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

Portfolio Manager's View

07 September 2021

Fund Management Department

Regional

1. We continue to see a patchy economic recovery out of the US. August job-add, at +235,000 versus the consensus of +733,000, was not just a slight miss, but a big disappointment. The Delta variant was responsible for zero job growth in the services and hospitality sectors. We may likely see a pick up in jobs for the services and hospitality sectors when we are past the worse of this Delta variant. But US Fed Chair Jerome Powell was right; the uncertainty persists, do we know when the situation turns the corner finally? Would there be a more devastating Covid-19 variant after Delta? Goldman Sachs has downgraded US GDP growth 2021 from 6% to 5.7%. This may be the start of many downgrades to come that will suck the sails out of investor sentiment.

2. The US Federal Reserve will look back on Jackson Hole with a sigh of relief, the risk of having done wrong. Labour participation remains at a worryingly low of 61.7%. A large percentage of the able-bodied working age population is out of the labour market. Are they part of the disgruntled populace? Any liquidity withdrawal into a slowing economic momentum will drag down this already fragile labour market. President Joe Biden and the Democrats face a mid-term

election in 2022. Four key states that swung the Democrats way in last November's Presidential Election run the risk of returning to the Republicans. A poor labour market report card will go someway towards wrecking the Democrats' control of both the House and the Senate.

3. China's August official Manufacturing PMI dipped further to 50.1, from 50.4 in July, the lowest since post pandemic low of March 2020, and teetering into contractionary territory. Despite an emerging Covid-19 new wave from Delta's infiltration and the incessant clampdown on the Internet and Gaming sectors, and app platforms, President Xi Jinping has committed to achieving China's key economic targets. PBOC's 50bp cut in reserve ratio requirement is just the beginning of the shift to an easier monetary policy. Local Government bond issuance has started to pick up, fixed asset investments should be the first area of benefit. In short, more bad news is more good news; this will hasten the pace of monetary easing. A reflating China will foremost benefit her neighbours, the Asia region.

Malaysia

1. The KLCI closed at 1,589 @ 03.09.21, an increase of +5.93% MoM. Last week, Industrial Metals & Mining (+1.80%) and Small Cap (+1.70%) were the best performing sectors. In contrast, Healthcare (-2.10%), F&B (-0.7%) and Consumer Goods (-0.7%) were the worst performing sectors. Year-to-date @ 27.8.2021, the KLCI has retreated by -2.30%.

2. Major automakers Ford, Volkswagen and Daimler cautioned that global chip shortage for the automotive segment could persist for the next 6 to 12 months and to normalize only in 2023. This comes as factory shutdowns, supply chain bottlenecks and COVID restrictions caused a semiconductor chip shortage since 2020 that has yet to be resolved due to huge backlog of orders from pent-up demand and further COVID-related complications. We believe this supports our argument that the current semiconductor sales cycle would likely last longer than usual due to this compounding effect of high demand and low supply for chips.

3. Aluminum prices continue to surpass its 10Y high levels this week as a potential supply shortage for bauxite (a material primarily used in the aluminum production process) is to come from a military coup which took over Guinea – which supplies 25% of the world's bauxite, mainly to Russian and China.

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Hence, major aluminum smelters in Malaysia are positioned to benefit from these further elevated alumina prices caused not only by this shortage, but also from production cuts coming from China's decarbonization plans and the structural demand trend of alumina in growing industries such as renewable energy, electric vehicles, and others.

4. TSMC, the world's leading chip foundry, is on track to meet its revenue target of $100bn ($45bn as of 2020) by 2025. This is mainly driven by acceleration of High-Performance Computer (HPC) uptake growth from Nvidia and AMD as they aggressively expand and improve their datacenter operations. They expect HPCs to overtake smartphone as their main revenue driver by 2023. Furthermore, Intel is also expected to outsource the production of the new 3nm generation of chips to TSMC as opposed to producing them in-house as TSMC holds technological superiority in the 3nm production process. This is positive to Malaysia's OSAT industry as more chips passed down the supply chain for processes such as assembly, packaging and testing of which Malaysia specializes in.

5. We believe a confluence of events may drive the KLCI higher in the 4th quarter. Our reasons are provided below :

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- The appointment of PM #9 on 20 Aug 2021 was a risk clearing event. This removed fears of a protracted power tussle and a leadership vacuum in the country.

- For the week ended 27 Aug 2021, foreigners have been net buyers of Malaysia equities for 3 consecutive weeks (MTD net buying of RM985 mil). Prior to this, foreigners were consistent net sellers since the start of 2021. A potential rotation out of China may potentially translate to significant new inflows to ASEAN given the smaller size of these markets.

- Malaysia continues to make rapid progress win terms of vaccinating its citizens. As Covid-19 cases peak, we will see the focus of investors shifting from vaccinations to economic re-opening in the coming months.

- KLCI is the 3rd worst performing markets in Asia in 2021 - after Philippines and Hong Kong. Also, Malaysia is a notable laggard as the market has fallen in 6 out of the last 8 years. The market is overdue for mean reversion. Currently, Malaysia is trading at a 4% discount to MSCI Asia ex-Japan. Until the Pandemic hit in 2020, Malaysia traded at a 10% to 40% premium vs Asia ex-Japan (see Exhibit 5).

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- The MYR, as with most ASEAN currencies, is anchored by a strong Chinese Yuan which has stayed resilient against USD this year (see Exhibit 6).

- According to EPF's strategy officer, i-Sinar and I-Citra schemes have amounted to RM 56.7 bil & RM 2.3 bil respectively worth of withdrawals ie. total withdrawal of RM 59.0 bil (this excludes i-Lestari). We believe the drag from these withdrawals has peaked and its impact on the market is fading.

- The market's biggest positive is valuation. Based on KLCI at 1,601 @ 30.8.2021 and assuming consensus eps integer of 112.5/109.5, the market is trading at a PER of 14.2x/14.6x for CY21/CY22 respectively. This is ~1 standard deviation (~14.5x) below its 3-year mean PER of 16.2x.

- The PBR of the market of 1.6x is near -1 SD below the 7-year mean of 1.74x.

- Malaysia's DY of 4.0% is at the high end of the range of 3.0% to 4.5% since 2011.

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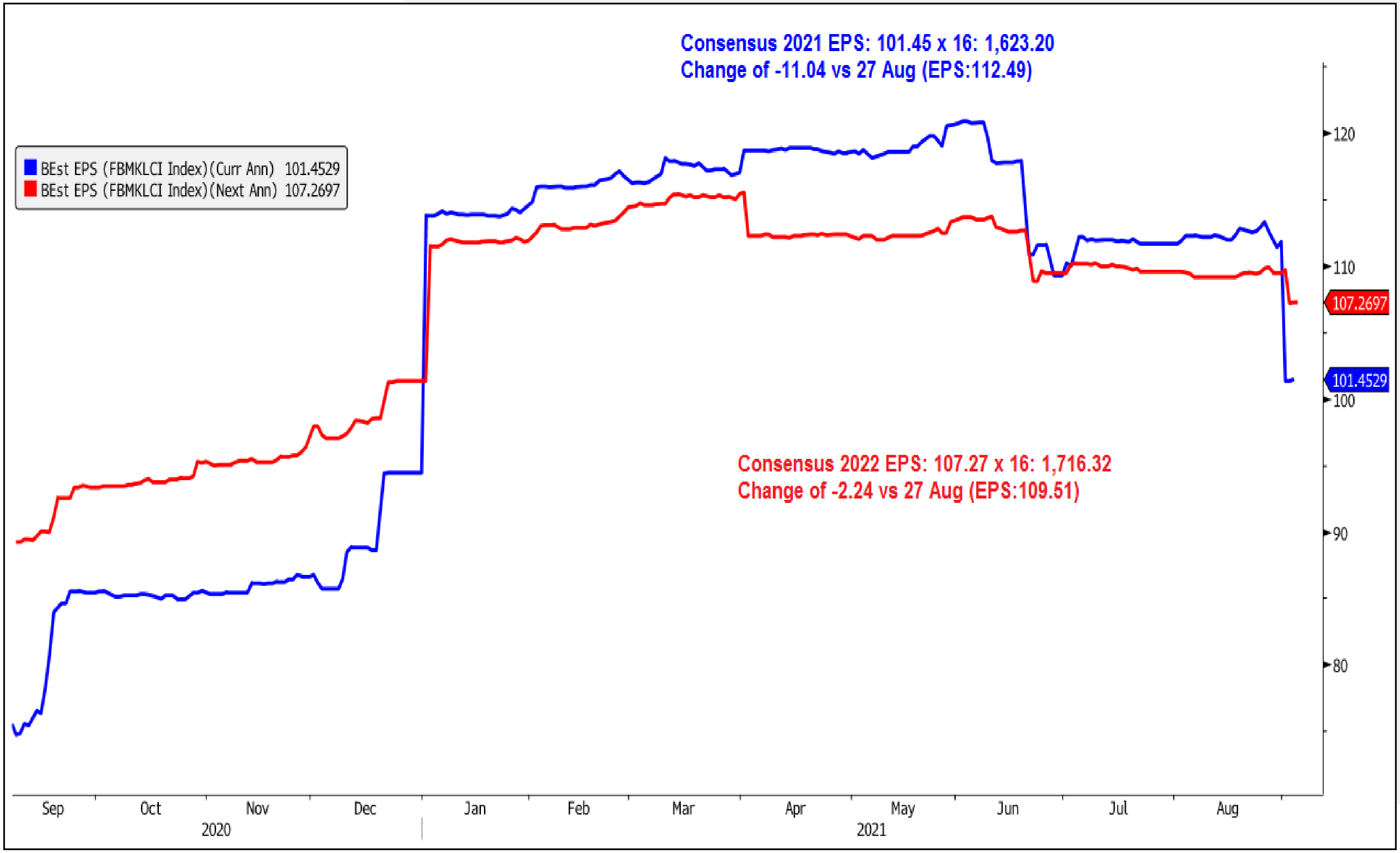
- Assuming a 15% decline in glove stocks in 2022 and applying a PER of 17.5x for the market ex-gloves (vs 5-year average of 19.4x), we arrive at a fair value of 1,680 for the KLCI. This implies a 2022 PER of 15.4x which is still below the 3-year mean of 16.2x.

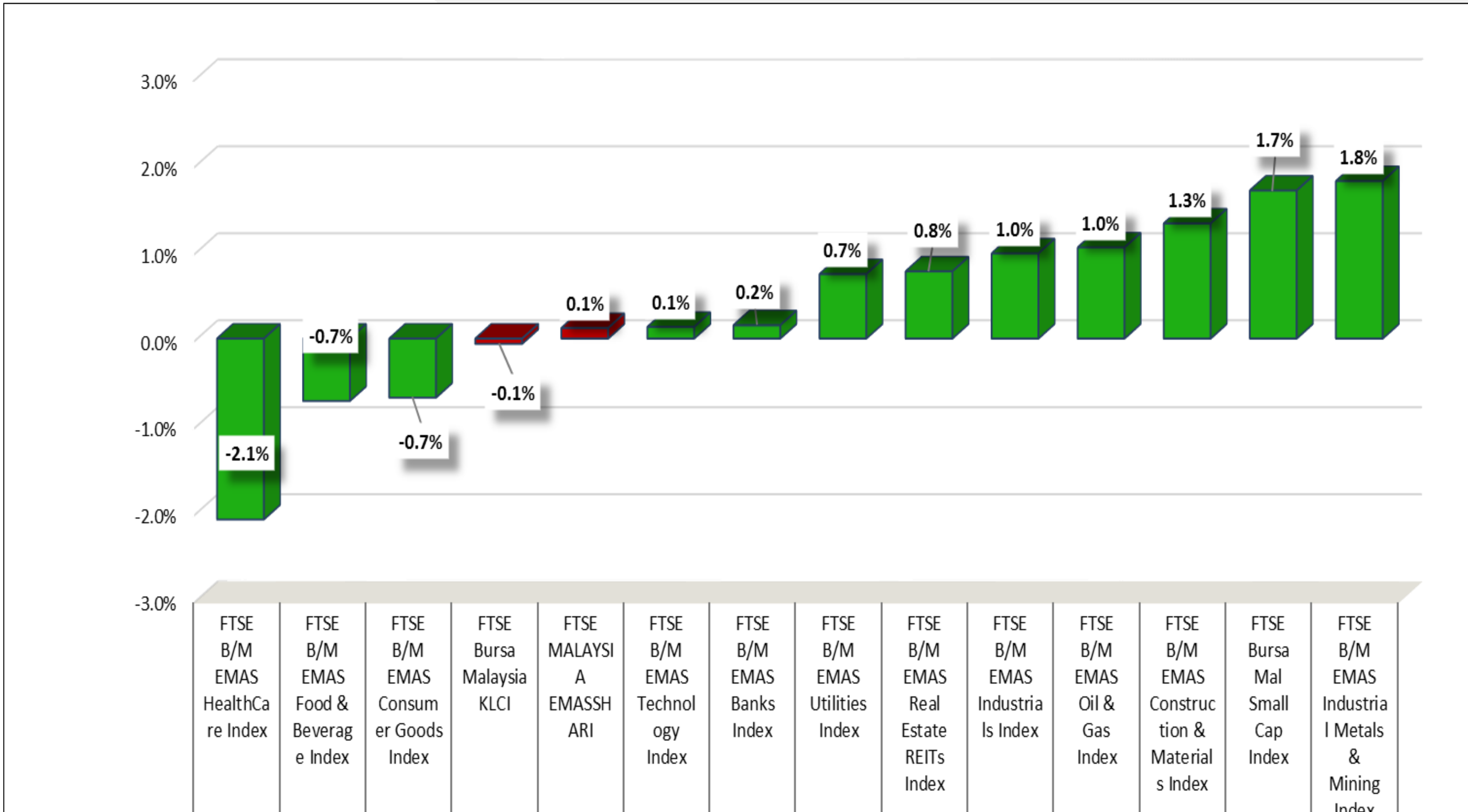
On balance, the above factors would support a case for near-term strength for the KLCI. We believe the market may enter 2022 at a higher level than where we are currently.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 03.09.21



(Source: Bloomberg)

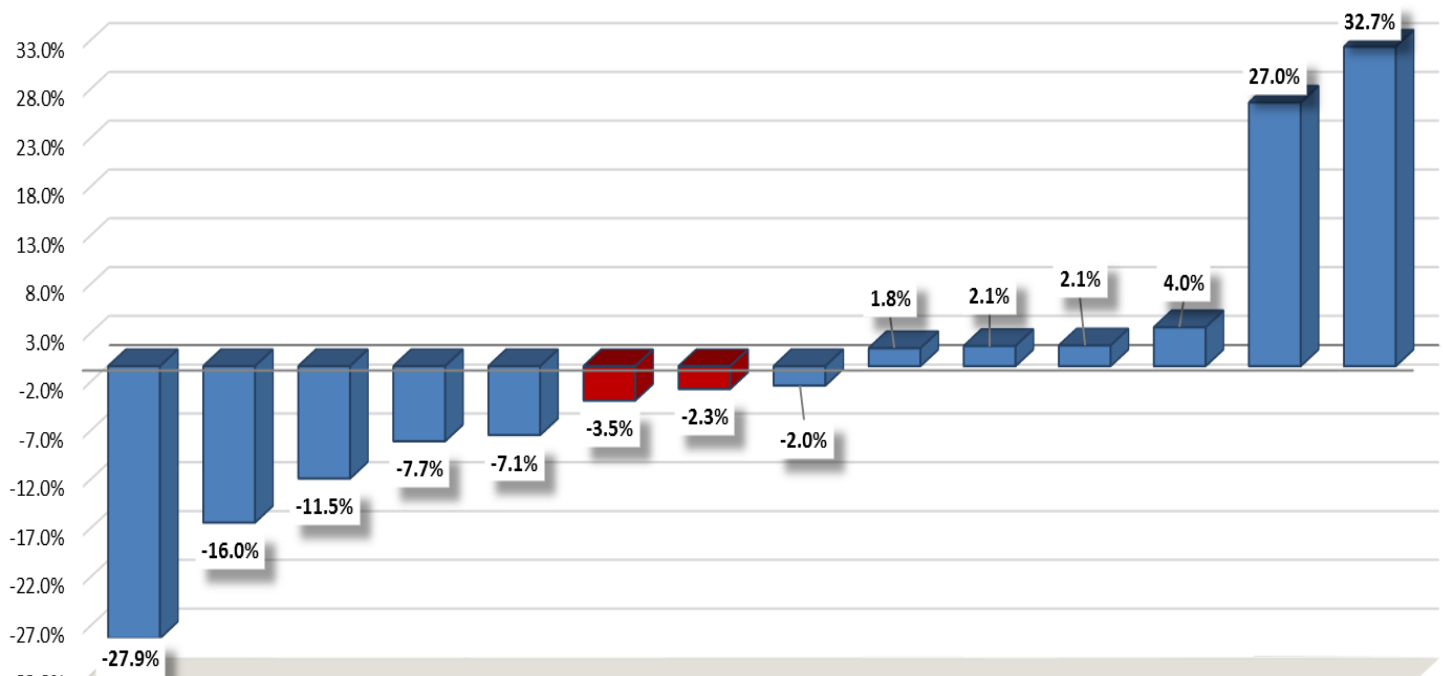
Exhibit 2 : Sector Performances (Week-on-Week) @ 03.09.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE Bursa Malaysia KLCI	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Construction & Materials Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change WoW	-2.1%	-0.7%	-0.7%	-0.1%	0.1%	0.1%	0.2%	0.7%	0.8%	1.0%	1.0%	1.3%	1.7%	1.8%

(Source: Bloomberg)

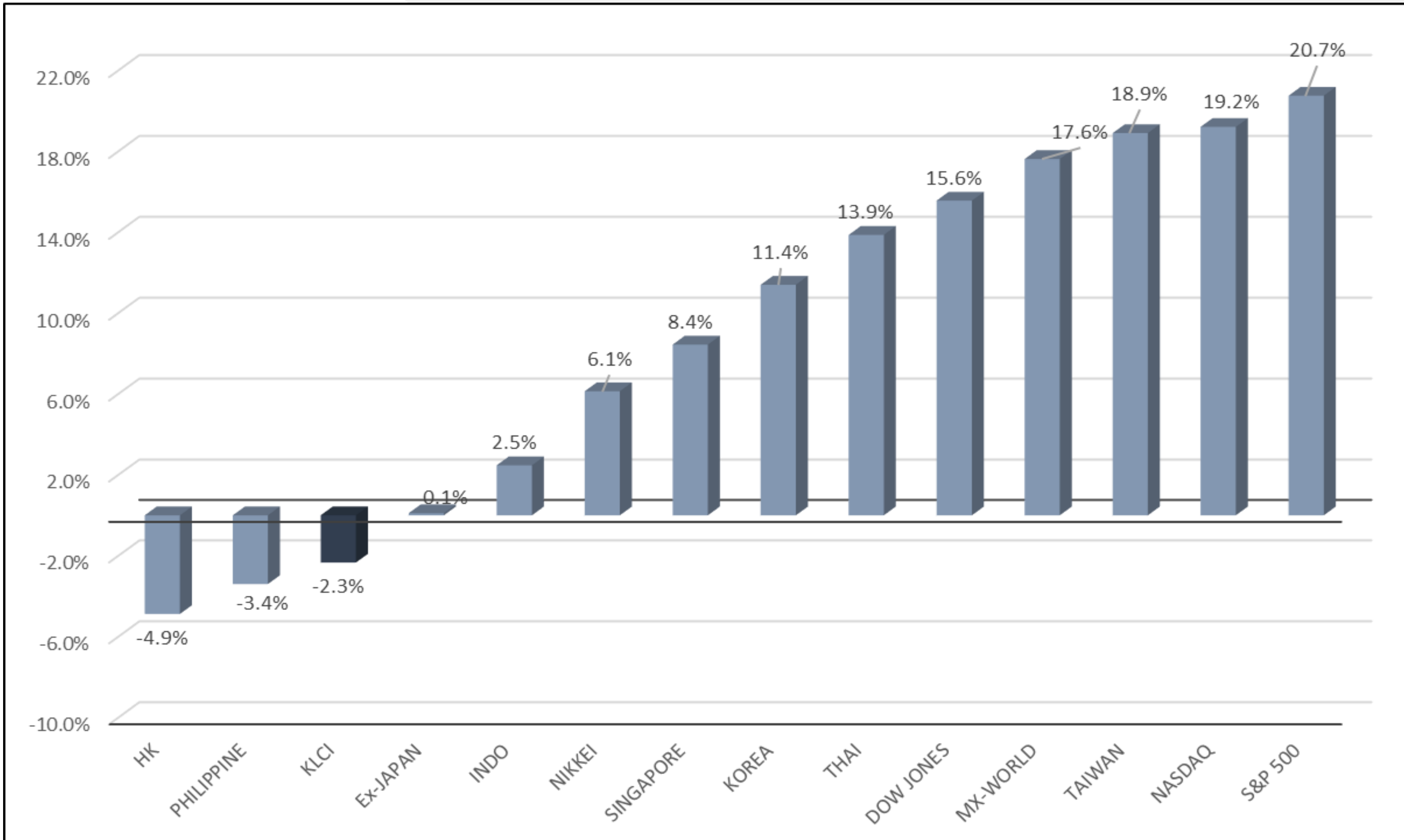
Exhibit 3 : Sector Performances (Year-to-Date) @ 03.09.21



	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 Real Estate REITs Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Industrials Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index
Change YTD	-27.9%	-16.0%	-11.5%	-7.7%	-7.1%	-3.5%	-2.3%	-2.0%	1.8%	2.1%	2.1%	4.0%	27.0%	32.7%

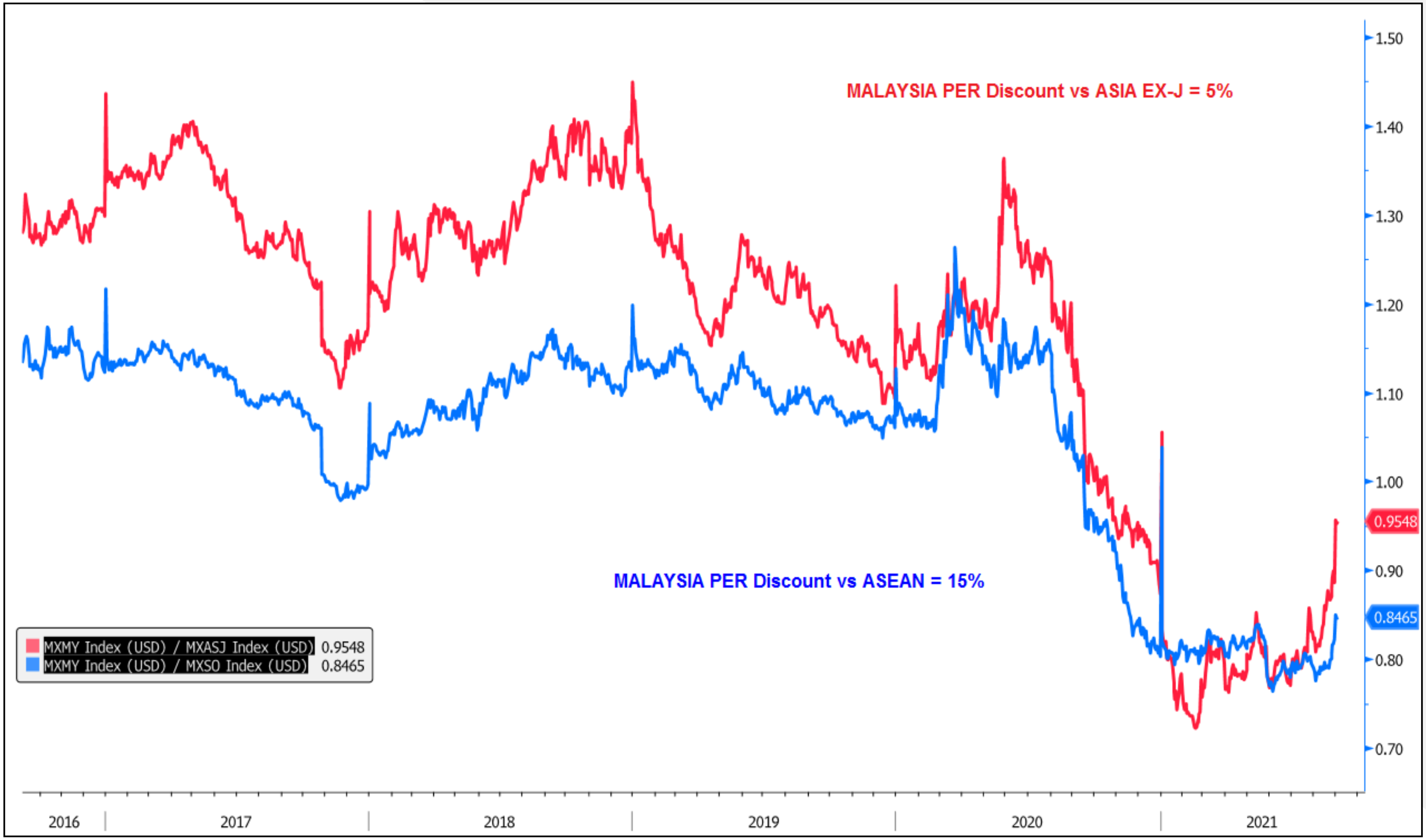
(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 03.09.21



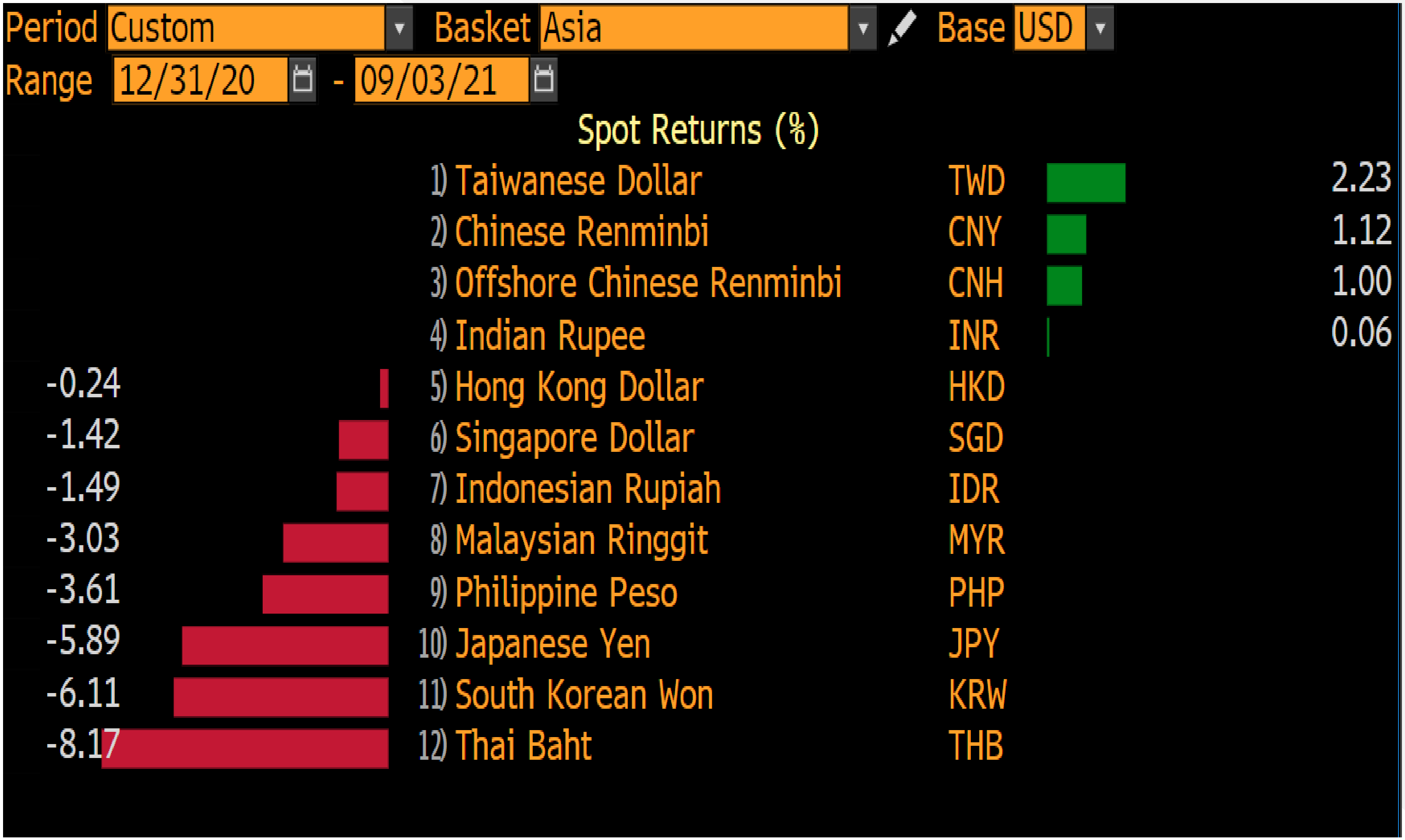
(Source: Bloomberg)

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



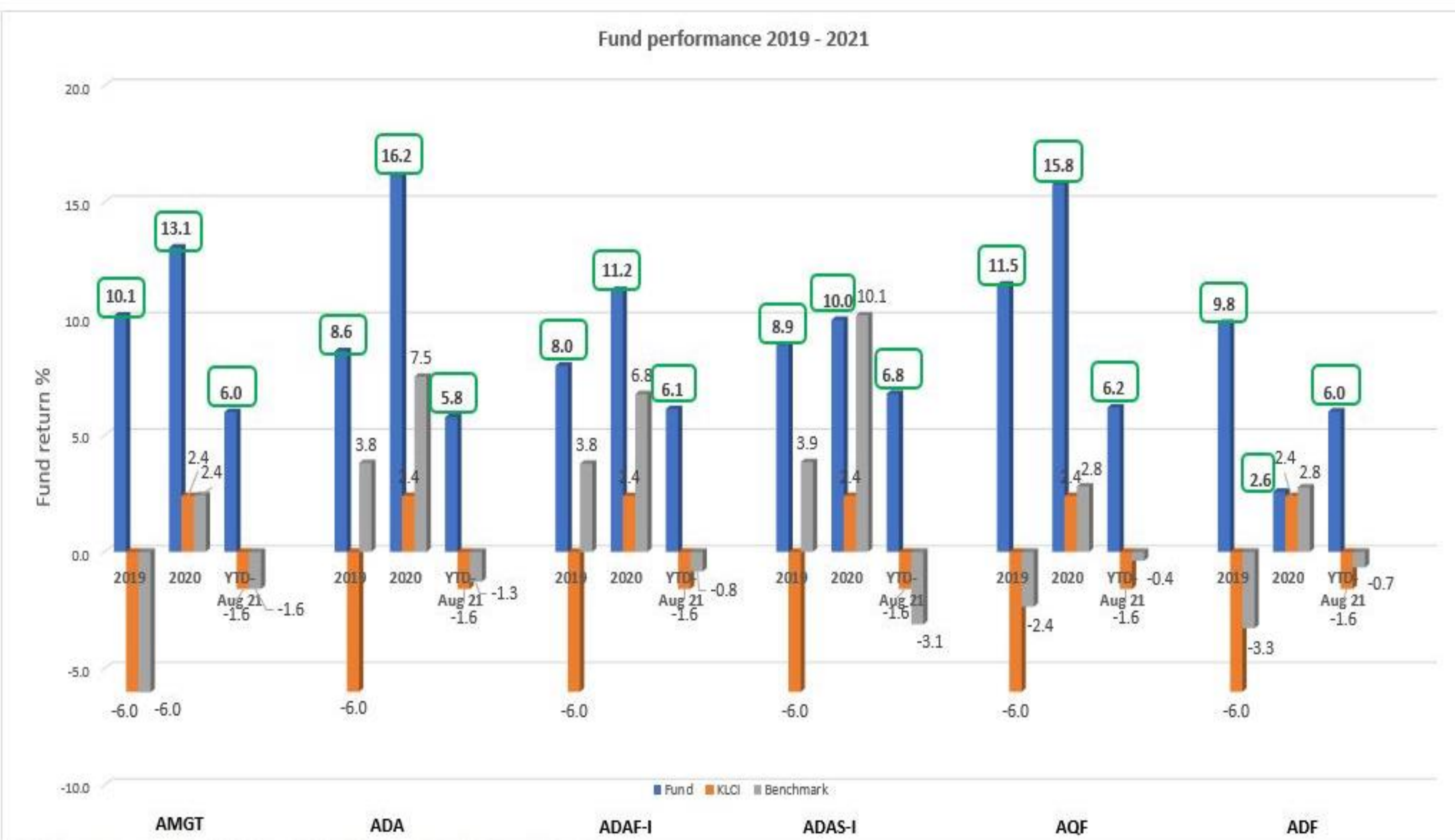
(Source: AISB & Bloomberg)

Exhibit 6 : Asian Currencies



(Source: AISB & Bloomberg)

Exhibit 7 : AISB 2019, 2020 & YTD Fund Performance



* YTD 21 return for funds and respective benchmark data are based on 31 August 2021

(Source: AISB & Bloomberg)

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