



Portfolio Manager's View

08 June 2021

Fund Management Department

Regional

1. As investors, we want to know the eventuality of Covid-19 and how this will affect the investment environment. In a year's time, Covid-19 will come to be treated as the common flu that we have lived with for centuries. Covid-19 is here to stay and Asia's Covid-19 resurgence is evidence that zero cases is impossible. Vaccination and herd immunity is the way to go, many Asian countries should reach this milestone by year-end or early next year. FMCO, MCO, CMCO, RMCO will be finally behind us. Vaccination is free; the Government is saying that there cannot be anymore economic disruptions. Life goes on.....we will be back to the old normal.
2. US Nonfarm Payrolls for May 2021 was another disappointment to the market after April's shortfall. Cumulatively, the US has added 837,000 jobs in April-May against expectations of 1.671 million jobs. President Joe Biden has been quick to laud the decline in unemployment rate from 5.9% to 5.8%. People should really focus on the labour participation rate; 61.3% against the pre-pandemic rate of 63.3%, and the pre-Lehman crisis rate of 66%. The US has not experienced such low labour participation rates since the rise of the Baby Boomers and is said to be still short of 7.4 million jobs lost since the Covid-19

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pandemic. If one of the US Federal Reserve's mandate is to bring the economy back to full employment, the job is not accomplished until discouraged workers are encouraged to return to the workforce. The disenchantment of the lower-income working class that needs to be addressed is not just a US Federal Reserve problem, it is the bigger problem for the Joe Biden Administration seeking a re-election victory for the Democrats. With this gaping slack still in the economy, the US Federal Reserve is far from able to reverse on its easy monetary stance.

Malaysia

1. The KLCI closed at 1,588 @ 08.06.21, an increased of 0.1% M-o-M. Last week, Construction (+1.9%) and REITs (+1.4%) were the best performing sectors. Meanwhile, Healthcare (-2.5%) and Oil & Gas (-4.9%) were the worst performing sectors. Year-to-date @ 03.06.2021, the KLCI has retreated by -2.3%.
2. For 5M 2021, *local* funds have net sold RM 4.7 bil of equities. *Foreigners* have net sold RM 3.3 bil. In contrast, *retailers* have net bought RM 6.4 bil. Retailers have absorbed the net selling from local institutions and foreigners. This has been a recent phenomenon on Bursa (pls see Exhibit 1).
3. While we have taken some profit on a few technology names recently (in particular, server players and OSAT), we remain comfortable with our OW stance. Based on our research, supply of semiconductor chips is far from meeting the surging demand, let alone being able to replenish the low level of inventories. As a reflection of the robust fundamentals, ASP trends in the semiconductor sector (e.g. OSAT) have stayed firm (correspondingly, raw material prices have also risen). In contrast, ASPs for rubber gloves are receding which detract from the sector's fundamentals. In addition, we believe the experience of the Covid-19 pandemic will result in a very significant shift by

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companies to keep a higher level of inventory moving forward. The previous trend of holding just in time inventory may be deemed as too risky by many companies in the future. This will add to the overall demand uplift which is currently driven by areas such as proliferation of 5G, data center demand, work from home/school from home trends, IOT and gaming etc. Given its growth record, the technology sector on Bursa has experienced above market returns in 6 out of the last 8 years (2013 to 2020). In 2021, the technology sector remains one of the best performing sectors in the market.

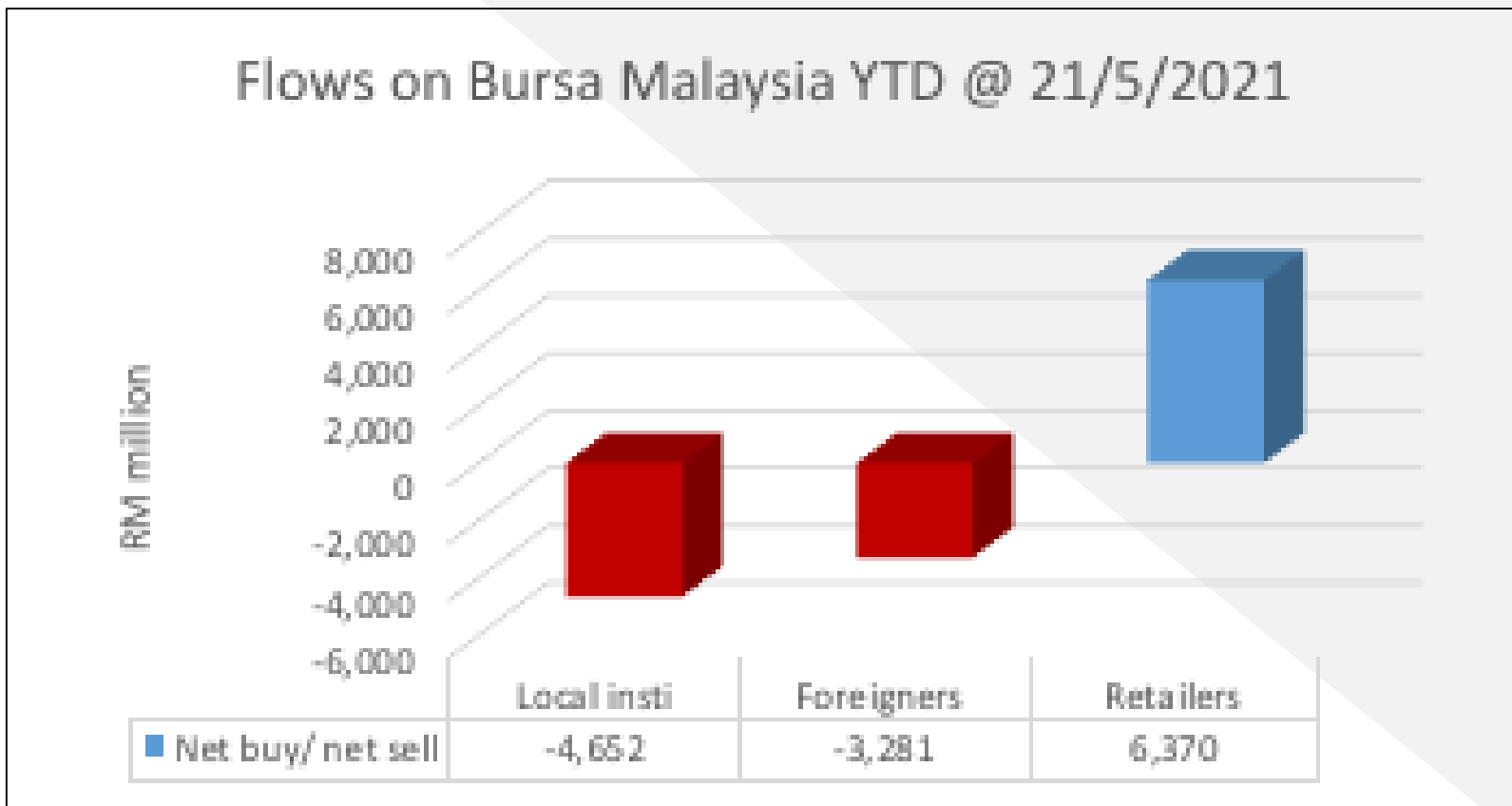
4. MCO 3.0 brings about a change in the share price dynamics for the market. After the recovery in corporate profits in 4Q (Dec-20) and 1Q (Mar-21), the impetus from earnings will dissipate in the coming quarter as companies across different sectors adjust to the reduced headcount following the imposition of MCO 3.0 lockdown rules. MCO 3.0 is estimated by sell-side analysts to result in losses of RM400-600 mil daily (vs RM 2.4 bil/day under MCO 1.0 and RM 300-400 mil under MCO 2.0). There is downside to the government's 2021 GDP forecast of 5.0% to 6.5% while the official 6.0% fiscal deficit estimate (as a % of GDP) will most certainly be revised higher. The market's direction will hinge on the ebb and flow of vaccine procurement and the progress of vaccination in the country. Hopes of a faster vaccine roll-out were lifted after private hospitals

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started to administer the Covid-19 vaccine on 7 June 2021 following the government's decision to allow private hospitals to be used as vaccination centres. *Sector leadership is likely to rotate to cyclical, value and re-opening plays in the coming months.*

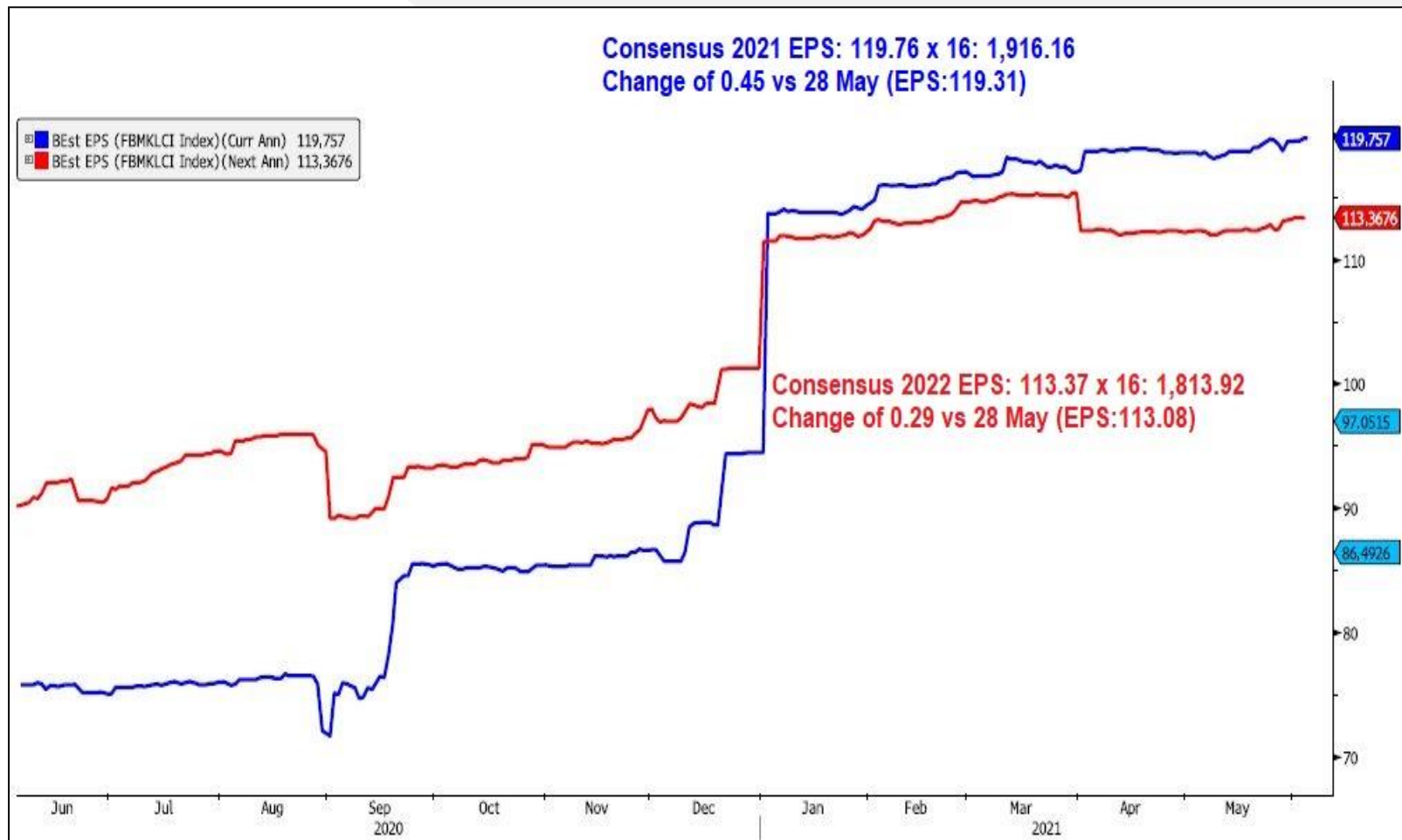
5. Based on KLCI at 1,588 @ 8.6.2021 and market eps integer of 119/113, the market is trading at a PER of 13.3x/14.0x for CY21/CY22 respectively. This is reasonable vs the market's mean PER of 16x. However, the headline PERs are flattered by the exceptional contribution from the glove makers which account for 24%/15% of the KLCI's earnings in 2021/22 respectively. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.0x and 15.7x in CY21/CY22 respectively. Compared with the market's mean PER of 16x (and 5 year average ex-gloves PER of 19.4x), we believe the KLCI's valuation is reasonable.

Exhibit 1: Flows on Bursa Malaysia YTD @ 21.05.21



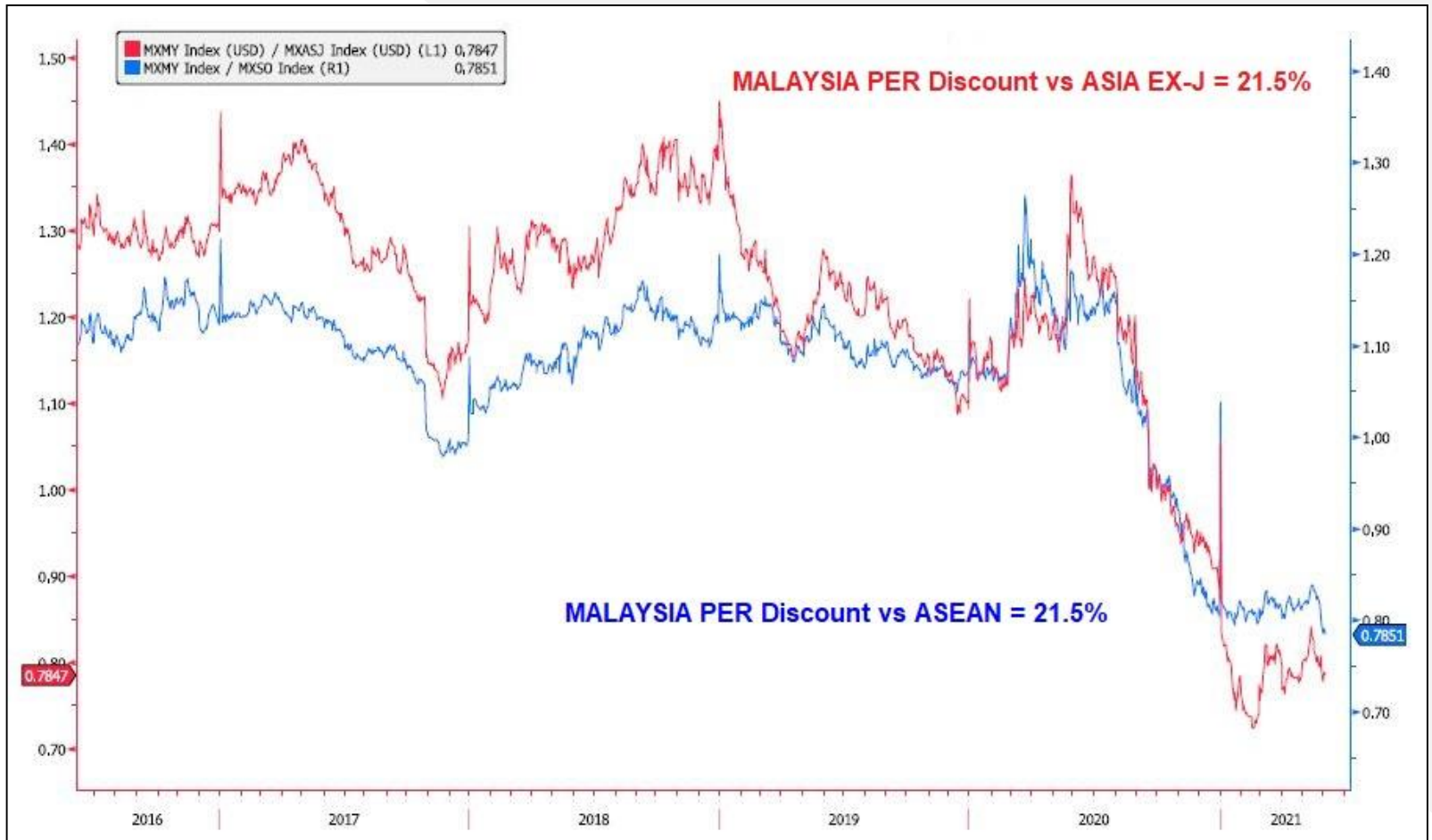
(Source: Bursa Malaysia)

Exhibit 2: FBMKLCI Consensus Earnings Per Share (EPS) @ 03.06.21



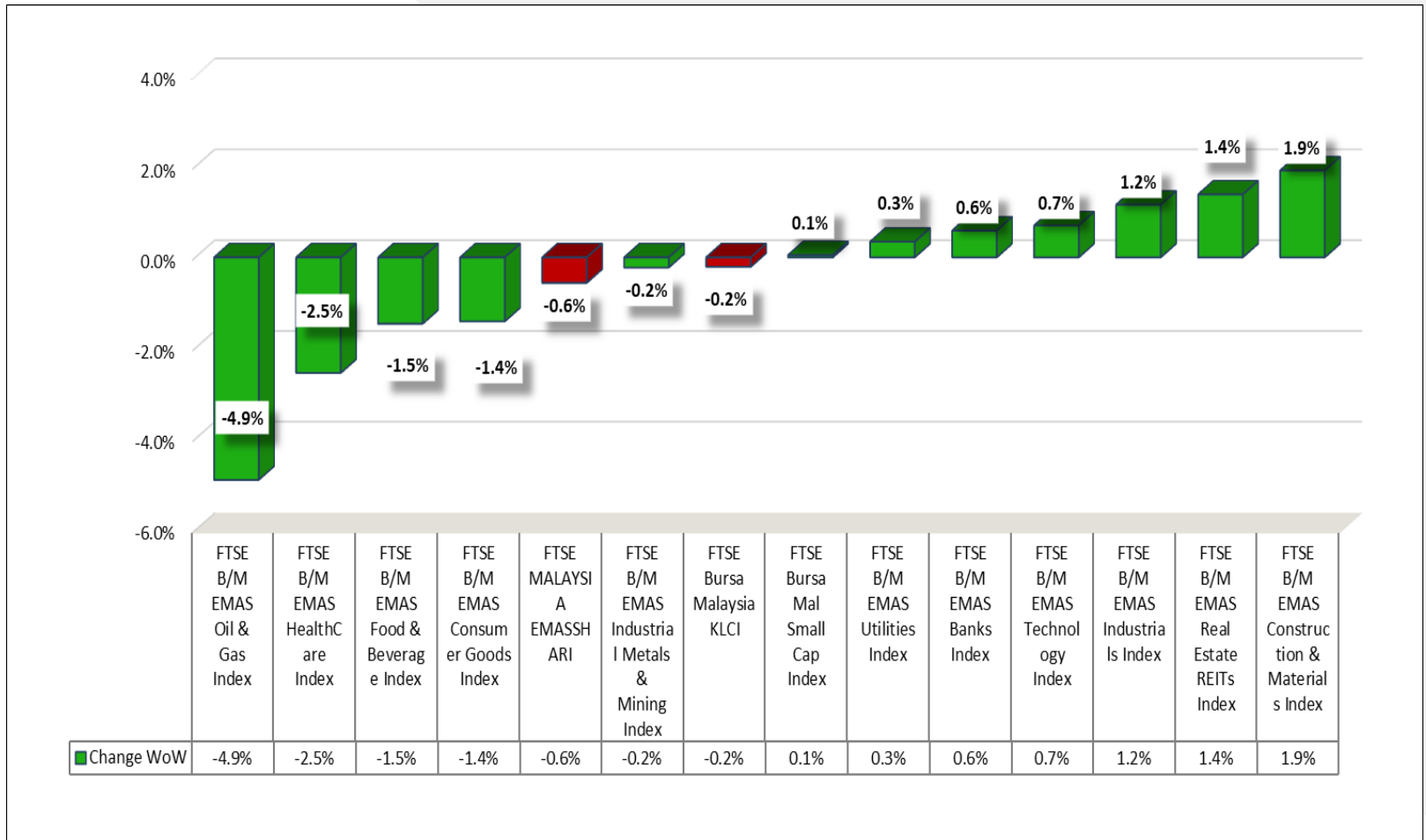
(Source: Bloomberg)

Exhibit 3: MALAYSIA P/E is at a discount to the region @ 03.06.21



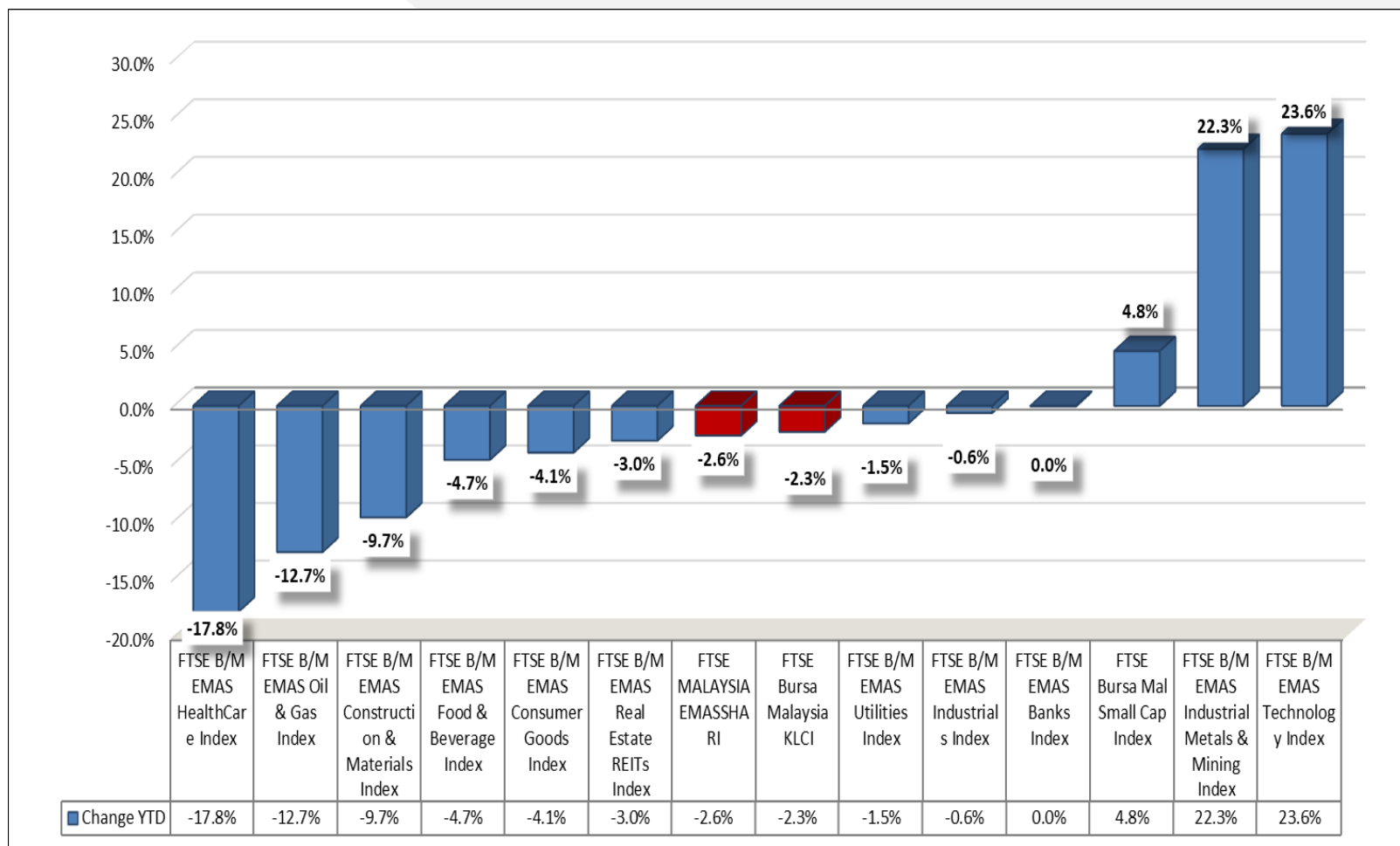
(Source: Bloomberg)

Exhibit 4: Sector Performances (Week-on-Week) @ 03.06.21



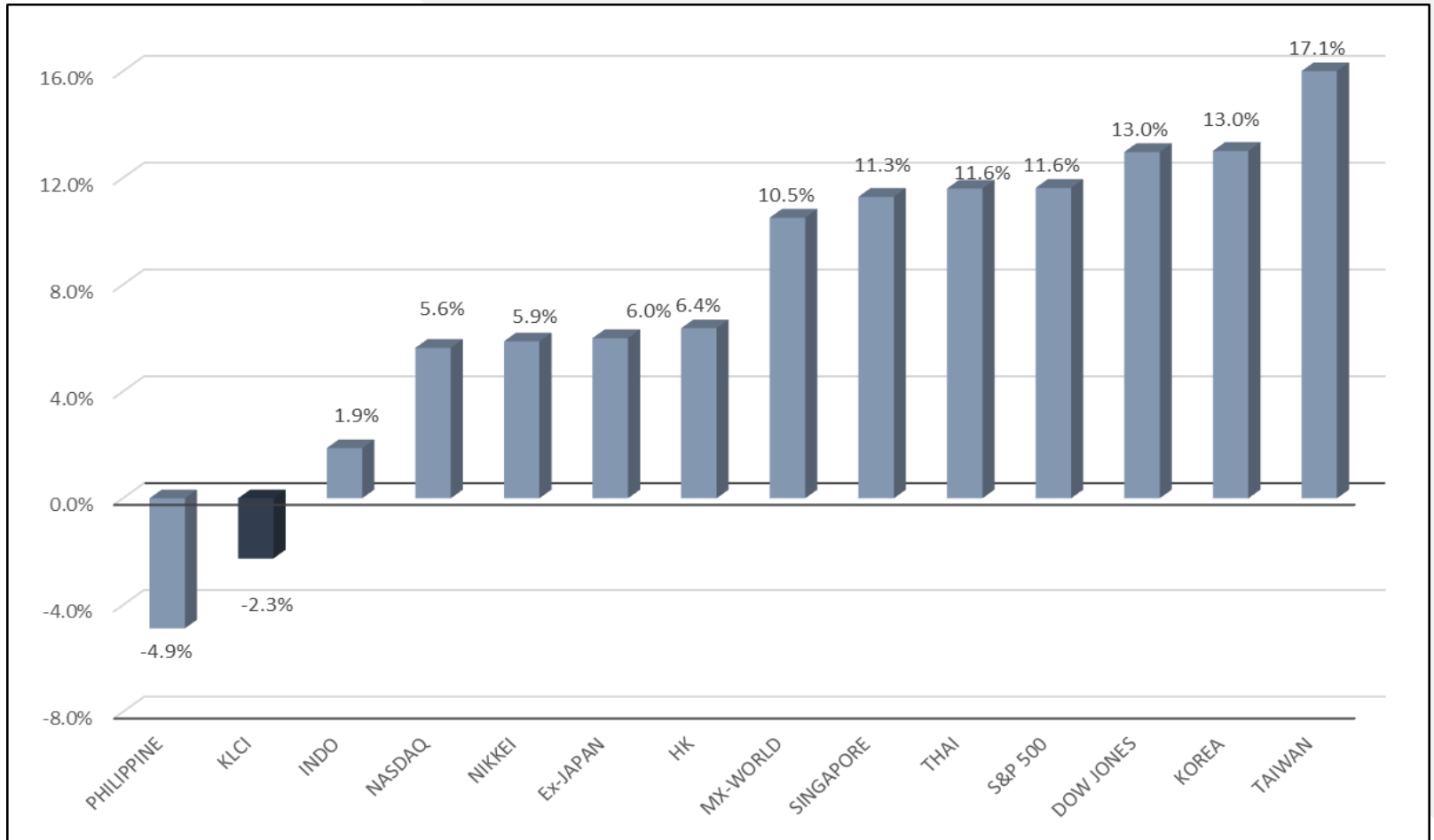
(Source: Bloomberg)

Exhibit 5 : Sector Performances (Year-to-Date) @ 03.06.21



(Source: Bloomberg)

Exhibit 6 : Performance of Indices (Year-to-Date) @ 03.06.21



(Source: Bloomberg)

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