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

Portfolio Manager's View

06 July 2021

Fund Management Department

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Regional

1. Singapore's newest strategy is to accept that Covid-19 virus is here to stay, like the common flu. Singapore will gun for mass vaccination, and soon stop counting the daily new cases, remove quarantine measures, and get on with life as normal. Likewise, the Israel and UK experiences are that vaccination does not prevent breakthrough cases but prevent severe illness and stress to the healthcare system. Thus, the UK also plans to exit Covid-19 lockdown and remove emergency Covid-19 laws mandating face masks and social distancing. Emerging countries, many in Asia, found themselves starved of vaccine supply hoarded by the developed nations. Mass vaccination is slowly but surely accelerating, Malaysia hopefully will move towards a similar Covid-19 strategy like Singapore.

2. Last Friday's US Non-Farm Payrolls report was a 'Goldilocks' scenario for markets, not too warm and not too cold. Job adds exceeded expectations, yet unemployment rate inched up while wage growth was more subdued than expected. Investors took it as a sign that the US economy is recovering sufficiently enough to generate more jobs, yet there is also sufficient slack in the labour market not to exert too much upward pressure on wages that would feed through to inflation. Nonetheless, market volatility is likely to persist with investors fixated on these high frequency noisy data-points.

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3. Meanwhile, the public spat among the OPEC+ Alliance members, especially between the two closest allies Saudi Arabia and the UAE, has just thrown another variable into our already busy analytical life. The consensus view is that any delay in the increase of oil supply will see a spike in oil price and stoke fears of a return to the runaway inflation scenario of the 1970s. On the contrary, a very compliant OPEC+ Alliance in recent years now runs the risk of turning into a cheating cartel even if there is an eventual agreement. Worse although remote, a breakup of the OPEC+ Alliance could result in a free-for-all turn on the taps and plummeting oil price. Suddenly, a US Federal Reserve that is pressured to tighten monetary policy could find itself dealing with a deflationary turn. Is this a good time for US Fed Chair Jerome Powell to pivot with so much uncertainty?

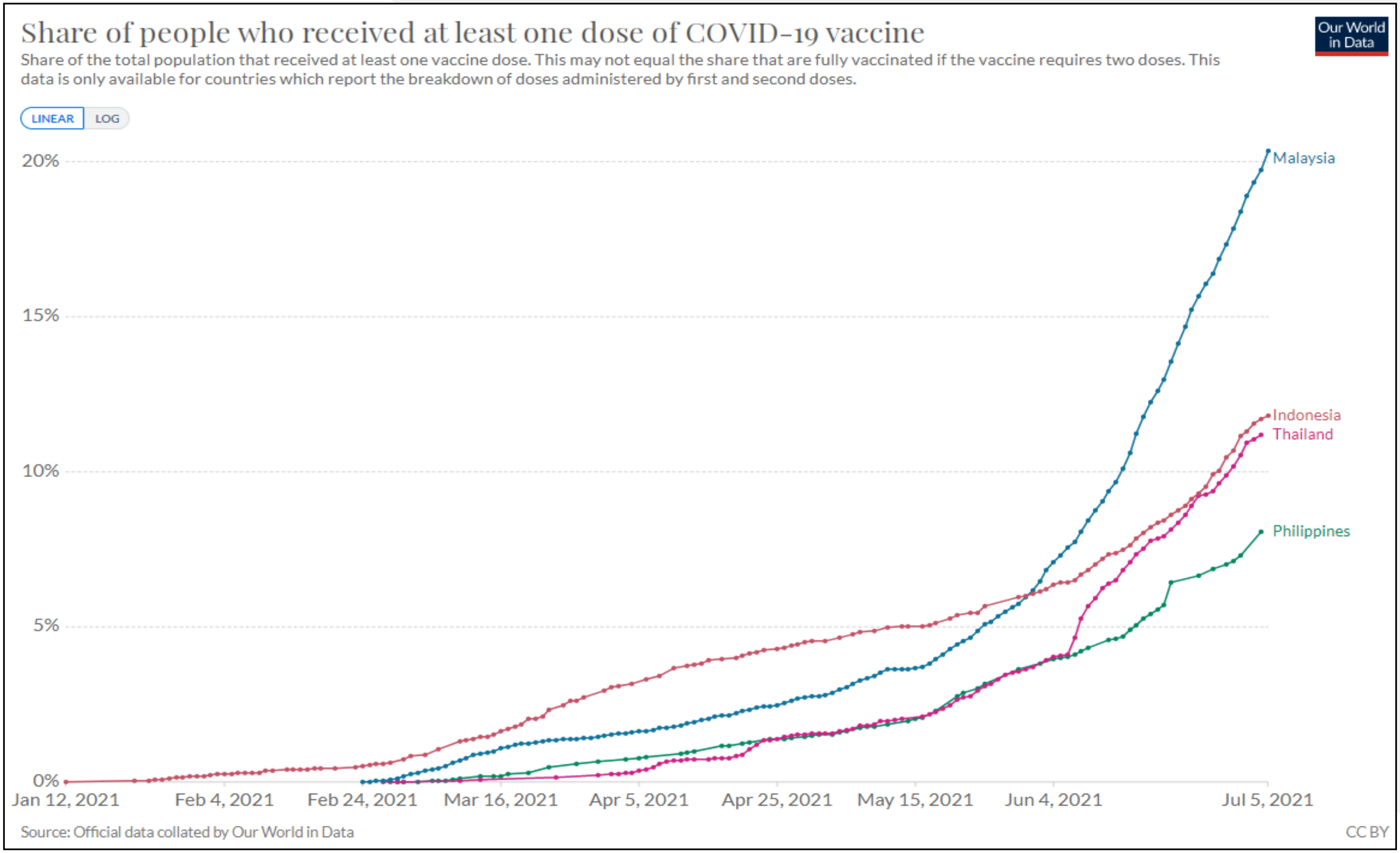
Malaysia

1. The KLCI closed at 1,532 @ 6.07.21, a decline of -4.0% M-o-M. Last week, Healthcare (-5.1%) and Construction (-2.6%) were the worst performing sectors. Year-to-date @ 02.07.2021, the KLCI has retreated by -5.8%.

2. Last week, Senior Minister Datuk Ismail Sabri mentioned that most of the Klang Valley will fall under the Enhanced Movement Control Order (EMCO) from July 3 to July 16. On 6th July 2021, Malaysia recorded 7,654 new Covid-19 cases (the highest in 31 days). Of the total, Selangor recorded accounted for 3,260 cases (42.5%) and Kuala Lumpur 1,550 cases (20.2%). The high daily cases in the Klang Valley will weigh down on Malaysia's GDP growth estimates for 2021. These two states contributed around 40% to the country's GDP (Selangor 26% & KL 14%).

3. As at 5 July 2021, a total of 9.0 mil vaccine doses have been administered. 6.39 mil individuals (20% of population) have received their first doses while 2.62 mil individuals (8% of population) have received their 2nd doses. In our view, a key catalyst for the stock market is the progress of vaccinations which will determine the pace of reopening of the economy. The increased momentum in vaccination rate, particularly in the month of June, has placed the country in a better position to achieve a vaccination rate of 80% by end of 2021 (see Exhibit 1).

Exhibit 1 :



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4. Political temperature in the country is set to rise. The Malaysia Parliament will reconvene on July 26 (5 days) and Aug 2 (3 days) after weeks of pressure by many quarters to re-open Parliament. Public dissatisfaction is high due to the economic effects arising from the pandemic. Political uncertainty and a challenge to the country's leadership are possible risks for the stock market when Parliament reopens.

5. World Semiconductor Trade Statistics (WSTS) published its May 2021 semiconductor sales data. Total semiconductors sales increased by 25.9% YoY (vs 21.6% YoY for Apr-21) and 4.2% MoM (vs 2.0% MoM for Apr-21). Exhibit 2 shows that growth in global semiconductor sales are still trending upwards. Our technology holdings have been resilient as US10Y yields decline, technology sector earnings continue to beat expectations and as demand stay robust. Exhibit 3 shows the duration and magnitude of the semis cycle. Since 1996, there has been 7 upcycles. The average duration of an upcycle is 31 months. The current cycle has lasted only 15 months. The average increase in monthly from start to peak is 23% vs 25% in the current cycle. We believe the strong demand conditions will persist for the rest of this year.

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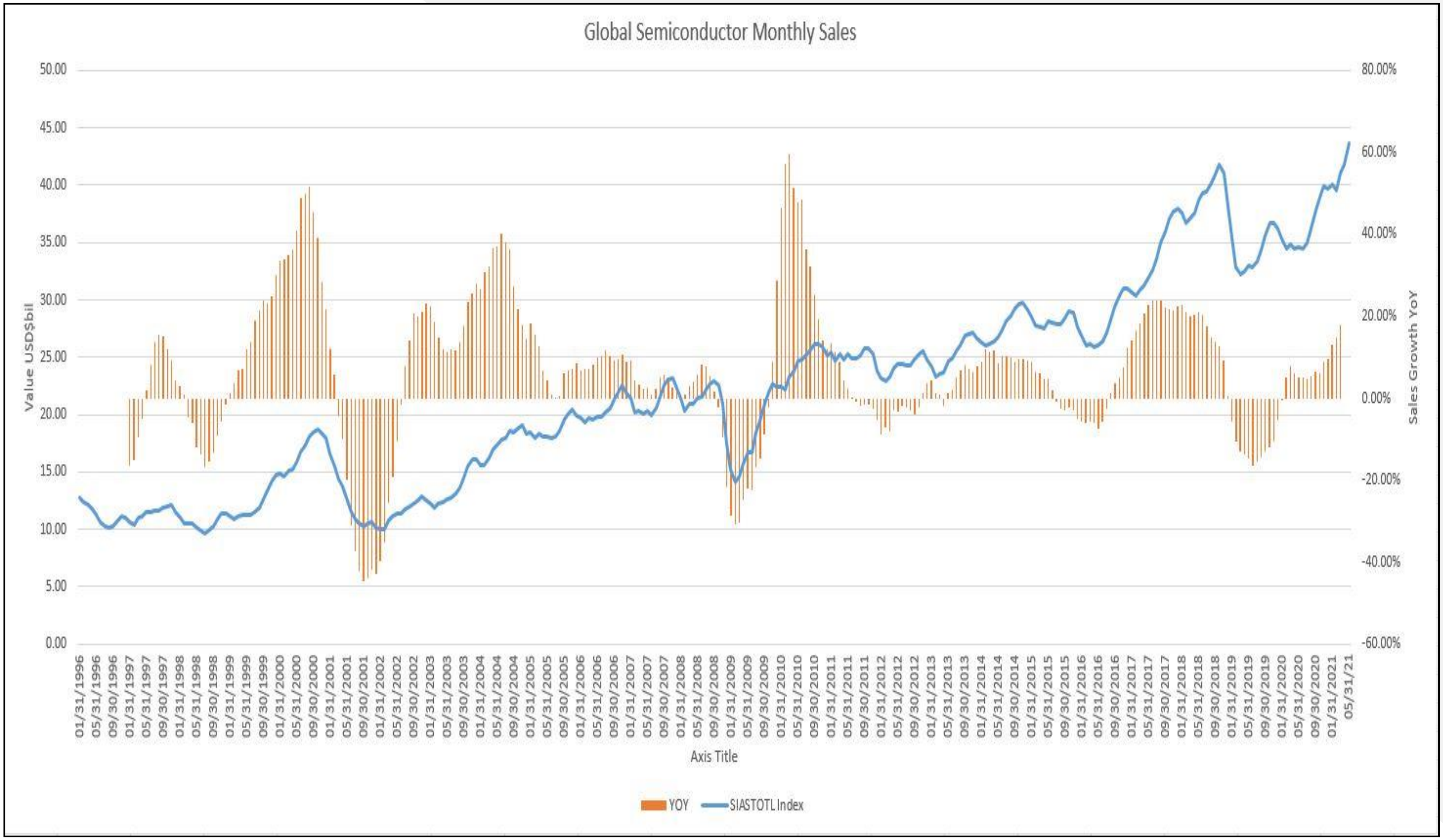
6. Based on KLCI at 1,532 @ 06.07.2021 and assuming a market eps integer of 111/110, the market is trading at a PER of 13.8x/13.9x for CY21/CY22 respectively. This is lower than the market's mean PER of 16x. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.0x and 15.7x in CY21/CY22 respectively vs the 5 year average ex-gloves PER of 19.4x. We believe the risk to reward for the KLCI is reasonable.

Exhibit 2 : Semiconductor Up Cycle



(Source: Bloomberg)

Exhibit 3 : Semis Cycle – Duration and Magnitude

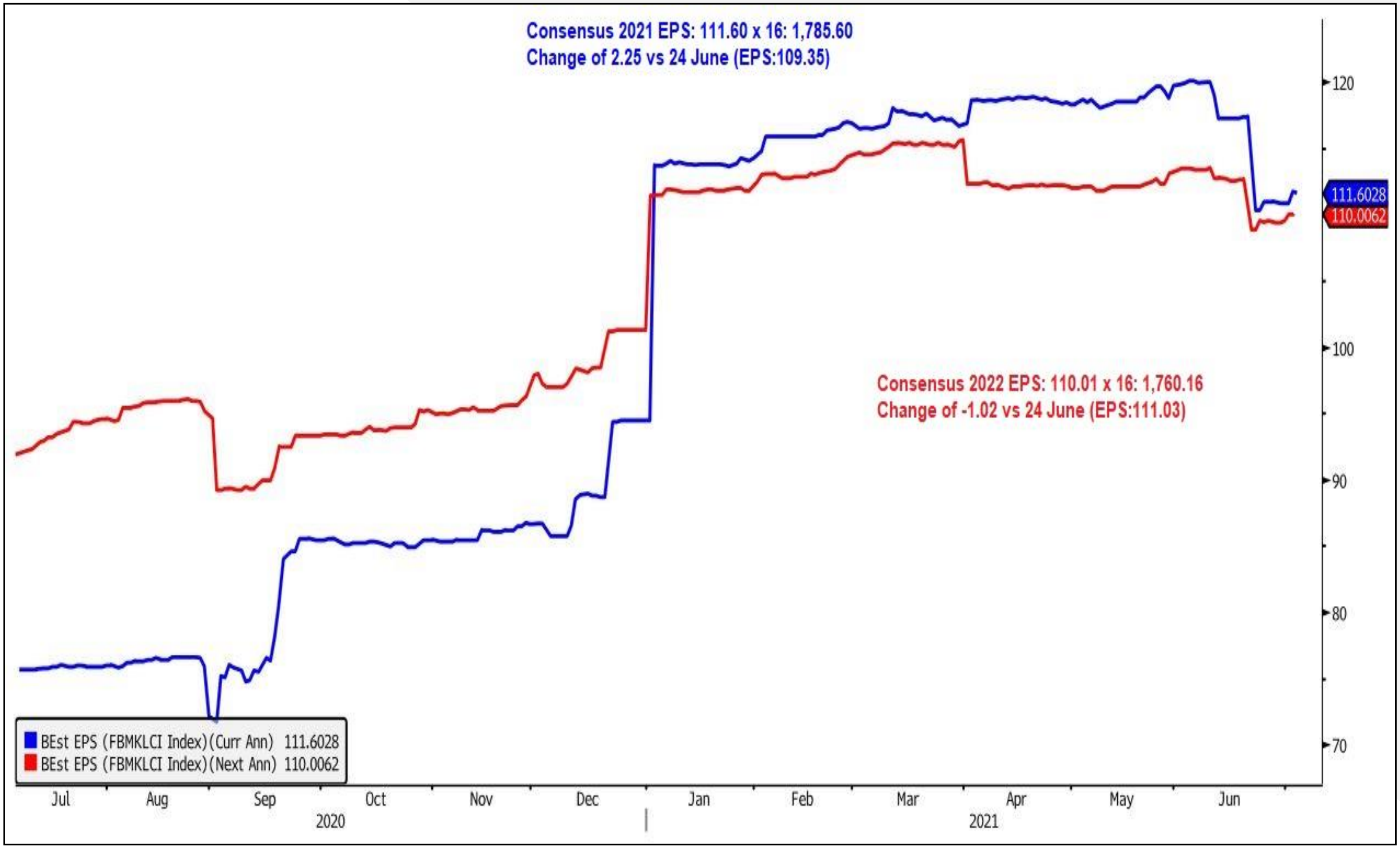
Semiconductor Sales Cycles

	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*	*15*	*15* *	25%
	Average -excluding current cycle			31	12	23%

* *Current cycle*

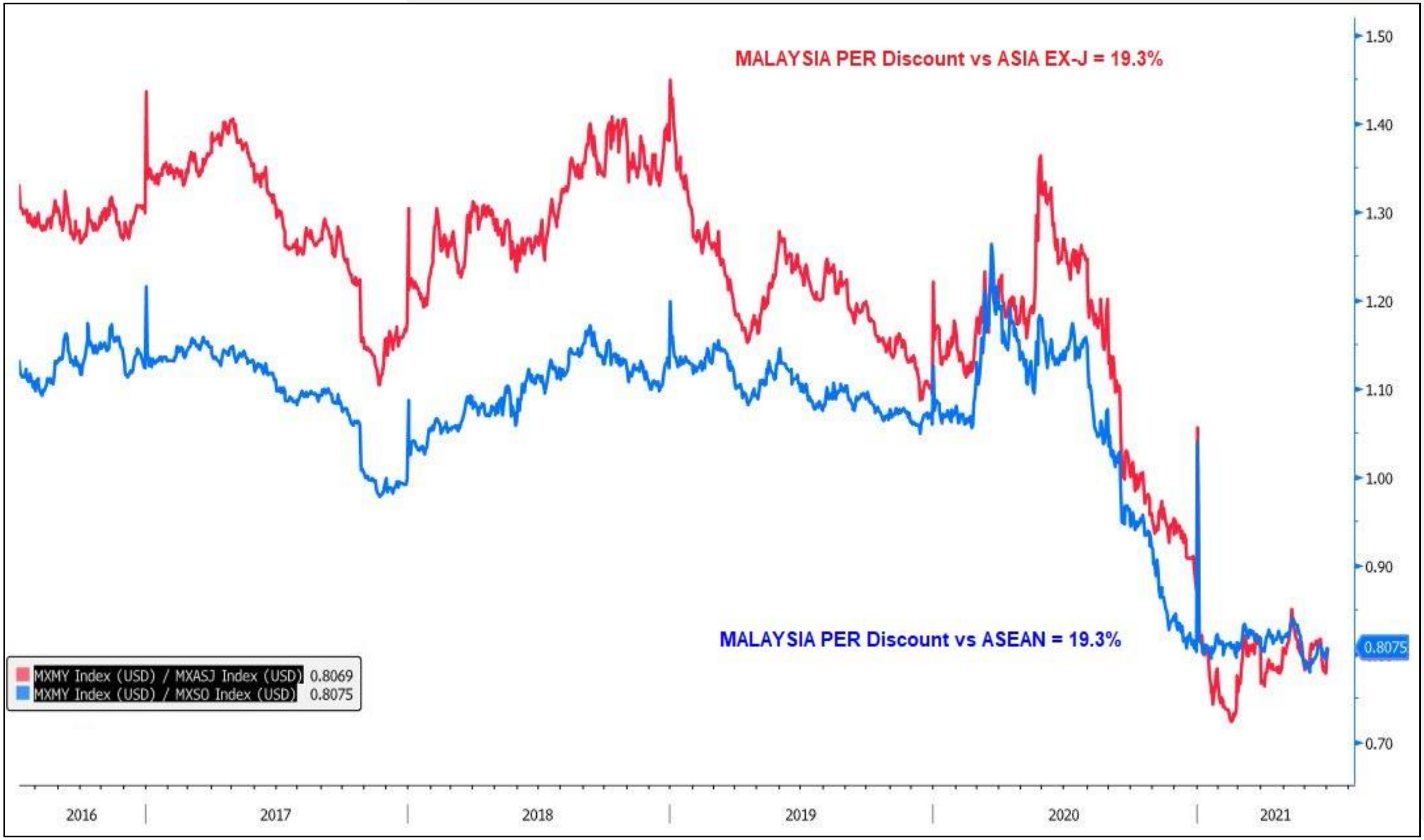
(Source: Bloomberg)

Exhibit 4 : FBMKLCI Consensus Earnings Per Share (EPS) @ 26.06.21



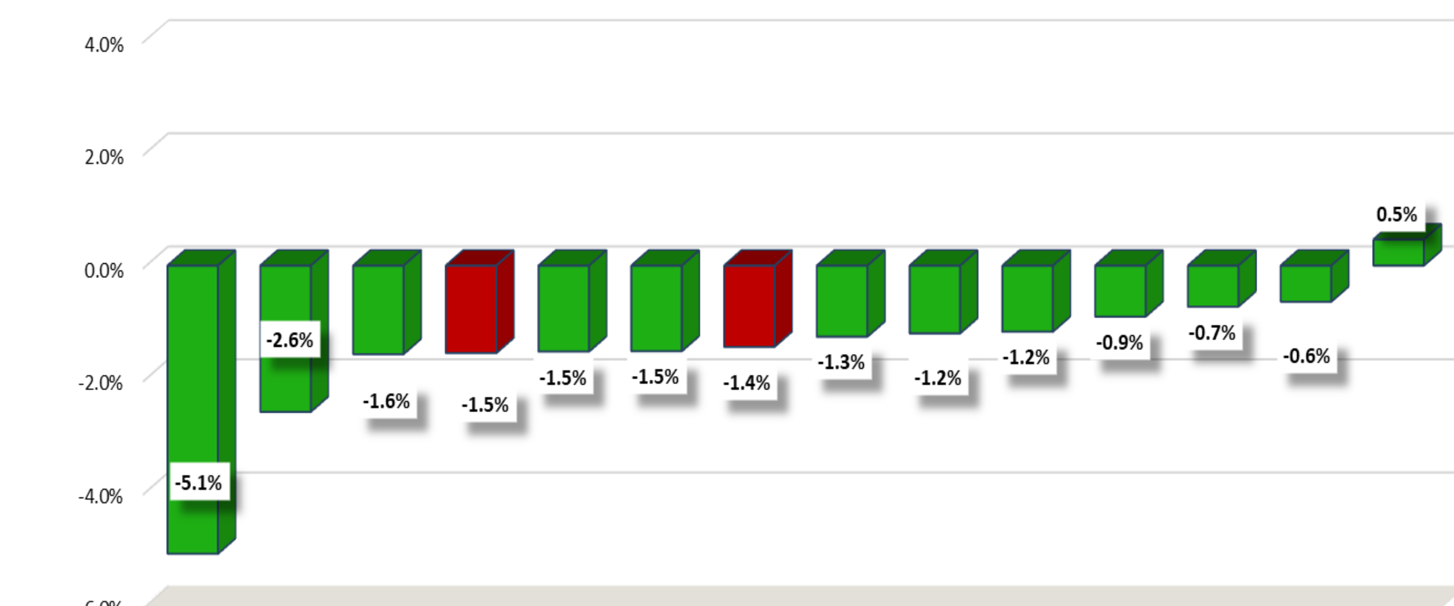
(Source: Bloomberg)

Exhibit 5 : MALAYSIA P/E is at a discount to the region @ 26.06.21



(Source: Bloomberg)

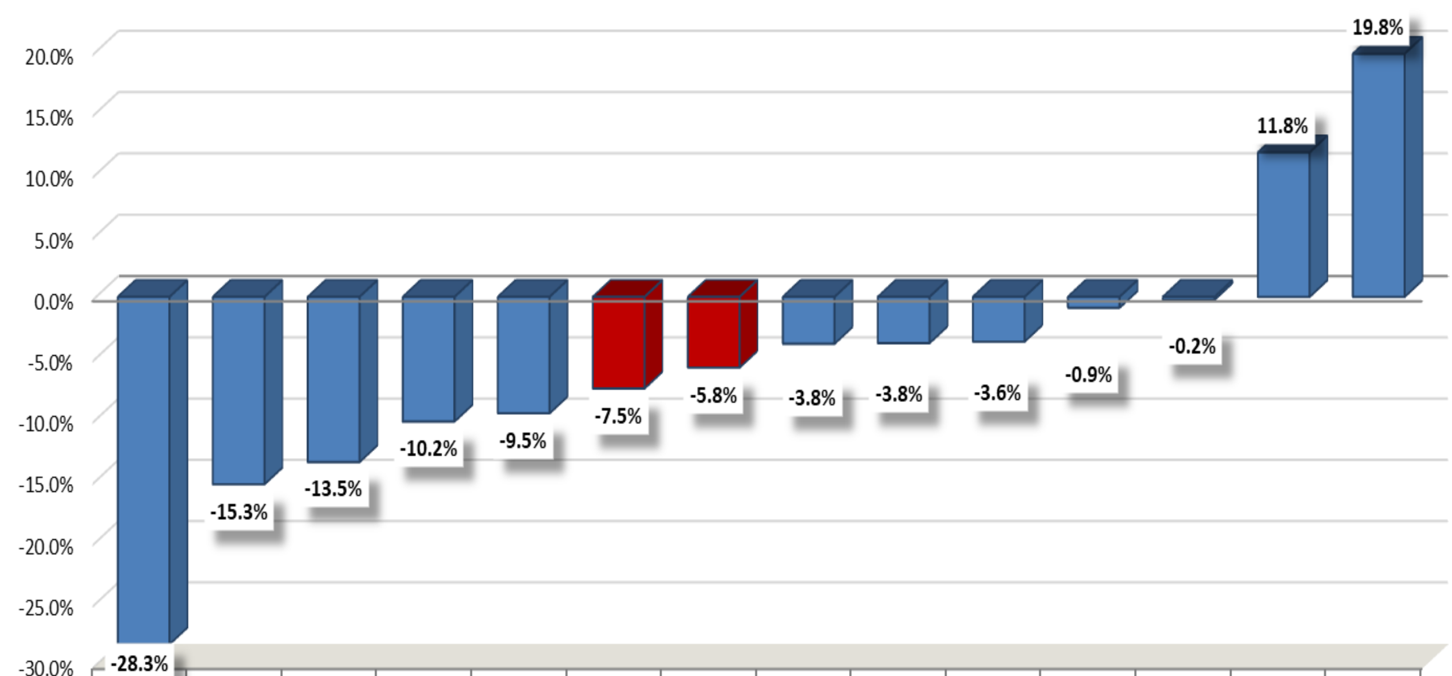
Exhibit 6 : Sector Performances (Week-on-Week) @ 26.06.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Construction & Materials Index	FTSE Bursa Mal Small Cap Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change WoW	-5.1%	-2.6%	-1.6%	-1.5%	-1.5%	-1.5%	-1.4%	-1.3%	-1.2%	-1.2%	-0.9%	-0.7%	-0.6%	0.5%

(Source: Bloomberg)

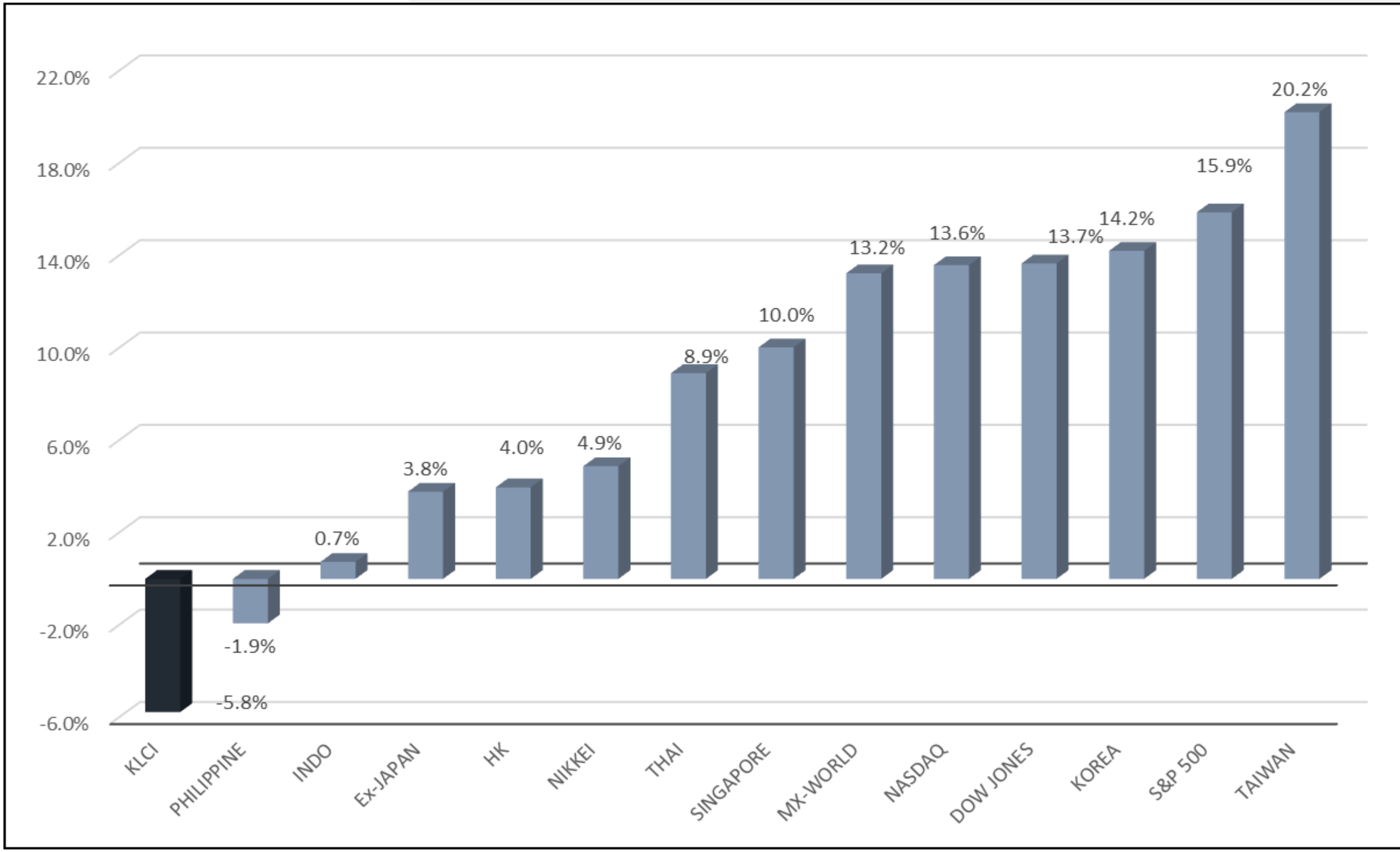
Exhibit 7 : Sector Performances (Year-to-Date) @ 26.06.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE MALAYSIA EMASSHARI	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Real Estate REITs 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	-28.3%	-15.3%	-13.5%	-10.2%	-9.5%	-7.5%	-5.8%	-3.8%	-3.8%	-3.6%	-0.9%	-0.2%	11.8%	19.8%

(Source: Bloomberg)

Exhibit 8 : Performance of Indices (Year-to-Date) @ 26.06.21



(Source: Bloomberg)

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