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

Portfolio Manager's View

05 November 2021

Fund Management Department

Regional

1. As expected, the US Federal Reserve announced a reduction in its asset purchase program. The reduction will begin in November at a pace of US$15 billion per month. This pace of reduction should result in the conclusion of the asset purchase program by the middle of 2022. However, the market should be pleased that Chair Jerome Powell has left a dovish option; that the US Fed is prepared to adjust the pace of purchase if warranted by changes in the economic outlook.

   In addition, Jerome Powell has introduced a more difficult and stringent test for the lift-off in interest rates. As we have contended on numerous occasions, there is still further ground to cover in the labour market to reach maximum employment, defined in “terms of both employment and participation". In addition to the unemployment rate, the US Fed will also want to see more people returning to the workforce. This is a tall order. To put it in perspective, the last monetary easing cycle in 2009 failed to improve the labour force participation rate.

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2. Meanwhile, China's 6th Plenum of top leaders begins 8th November 2021. This week, China's Premier Li Keqiang warned that China's economy faces new downward pressure that will need "cross-cyclical adjustments" to continue to grow in a proper range. The 6th Plenum may set the stage for a more decisive shift towards stimulus measures to support the economy. At the margin, we have observed some piecemeal supportive measures, but a national mandate is more likely to capture investor attention.

3. It is such an irony. At the Climate Change Conference in Glasgow where world leaders are huddled together pushing for a more committed shift towards reliance on cleaner energy, US President Joe Biden is pressuring the OPEC+ Alliance to boost crude oil production at the same time Bloomberg also reported that the UK is burning the most coal in eight months as it diverts power source away from expensive natural gas. Years of underinvestment due to low commodity prices while at the same time being penalised with a cost of capital suggest that the commodity complex is due a period of stronger pricing. What better political coercion to cleaner energy alternatives than punitively high pollutive commodity prices!

Malaysia

1. The KLCI closed at 1,567 @ 28.10.21, an increase of 1.4% MoM. Last week, REITs (+1.4%) was the best performing sector. In contrast, Metals & Mining (-6.9%) and Healthcare (-3.8%) were the worst performing sectors. Year-to-date @ 3.11.2021, the KLCI has retreated by -4.4 %.

2. We are positive on the Oil & Gas (O&G) sector. We are of the view that crude oil supply will get tighter in the coming years. On the supply side, global O&G companies have been disciplined on capital spending due to uncertainty over the sustainability of oil prices. In addition, the availability and cost of funding have been more challenging for O&G projects due to environmental concerns. Meanwhile, crude oil demand is forecast to increase as a result of the removal of COVID restrictions and the normalization of consumption. Hence, we expect a long-term uptrend in Brent oil prices. We believe our funds are well positioned to benefit from this trend.

3. Coal prices pulled back sharply, falling 6% DoD and 37% WoW as China's National Development and Reform Commission (NDRC) cracked down on the speculation on thermal coal futures and hoarding activities in storage facilities. Also, coal

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output has been increased by 1.2 mt/day to a record level of 11.6 mt/day as China attempts to control energy prices ahead of the winter season. The NDRC is also looking into a new mechanism to maintain coal prices at a reasonable level. We should see an improvement in profit margins for those industries that rely heavily on coal such as the Cement and Steel sectors.

4. The one-off prosperity tax –"Cukai Makmur" and the removal of the RM200 stamp duty limit on share trading in Budget 2022 were negative surprises for investors.

   The Cukai Makmur is targeted at companies which generate taxable incomes of over RM100 mil for the Year of Assessment 2022. The chargeable income up to the first RM100mil will be based on the usual 24% corporate tax rate and any additional income above the first RM100mil will be taxed at 33%. Sell-side research estimates a 4% to 7% cut in 2022 earnings arising from Cukai Makmur. The Deputy FM stated the government expects to collect a minimum of RM 3 billion from Cukai Makmur. This contrasts with RM 33.8 bil which was wiped out on Bursa on 1.11.2021 (CEO Brief, The Edge 2.11.2021).

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Stamp duty will be revised upwards from 0.10% to 0.15% per transaction and the removal of this limit translates to higher stamp duty costs for transactions above RM134,000. This is expected to be a dampener for share trading especially for retail investors.

We expect the negative surprise from Cukai Makmur to dilute the confluence of positives which recently converged for the market. Longer-term, investors may price in the risk of additional measures by the government as it tries to increase the level of revenues. Investors particular foreign players have a choice of where to invest. Also, a windfall tax which applies to generally well-run companies (as opposed to the resource sector) runs the risk of creating a disincentive for long-term private investment in Malaysia.

5. In Budget 2022, the Government announced it will allocate RM3bil to assist companies that have been negatively impacted by Covid-19. The funds will be managed by Khazanah under a Special Purpose Vehicle (SPV) via equity injection to support companies which have poor financials but are likely to turn around after receiving the funding assistance. We expect the funds to benefit sectors such as tourism, leisure, aviation, and retail.

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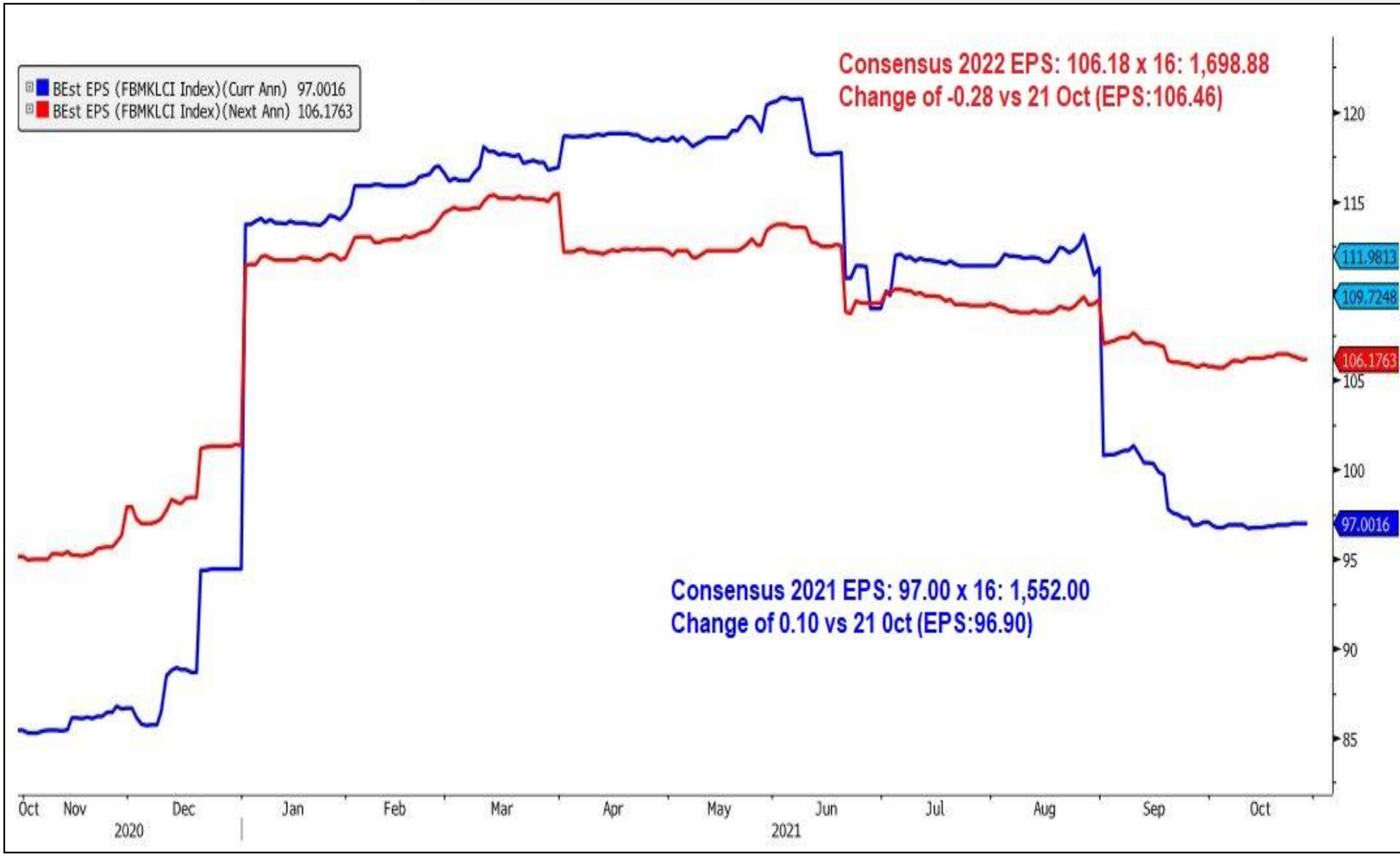
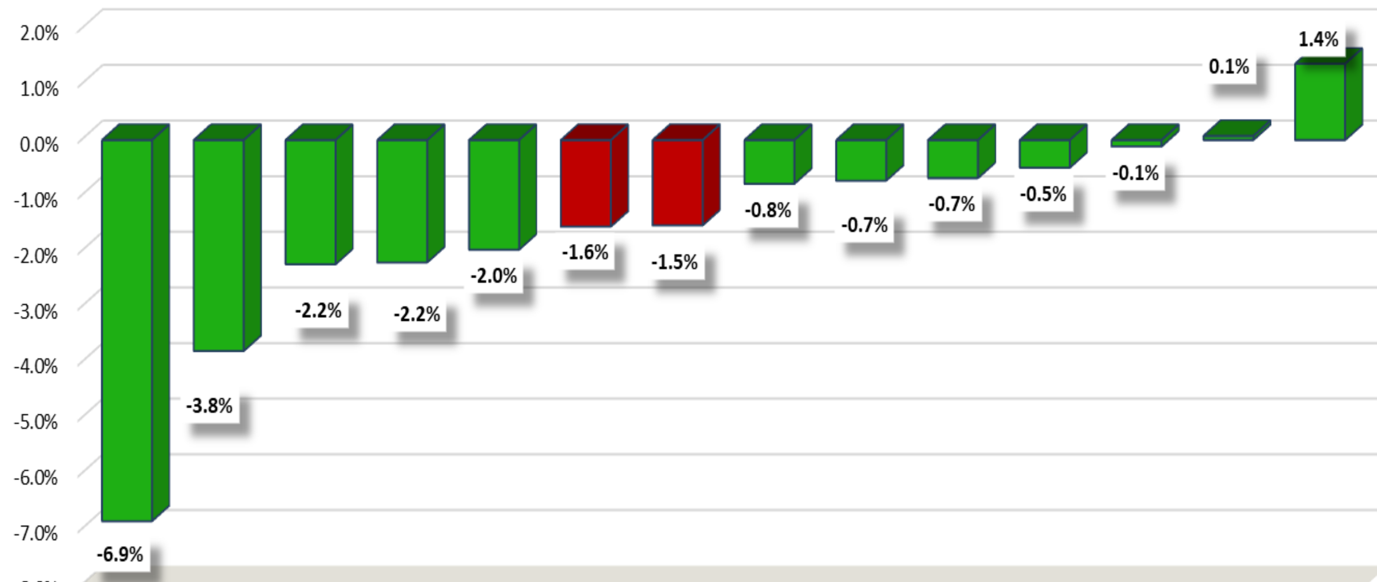
6. Malaysia is trading at undemanding valuations based on price-earnings, price-to-book, and dividend yield metrics. Based on KLCI at 1,567 @ 28.10.2021 and using consensus market eps integer of 97/106 for 2021/2022, the market is trading at a PER of 16.2x/14.7x respectively (see Exhibit 5 & 6). This is -1 standard deviation below its long-term mean of approximately 16x. The market PBR of 1.5x (at 7-year average) and DY of 3.9% (above 7-year average) are also supportive of the stock market (see Exhibit 7 & 8). Finally, Malaysia is trading at par with Asia ex-Japan's PER – at the low end of its 5-year range of 0% to +40% premium if the pandemic period in 2020 was excluded (see Exhibit 9).

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 28.10.21



(Source: Bloomberg)

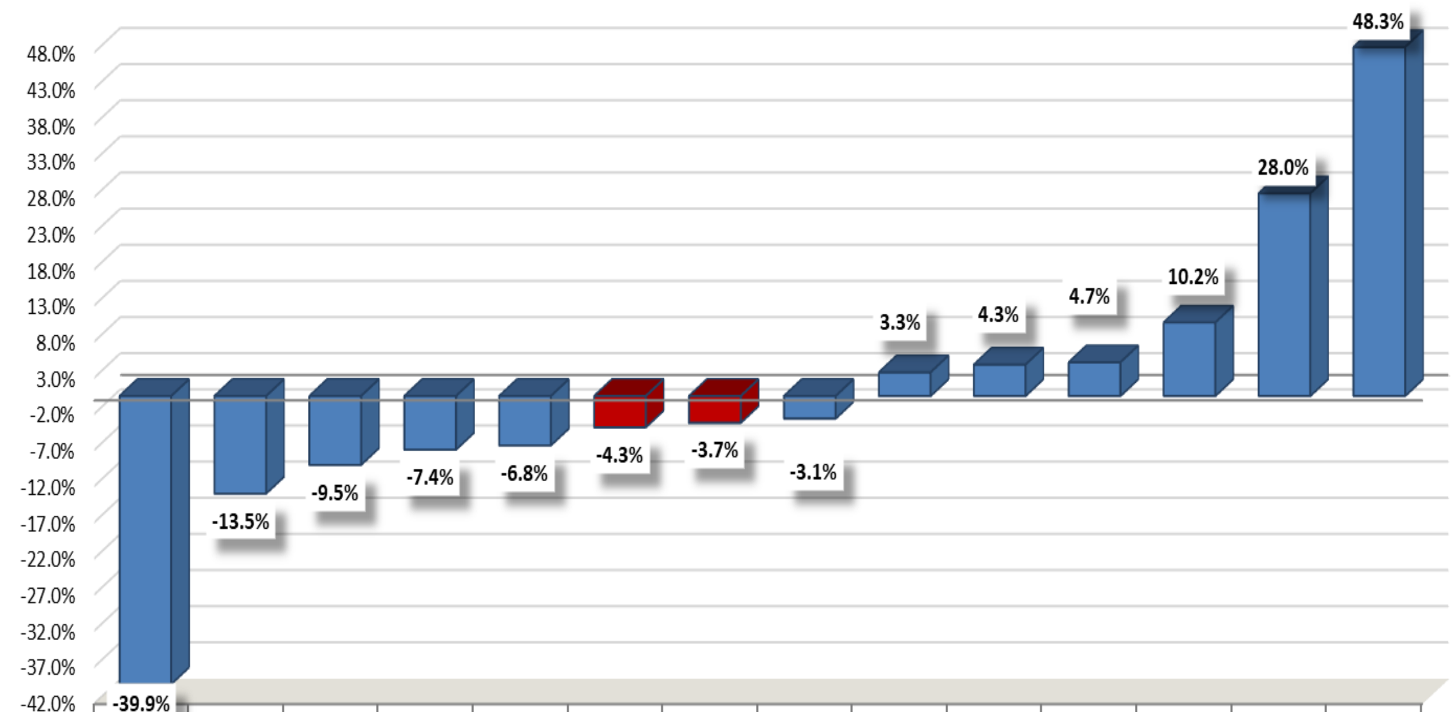
Exhibit 2 : Sector Performances (Week-on-Week) @ 28.10.21



	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Oil & Gas Index	FTSE Bursa Malaysia KLCI	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Utilities Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Real Estate REITs Index
Change WoW	-6.9%	-3.8%	-2.2%	-2.2%	-2.0%	-1.6%	-1.5%	-0.8%	-0.7%	-0.7%	-0.5%	-0.1%	0.1%	1.4%

(Source: Bloomberg)

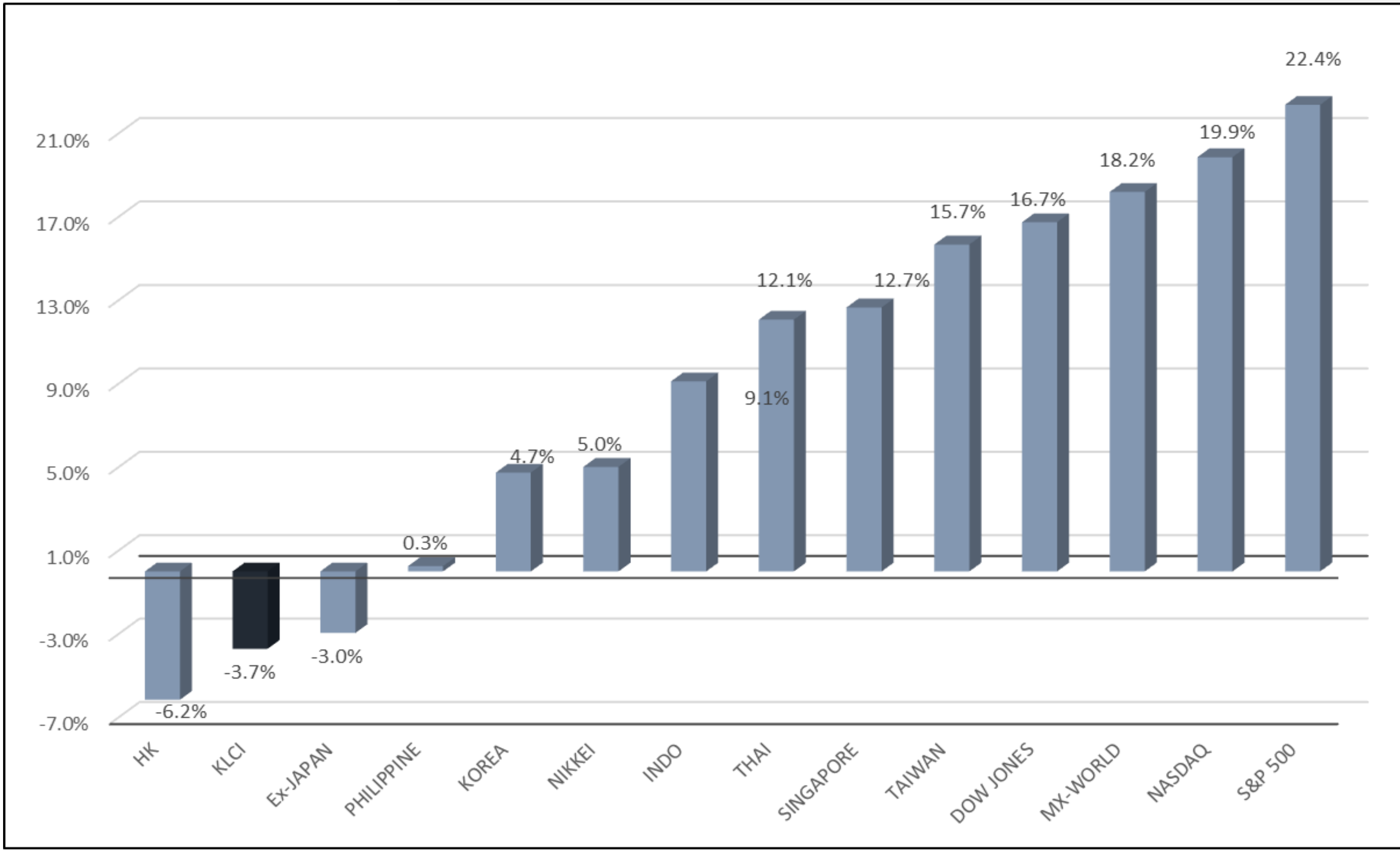
Exhibit 3 : Sector Performances (Year-to-Date) @ 28.10.21



	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 Banks Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index
Change YTD	-39.9%	-13.5%	-9.5%	-7.4%	-6.8%	-4.3%	-3.7%	-3.1%	3.3%	4.3%	4.7%	10.2%	28.0%	48.3%

(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 28.10.21



(Source: Bloomberg)

Exhibit 5 : KLCI 2021 Best PE Ratio

(Source: Bloomberg)

Exhibit 6 : KLCI 2022 Best PE Ratio

(Source: Bloomberg)

Exhibit 7 : KLCI PB Ratio

(Source: Bloomberg)

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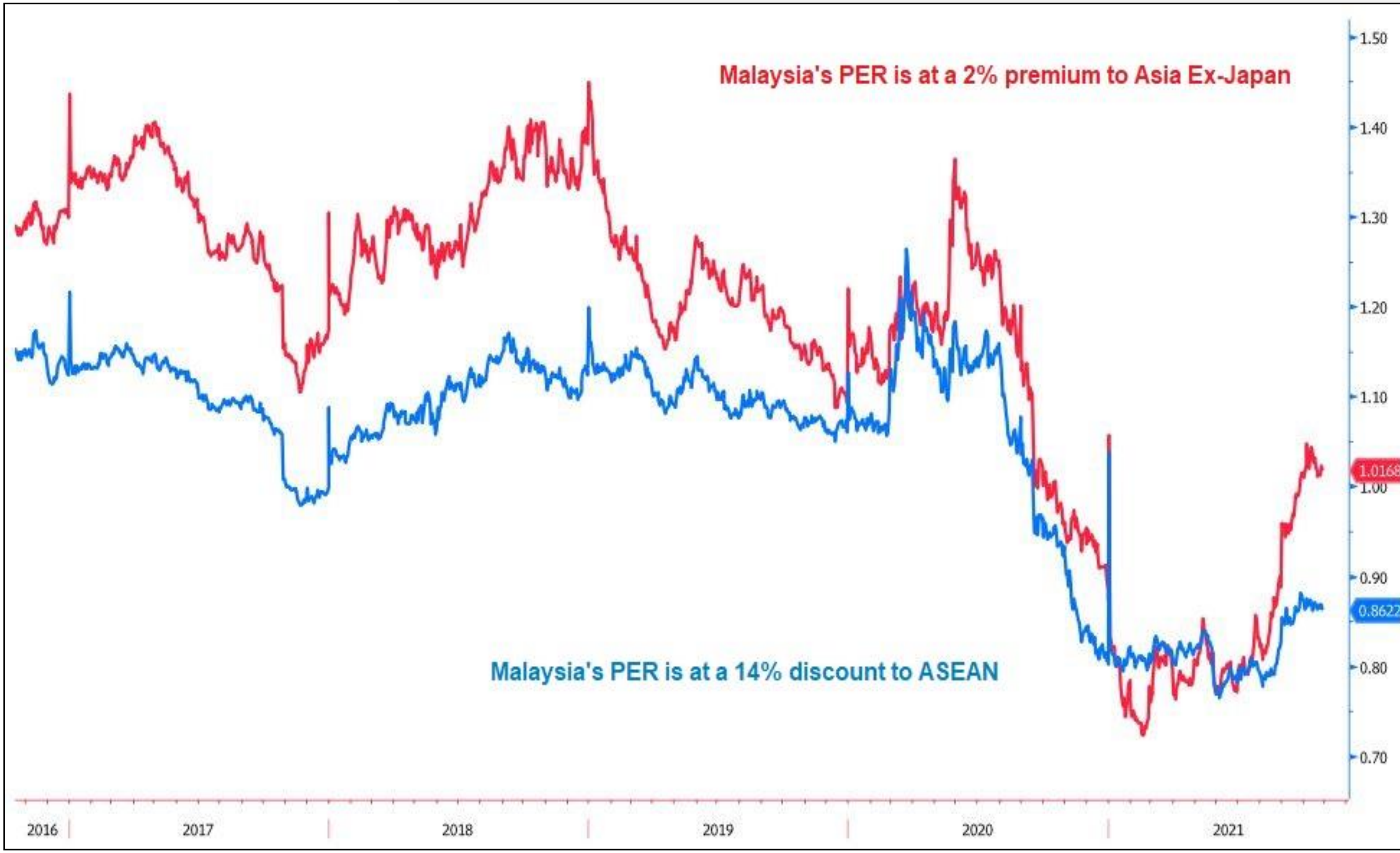
Exhibit 8 : KLCI Best Dividend Yield

(Source: Bloomberg)

Exhibit 9 : Malaysia's Relative PE to the Region



(Source: Bloomberg)

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