



Portfolio Manager's View

01 June 2021

Fund Management Department

Regional

1. Has the US Federal Reserve's monetary tapering talk begun? What does the US Federal Reserve do when she does not want to do anything? Play the good guy and also play the bad guy, a pre-emptive measure against inflation expectations. San Francisco Fed President Mary Daly said in a CNBC interview "We are talking about talking about tapering", echoed also by Fed Vice Chairs Richard Clarida and Randal Quarles. It is even more telling when Clarida called April's consumer price report an "unpleasant surprise", i.e. we are watching very closely. Meanwhile, another Fed Governor Lael Brainard said "the path of reopening and recovery - like the shutdown - is likely to be uneven and difficult to predict, so basing policy on outcomes rather than the outlook will serve us well." Inflation can go up, hopefully transitory, and it is a deliberate policy choice, but the fear of inflation cannot go up. We are of the view that those who think that Fed action may happen sooner than later may find it happening later than sooner.

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2. The reverse is true over in China. Monetary tightening begun since the beginning of this year. This month, the Government has started to clamp down on concerns of rising commodities prices. PBOC has targeted commodity exchanges for excessive futures speculation and possibly manipulation. Shadow banking deleveraging remains relentless since 2016, a focus on the de-risking of China's high indebtedness. China may then become the first to prove the transitory nature of inflation, the possibility that we will see China moving neutral to easy on its monetary policy when the rest of the world moves towards tightening. Emerging Asia will be best placed to benefit from a growing China, the region's largest export market.

Malaysia

1. The KLCI closed at 1,586 @ 01.06.21, decreased by -0.9% M-o-M. Last week, Technology (+4.1%) and Industrial Metal & Mining (+3.5%) were the best performing sector. Meanwhile, Healthcare (-4.2%) was the worst performing sectors. Year-to-date @ 28.05.2021, the KLCI has retreated by -2%.
2. Last week, the government has decided to implement a 2 week nationwide lockdown from 1 June to 14 June. This comes as Malaysia recorded the highest to date number of new Covid-19 cases of 8,290 on 28 May. Economist expects the impact of MCO 3.0 total lockdown to be less severe than MCO 1.0. The total economic losses is est to be RM 1bil a day vs (RM 2.4bil a day in MCO 1) (source: CGS CIMB).
3. In the 2 week nationwide lockdown, all manufacturing factories have been ordered to shut down except for 12 critical sectors that includes Electronics and Electrical (E&E). Operations are allowed to continue but are capped at 60% workforce. As most other sectors are forced to shut down, E&E continues to be operation due to the importance it plays in the Malaysia economy. In 2020, the E&E sector accounts for 39.4% of Malaysia's total exports. We continue to have an Overweight position in the Malaysia's technology sector across our Malaysia equity funds.

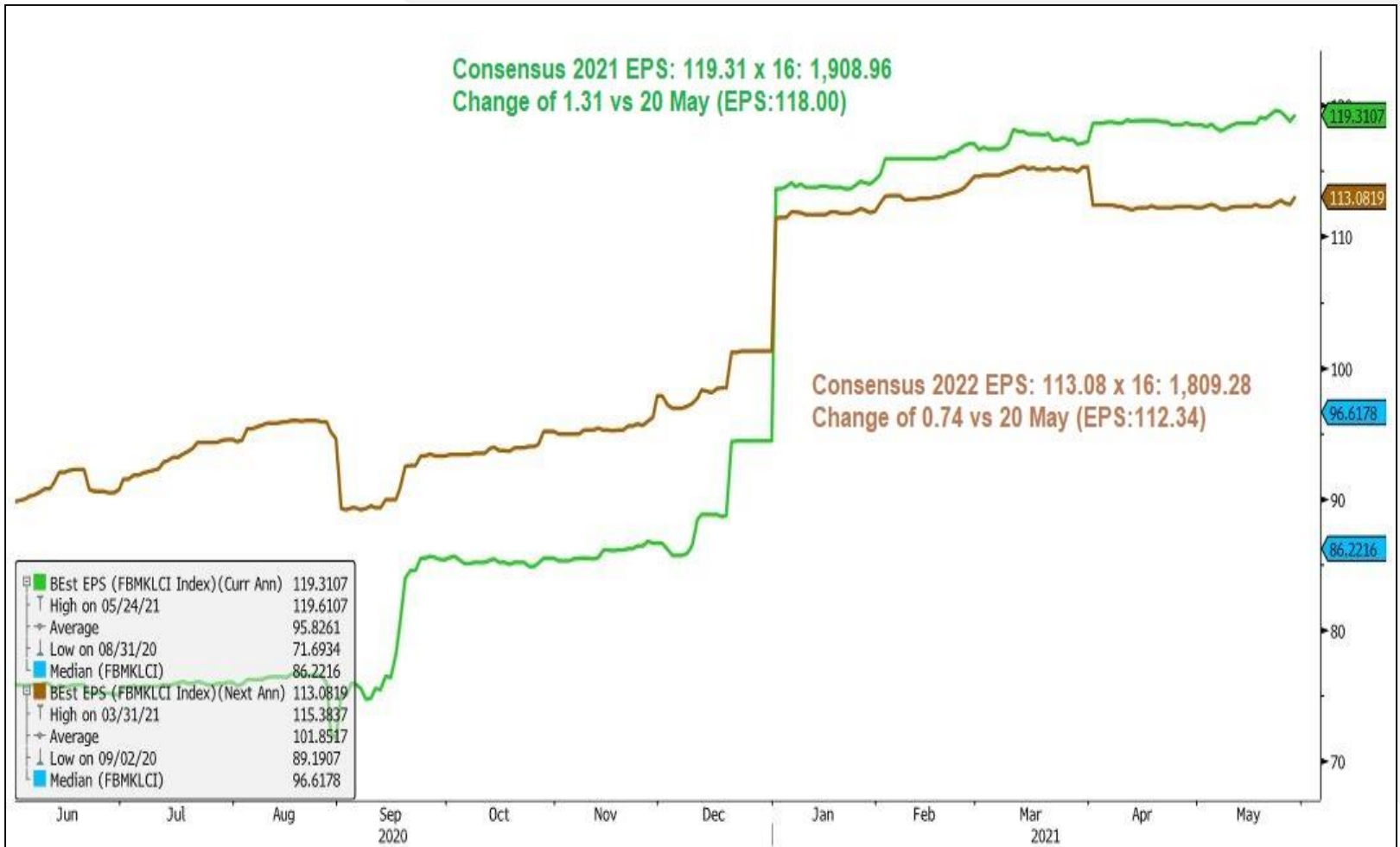
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4. The Prime Minister announced on 31st May a RM 40bil (2.6% of GDP) economic stimulus package called “PEMERKASA Plus”. This brings the total cumulative stimulus package since the start of Covid-19 crisis to RM 380mil of which RM 73bil are direct fiscal injection.
5. On 28 May, MPI reported above consensus earnings for 3Q FY21 (March quarter). Its share price reacted positively to the good results. 3Q net profit grew +184% YoY to RM 74.4mil (vs consensus RM 63mil). This is the highest net profit for the March quarter in the Company’s history. The strong results was due to higher demand across all key segments QoQ (industrial +14%, automotive +13% & communication +2%). In its results briefing, management appeared upbeat and mentioned that the current utilisation is running at 100% and that demand from customers continue to rise. This would indicate that demand is more than supply. Management is setting aside RM 410mil in capex in the next 12 months for capacity expansion in Ipoh and China. However, with the recent implementation of MCO 3.0 which capped workforce capacity at 60%, it is expected to have some disruptions to MPI’s Ipoh operation. We own MPI and selected OSATs in several of our Malaysia equity funds.

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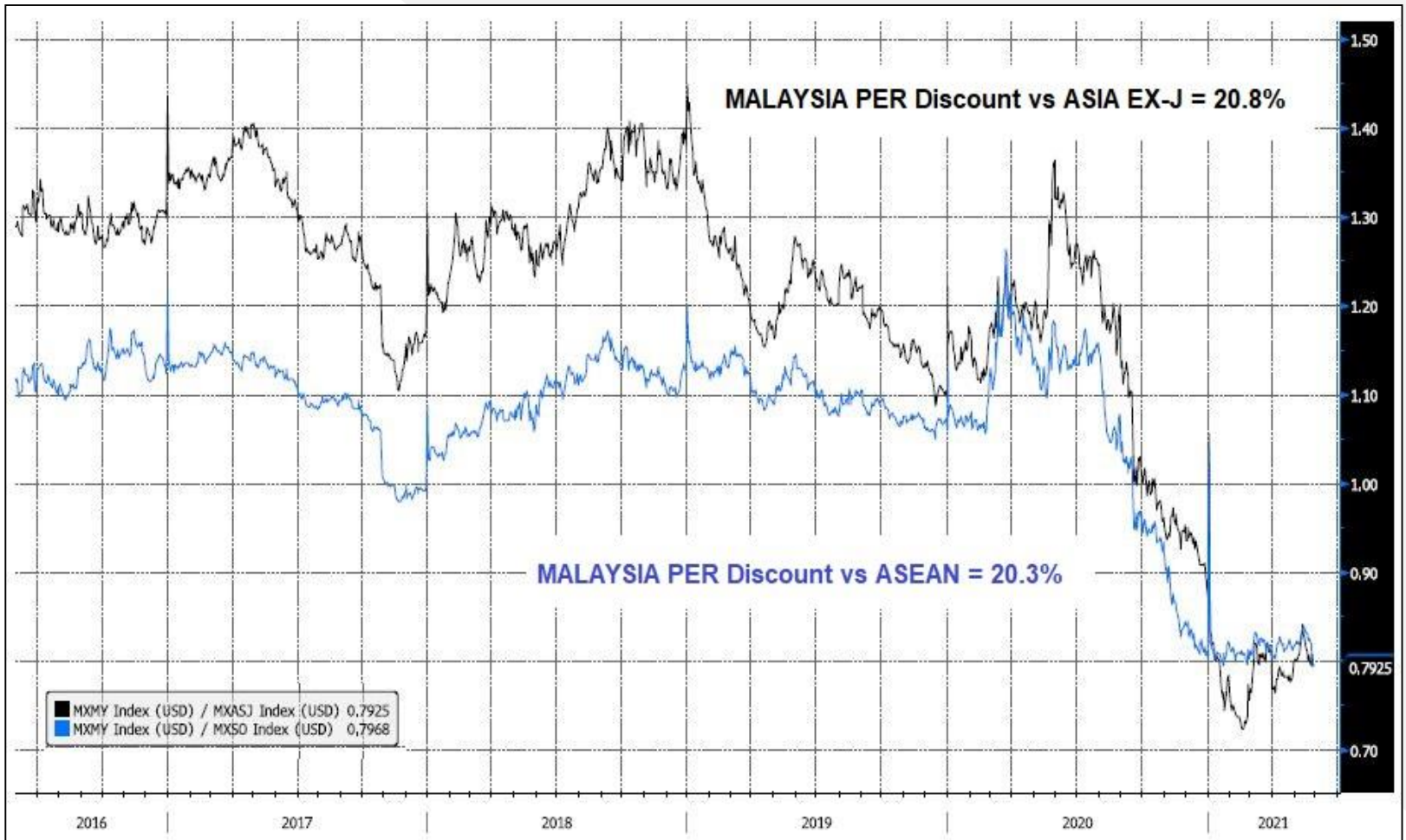
6. At 1,586 @ 01.06.21, Malaysia market is trading at a PER of 13.3x for CY21. The market is trading at a 16.9% discount to its 12M historical mean PER of ~16x. The market's valuation is distorted by the low PERs of the glove companies. Excluding the latter, the KLCI is trading nearer to 18.0x (source: AISB). Separately, Malaysia is trading at a 17.2% discount to Asia ex-Japan's 2021 PER of 16.8x (see Exhibit 2) – at the trough of its valuation range against APxJ. The widening of the market's discount against its historical mean PER and vs Asian markets is an unusual phenomenon. Investors are discounting the marked deterioration in Covid-19 cases, dearth of institutional reforms, “old economy” offering (lack of technology content), unstable politics and exodus of foreign equity investors. Share prices have substantially baked in these negatives. A reversal of one or two of these negatives will no doubt lift prospects for the market.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS) @ 28.05.21



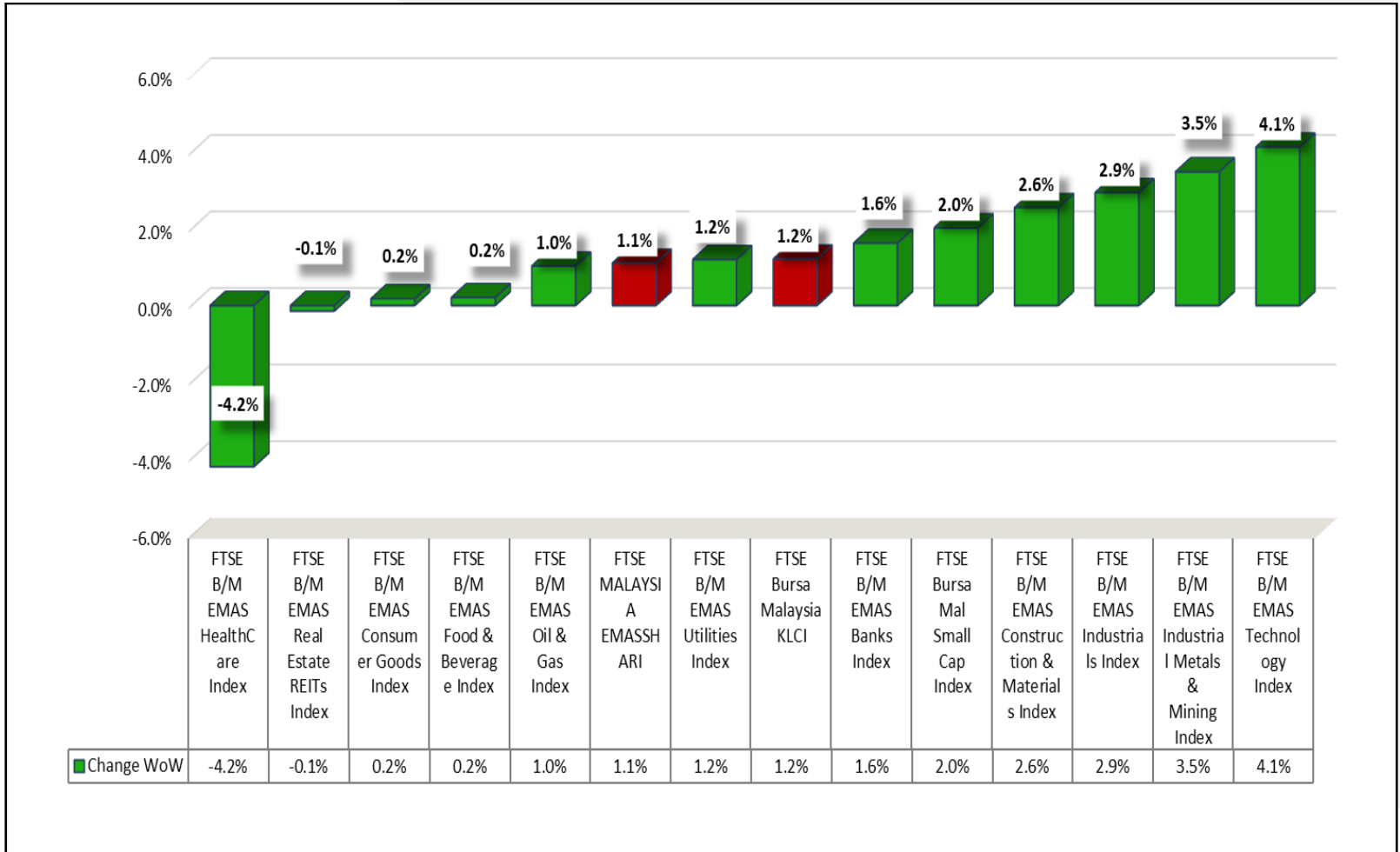
(Source: Bloomberg)

Exhibit 2: MALAYSIA P/E is at a discount to the region @ 28.05.21



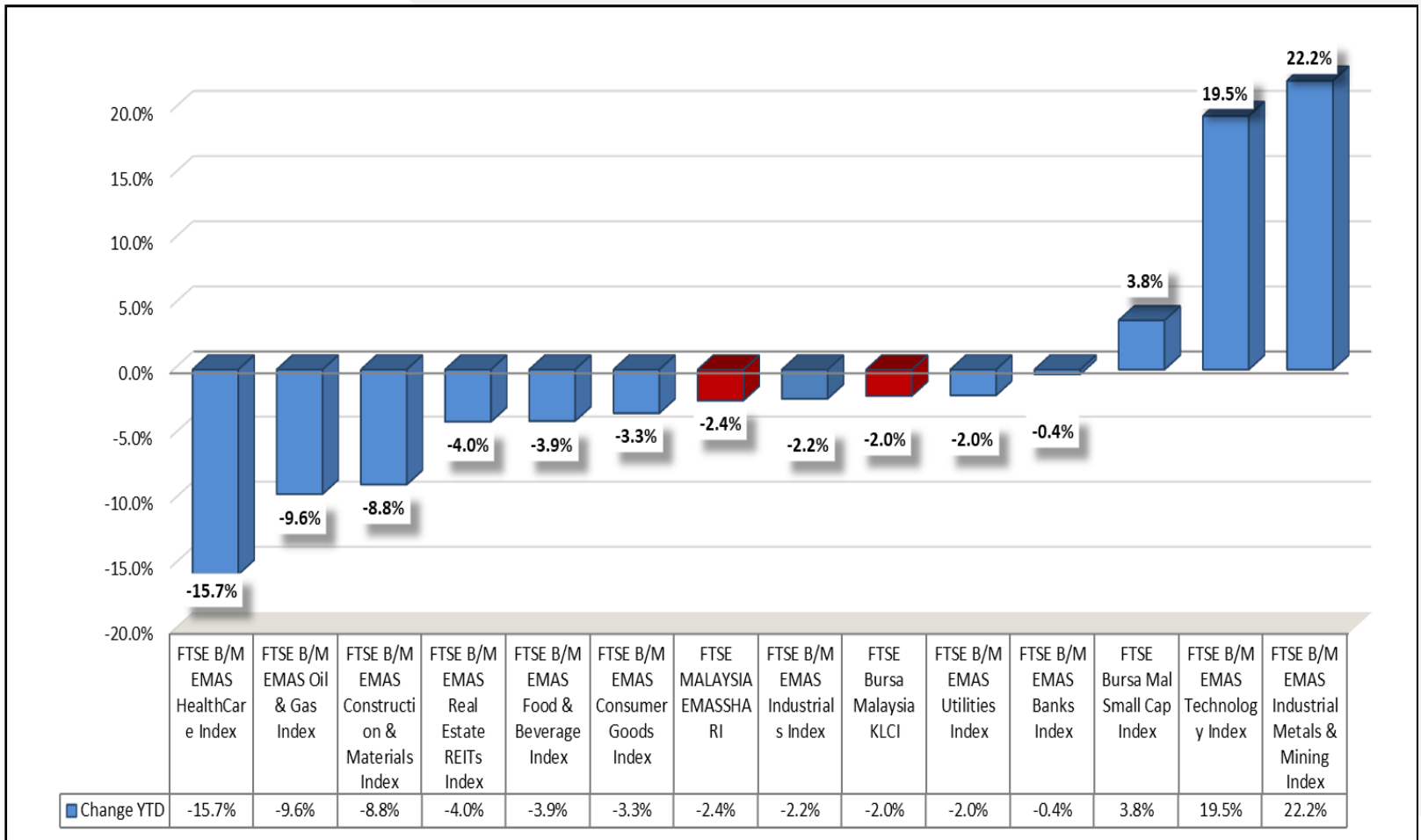
(Source: Bloomberg)

Exhibit 3: Sector Performance (Week-on-Week) @ 28.05.21



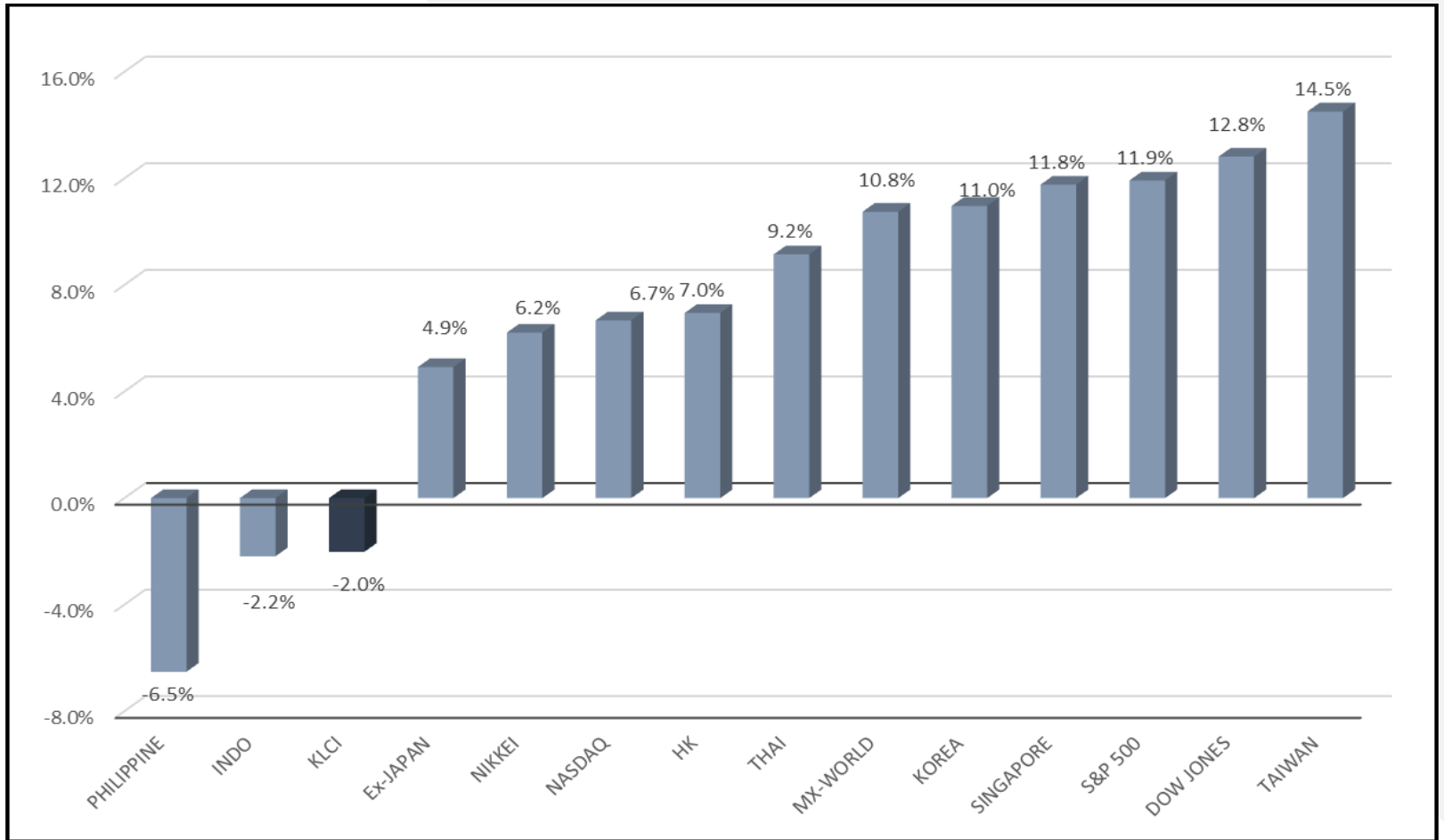
(Source: Bloomberg)

Exhibit 4 : Sector Performance (Year-to-Date) @ 28.05.21



(Source: Bloomberg)

Exhibit 5 : Performance of Indices (Year-to-Date) @ 28.05.21



(Source: Bloomberg)

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