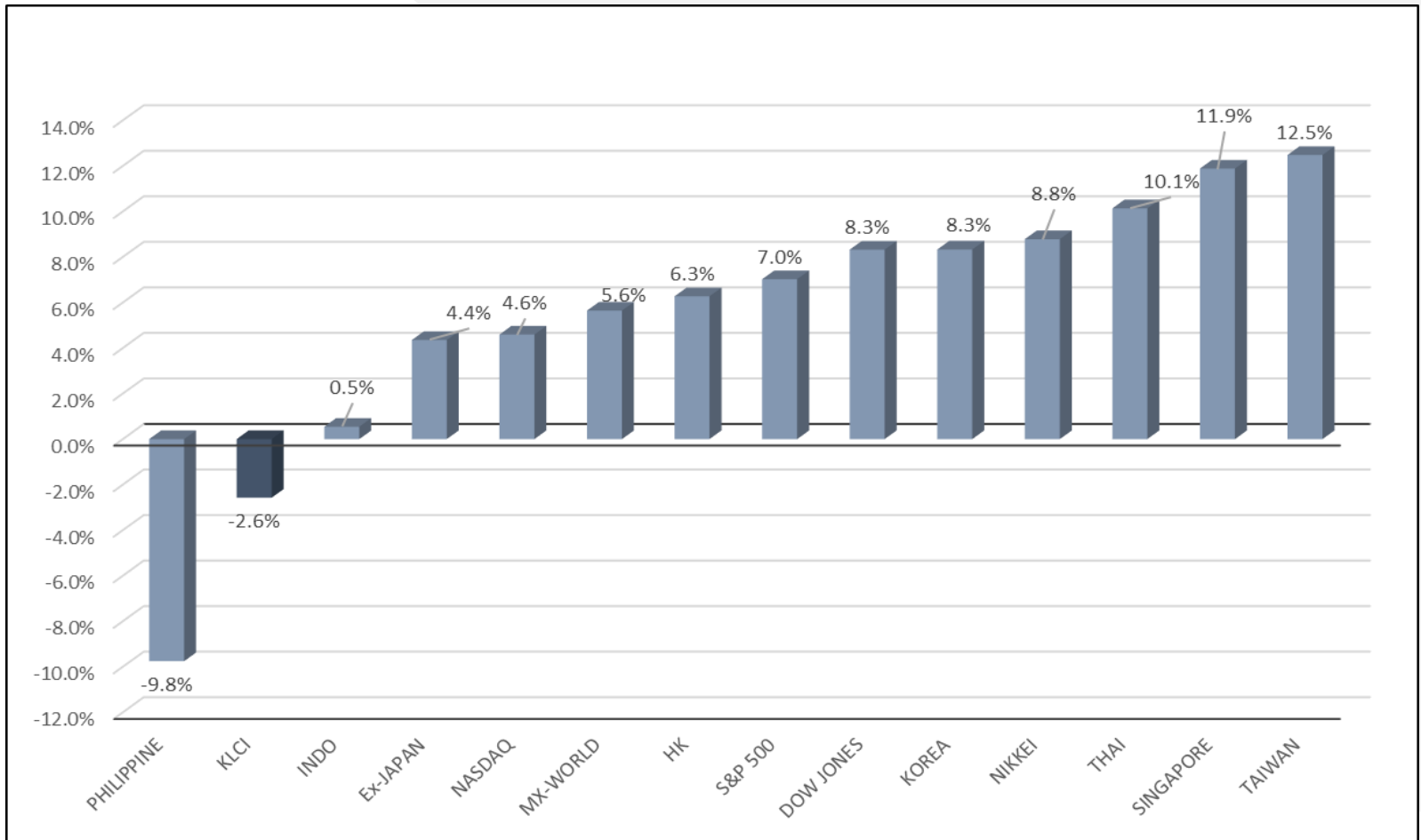
(Source: Bloomberg)

Exhibit 6 : Sector Performance (Year-to-Date) @ 02.04.21



(Source: Bloomberg)

Exhibit 7 : Performance of Indices (Year-to-Date) @ 02.04.21



(Source: Bloomberg)

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