Portfolio Manager's View

10 December 2021

Fund Management Department

Regional

1. Investors have come to depend a lot on Central Bank commentaries for direction. However, in the last month, markets have been thrown all over the place by the flip-flop in views. The dovish US Fed seemed to have taken on a more hawkish tone; the suggestion of an accelerated asset purchase taper to be discussed at the upcoming December FOMC Meeting. The word 'transitory' has now been thrown out the window, the possibility that elevated inflation may stay more persistent. Investors have taken it a step further, that this opens the door to an earlier timeline for interest rate hikes. On the other hand, the hawkish BOE shocked the market with the decision to refrain from a rate hike after clearly communicating the intention to do so. Omicron has just thrown another uncertainty into the equation. Deputy BOE Governor Ben Broadbent commented that this new variant needs time to assess. Uberhawk Michael Saunders who sits on the BOE Monetary Policy Committee turned dovish and commented that there is an advantage to waiting for further data on the economic impact of Omicron before raising rates. Both the US Fed and BOE have meetings next week, Central Bank credibility is at stake.

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2. In contrast, the direction for China's monetary policy has never been clearer and turning positive. Investors into China have suffered from a year of monetary tightening. Although PBOC first cut banks' reserve ratio requirement in July, PBOC has been reluctant to take additional easing steps which has led to disappointment. Regulatory scrutiny into many industries and the anti-speculation measures on the property sector have only compounded on the misery. The liquidity problem with the property sector has probably forced a rethink. The urgency and the momentum in China's monetary easing has just started. This week, PBOC cut banks' reserve ratio requirement by another 50bp and cut the relending rate to SME and rural sectors. The Politburo Meeting saw the comment that "Housing is for living and not for speculation" removed and replaced by "Support the housing market to better meet buyers' reasonable housing needs". Where before the Chinese economy was supported on the sole pillar of external trade, 2022 looks like a year where the pillar of external trade should remain robust and now also complimented by the pillars of rising domestic consumption and pick-up in fixed asset investments. There is light at the end of the tunnel and unlike other Central Banks, PBOC is unlikely to flip flop and reverse course.

Malaysia

1. The KLCI closed at 1,502 @ 2.12.2021, a decline of -1.9% MoM. Last week, Healthcare (+8.9%) was the best performing sector. In contrast, Industrial Metals & Mining (-6.0%), Technology (-5.7%) and Small Cap (-5.2%) were the worst performing sectors. Year-to-date @ 2.12.2021, the KLCI has retreated by -7.7%.

2. Recently, human rights activist Andy Hall accused local Electronics Manufacturing Services ("EMS") firm ATA IMS Berhad of abusing its foreign workers. Its main customer, Dyson (which accounts for 80% of ATA's total revenue) launched a series of investigation on ATA following the accusation. On 25 November 2021, Dyson decided to officially terminate its contract with ATA.

   This is an overdue "wake up call" for Malaysian companies to focus more on its compliance with ESG standards. This has sparked worries across other sectors as investors speculate that these allegations could extend to other companies whose operations rely heavily on foreign workers. The concerns have spilled over to the share prices of the other EMS companies.

   This foreign labour issue adds to the negative newsflow from Budget 2022 which was tabled on 29 October 2022. Firstly, a prosperity tax Cukai Makmur will levy a 33% tax rate on chargeable income for companies earnings RM 100 mil and above in 2022 (at 24% for chargeable income up to RM 100 mil).

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Secondly, effective 1 January 2022, stamp duty for share transactions will increase from 0.10% to 0.15% and the RM200/contract cap on stamp duty will be removed. As more than half of Bursa's daily turnover by value is dominated by institutional trading, a significant portion of Bursa's turnover will be affected. In addition, post the stamp duty increase, trading cost on Bursa is expected to rise from 0.25% to 0.38% - the highest in ASEAN (source : Hong Leong Securities Research, 9 December 2021).

The three local concerns have acted as fresh headwinds for the KLCI - adding to recent worries over Omnicron and the FED tapering (though the last two negatives appear to be subsiding).

3. World Semiconductor Trade Statistics (WSTS) reported its October 2021 sales increased by 25.1% YoY (vs 27.5% YoY for Sep-21) and 1.1% MoM (vs 2.3% MoM for Sep-21). Exhibit 9 shows that growth in global semiconductor sales is still trending upwards. There has been 7 cycles since 1997. The average duration of an upcycle is 31 months while the average duration from start to the peak of the upcycle is 12 months. We are in the 20th month of the current upcycle (Exhibit 10). Based on the current chip supply shortages, we do not foresee a peak in the semiconductor industry until 2H 2022 or 2023.

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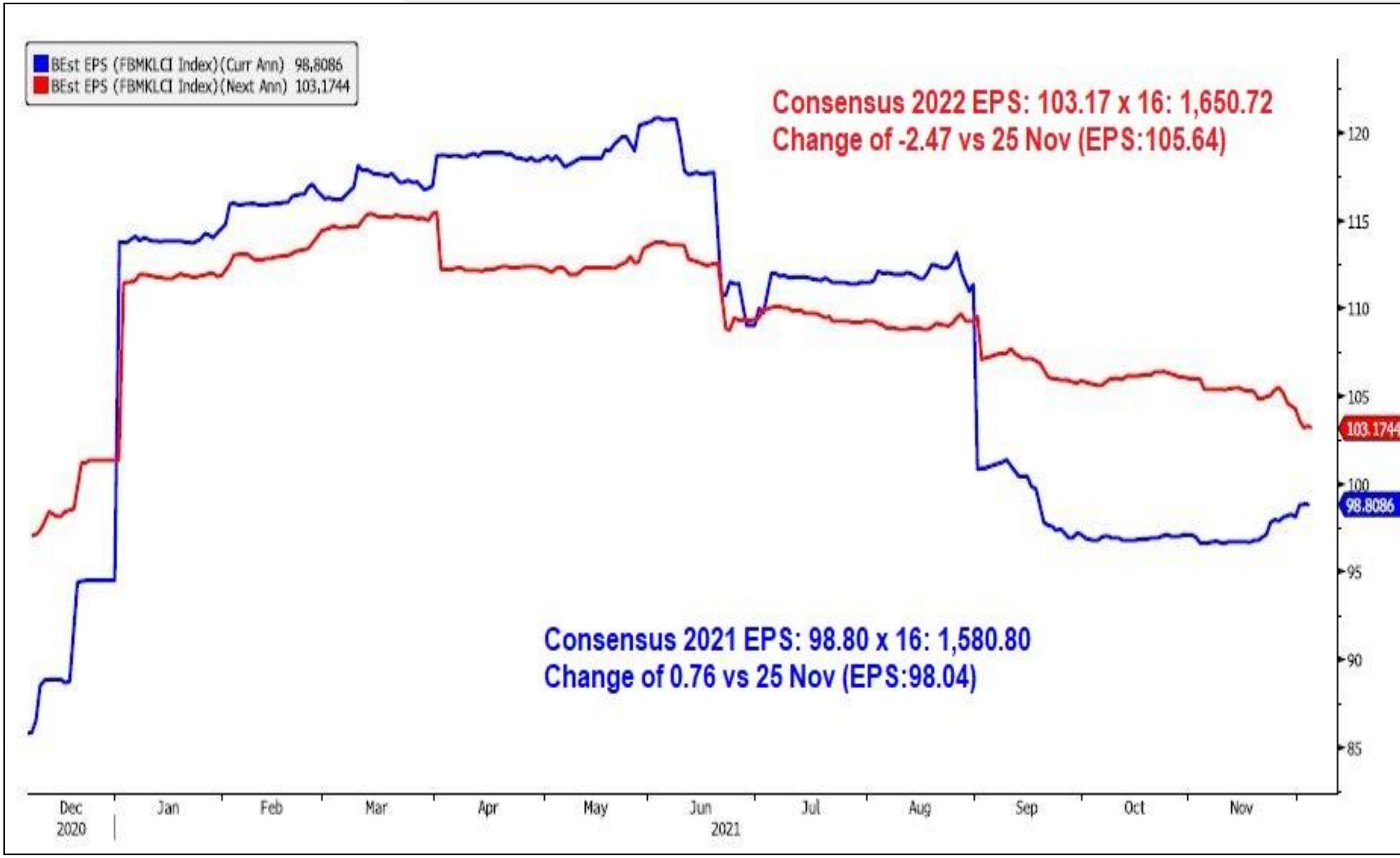
4. Digital Nasional Berhad (DNB), a special purpose vehicle owned by the Ministry of Finance to develop 5G infrastructure in Malaysia, announced that it will offer 5G wholesale infrastructure at no cost ahead of its expected launch in mid-December 2021. This comes as local telco companies were not able to come to a timely agreement on pricing for the access of DNB's 5G network. We believe this could delay plans of large-scale 5G roll out for Malaysia and for fixed cable providers that have laid out the infrastructure for DNB if an agreement is not finalized. We will continue to monitor these developments.

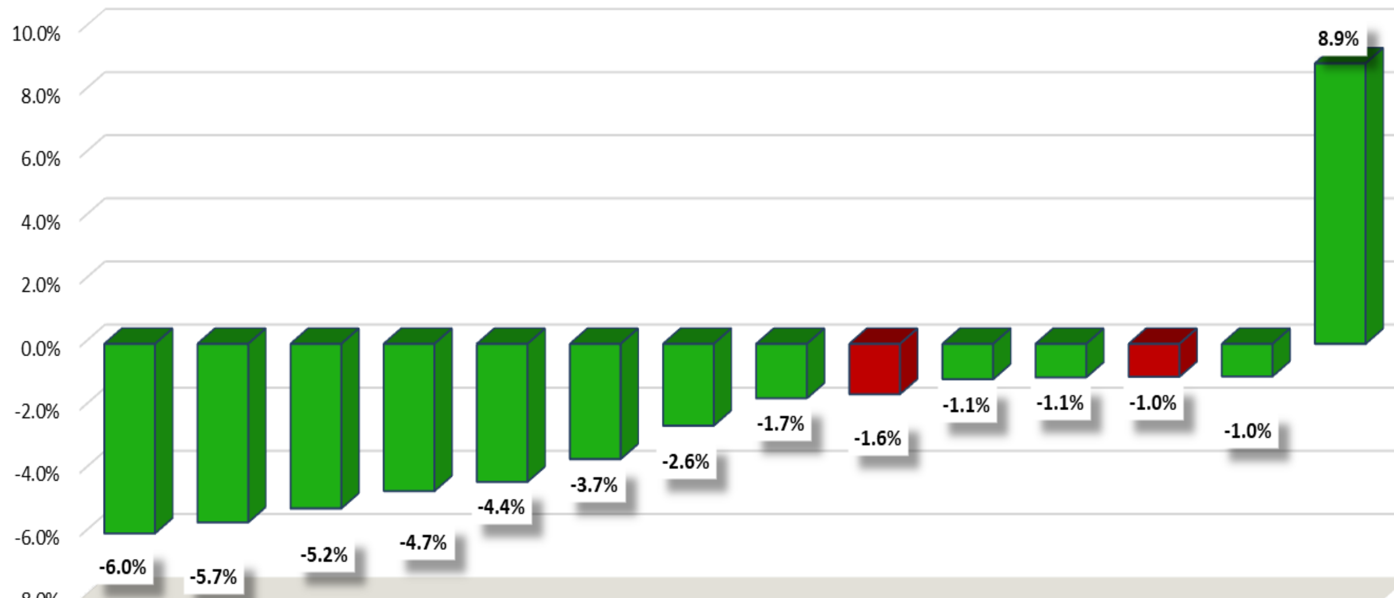
5. In our view, the KLCI's valuations are inexpensive and have substantially reflected the current negatives. Based on KLCI level of 1,502 @ 02.12.2021 and using consensus market EPS integer of 103 for 2022, the market is trading at a 2022 PER of 14.5x (see Exhibit 5). This is -1 standard deviation below its long-term average of approximately 15.2x. The market PBR of 1.5x (below 5-year average) and DY of 4.1% (above 5-year average) are also supportive of the stockmarket (see Exhibit 6 & 7). Finally, Malaysia is trading at a 5% premium against Asia ex-Japan's PER – at the low end of its 5-year range of 0% to +40% premium (excluding the pandemic period in 2020 - see Exhibit 8).

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 02.12.21



(Source: Bloomberg)

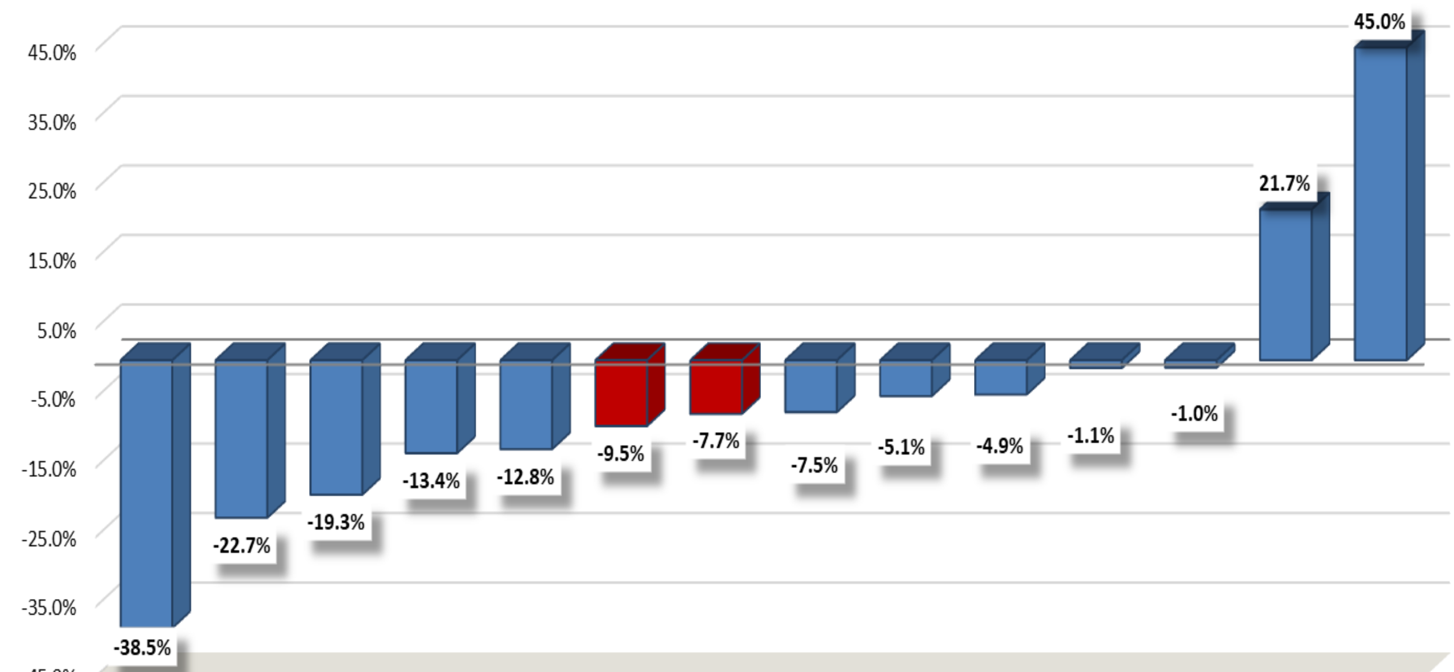
Exhibit 2 : Sector Performances (Week-on-Week) @ 02.12.21



	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Banks Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Consumer Goods Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS HealthCare Index
Change WoW	-6.0%	-5.7%	-5.2%	-4.7%	-4.4%	-3.7%	-2.6%	-1.7%	-1.6%	-1.1%	-1.1%	-1.0%	-1.0%	8.9%

(Source: Bloomberg)

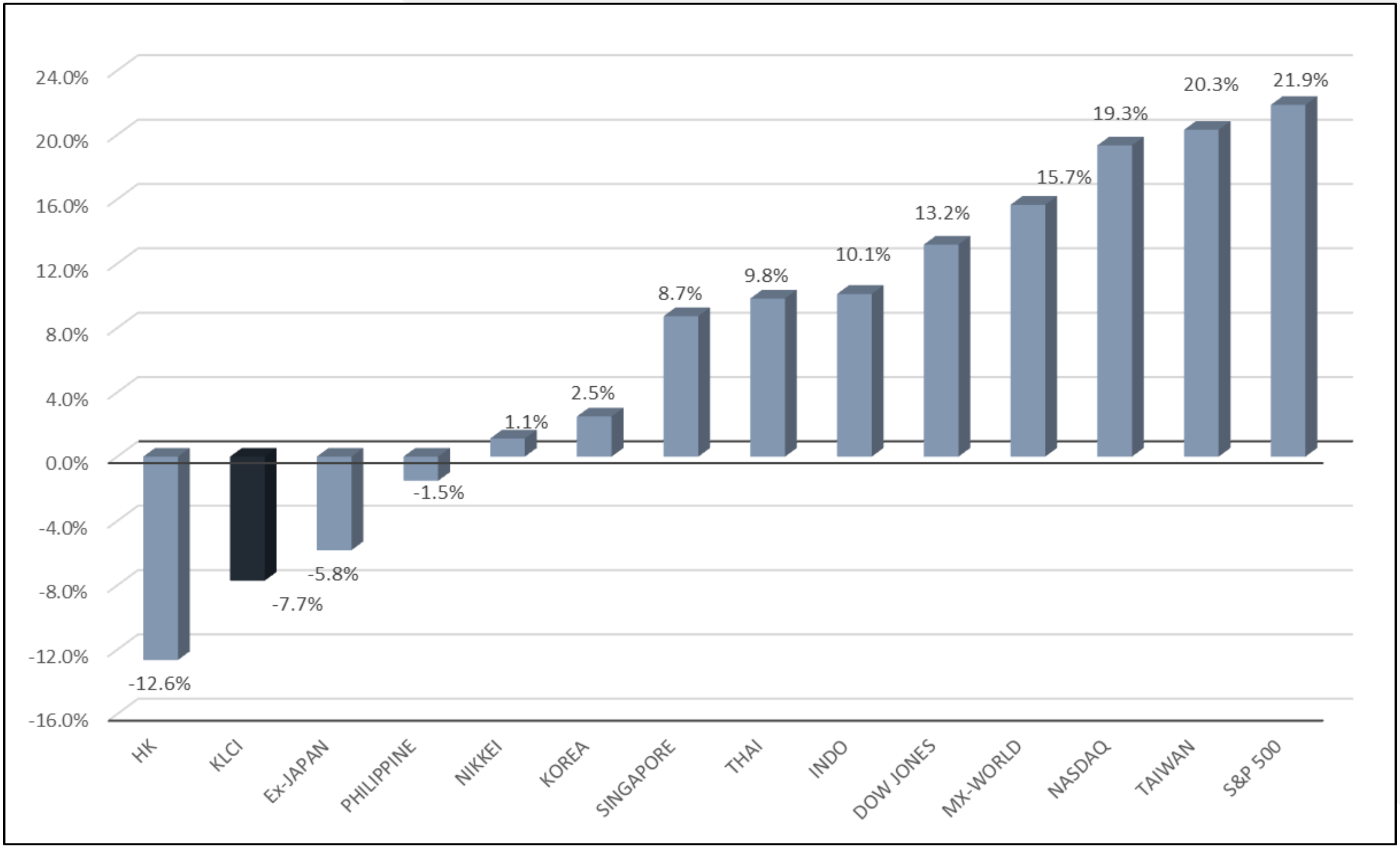
Exhibit 3 : Sector Performances (Year-to-Date) @ 02.12.21



	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 Real Estate REITs Index	FTSE B/M EMAS Industrials 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	-38.5%	-22.7%	-19.3%	-13.4%	-12.8%	-9.5%	-7.7%	-7.5%	-5.1%	-4.9%	-1.1%	-1.0%	21.7%	45.0%

(Source: Bloomberg)

Exhibit 4 : Performance Indices (Year-to-Date) @ 02.12.21



(Source: Bloomberg)

Exhibit 5 : KLCI 12M Forward PE Ratio @ 02.12.21

(Source: Bloomberg)

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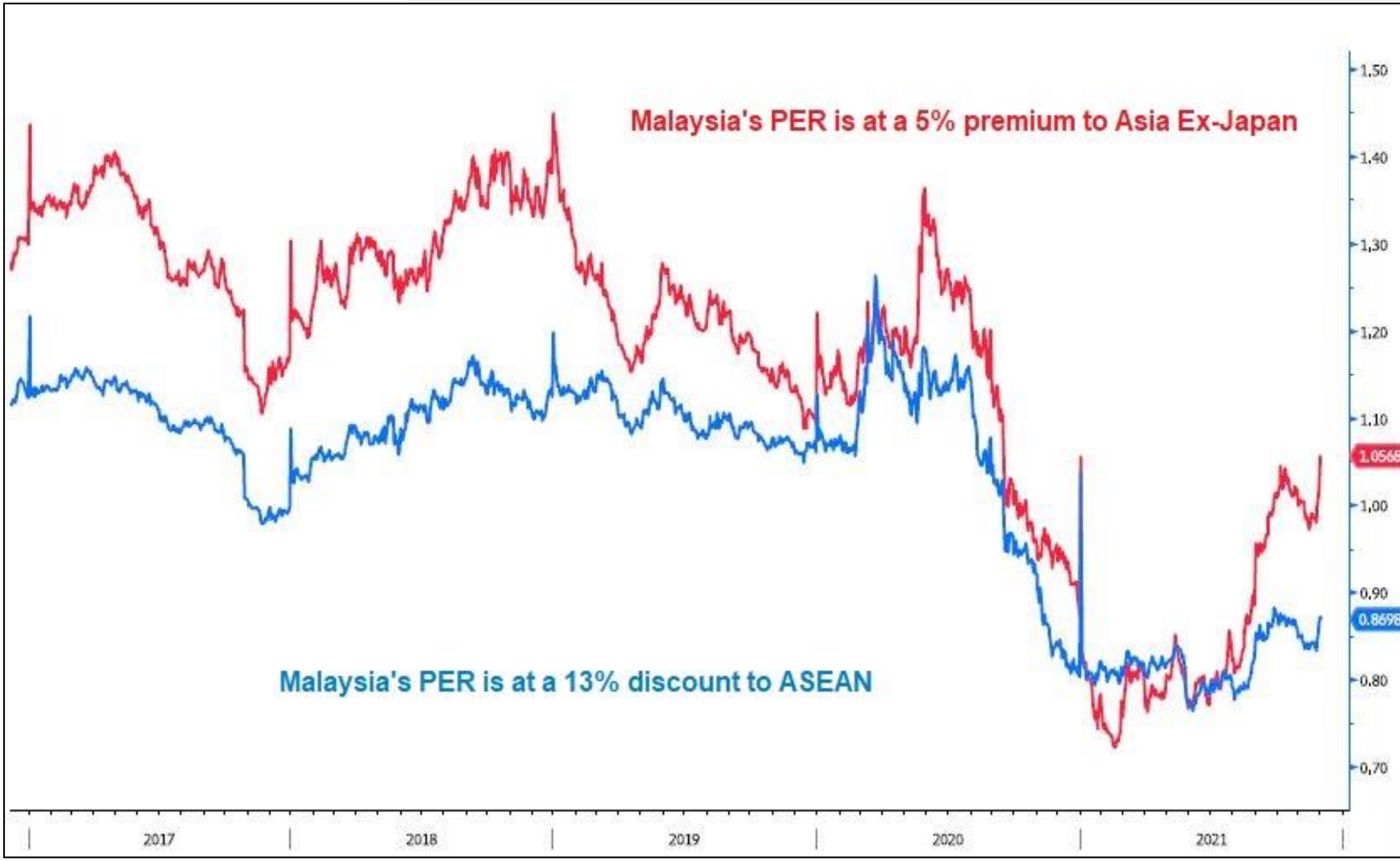
Exhibit 6 : KLCI 12M Forward PB Ratio @ 02.12.21

(Source: Bloomberg)

Exhibit 7 : KLCI 12M Forward Dividend Yield @ 02.12.21

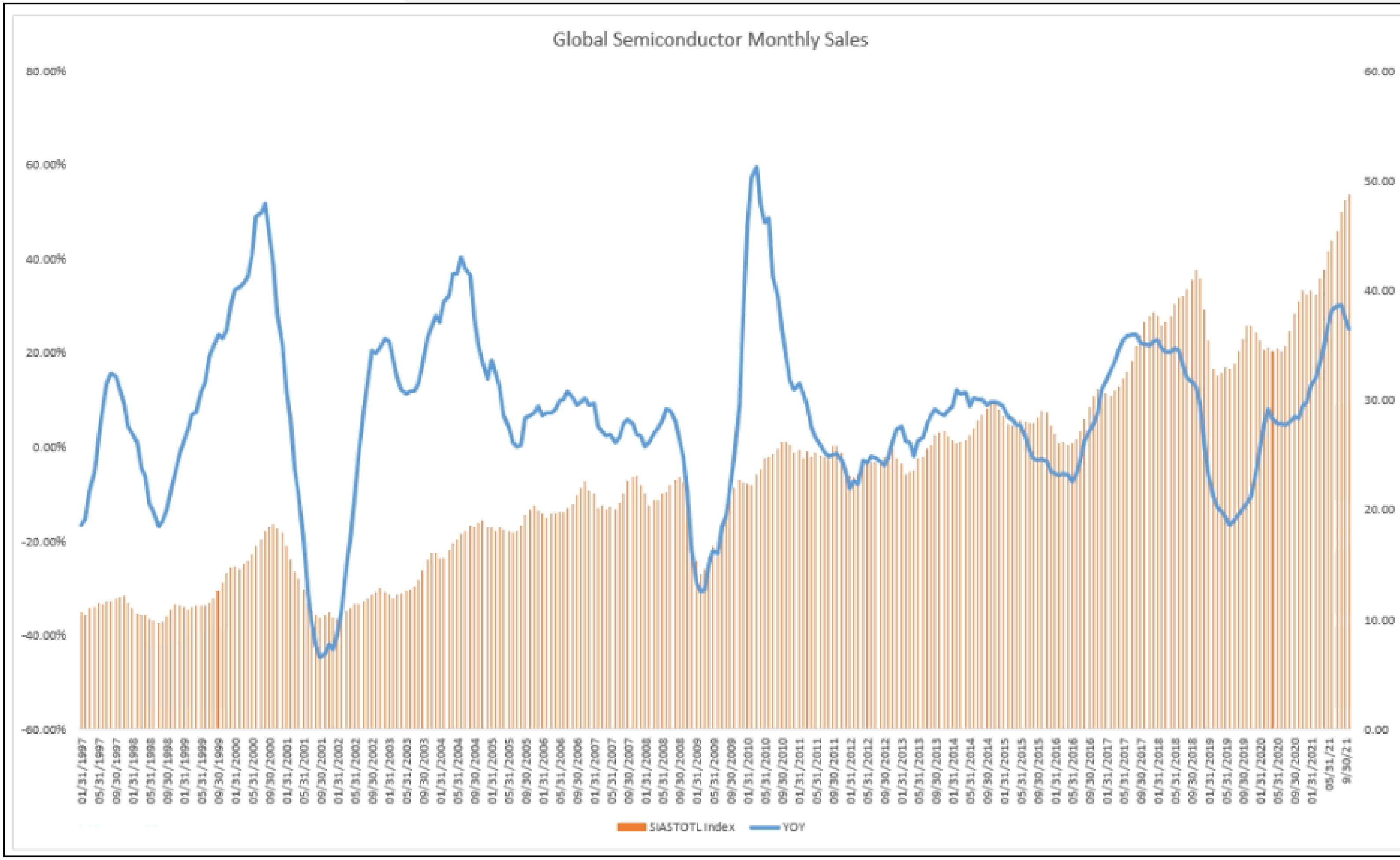
(Source: Bloomberg)

Exhibit 8 : Malaysia's Relative PE to the Region



(Source: Bloomberg)

Exhibit 9 : Global Semiconductor Monthly Sales Chart



(Source: AISB & Bloomberg)

Exhibit 10 : Global Semiconductor Sales Cycles

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*	*08/31/2021*	*09/30/2021*	*20*	*20*	*	30%
	Average - excluding current cycle			31	12		23%

* *Current cycle*

(Source: AISB & Bloomberg)

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