Portfolio Manager's View

16 December 2021

Fund Management Department

Regional

1. The Covid-19 situation has taken a turn for the worse. UK reported its first death from Omicron. Infections continue to double every 2-3 days with London accounting for 40% of Omicron cases. China also reported its first case of Omicron. The China-Hong Kong quarantine-free travel lane is at risk of being shut if the situation worsens. A South Africa study concluded that the Pfizer vaccination has only 22.5% efficacy against symptomatic infections. The narrative is now likely to shift to concern of any strain that will be put on healthcare systems when there are more hospitalisations. Mobility restrictions are back with Goldman Sachs telling their London staff to work from home and Fidelity Investments pausing its US return to office program. Apple has started to close multiple retail stores across the US and Canada due to an increase in employee Covid-19 cases.

2. In recent weeks, US Fed Chair Jerome Powell has started setting a hawkish tone. In the last FOMC Meeting of the year, the US Fed announced it will accelerate the reduction of asset purchases from US$15 billion per month to US$30 billion per month, setting a timeline to conclude by March 2022. With the new dot-plot indicating a median of three rate hikes for 2022, this is likely

-continued

to open the door to June as a likelihood of a lift-off in rates. Thereafter, the dot-plot indicated three more rate increases for 2023 and another two more rate increases for 2024. Cumulatively, this will mean that the Fed Fund Rate should reach 2% end 2024. Assuming our inflationary target for the coming years to sustain above 2%, this also means that we remain in a negative real yield environment to 2024. Equity markets reacted positively to this latest FOMC Meeting as a large part of the outcome was within consensus and priced in. More importantly, the market takes comfort that the US Fed has acknowledged the risk of sustained higher inflation and is ready to act. It is also the case that this new dot-plot signals a still accommodative monetary stance.

3. China's annual Central Economic Work Conference (CEWC) took place last weekend. The CEWC sets the policy tone for 2022 with more specific targets to be released at next March's National Party Congress. Ning Jizhe, the Deputy Head of China's National Development and Reform Committee (NDRC), commented on the downward pressure faced by the Chinese economy with growth stability the key emphasis for 2022. The Chinese economy has been largely supported by the sole pillar of robust external trade in 2021.

-continued

As the external environment turns becomes more uncertain due to the likely withdrawal of liquidity by major global Central Banks, China is trying to engineer a weaker and more competitive Chinese Rmb. Meanwhile, there is now the need to stimulate domestic demand with incremental monetary easing likely to boost the pillars of rising domestic consumption and pick-up in fixed asset investments. The money printing press in China may just be starting as the others are shutting theirs.

Malaysia

1. The KLCI closed at 1,489 @ 10.12.2021, a decline of -2.3% MoM. Last week, Industrial Metals & Mining (+2.6%) and Construction & Materials (+1.9%) were the best performing sectors. In contrast, Healthcare (-11.1%) and Oil & Gas (-2.6%) were the worst performing sectors. Year-to-date @ 10.12.2021, the KLCI has declined by -8.5 %.

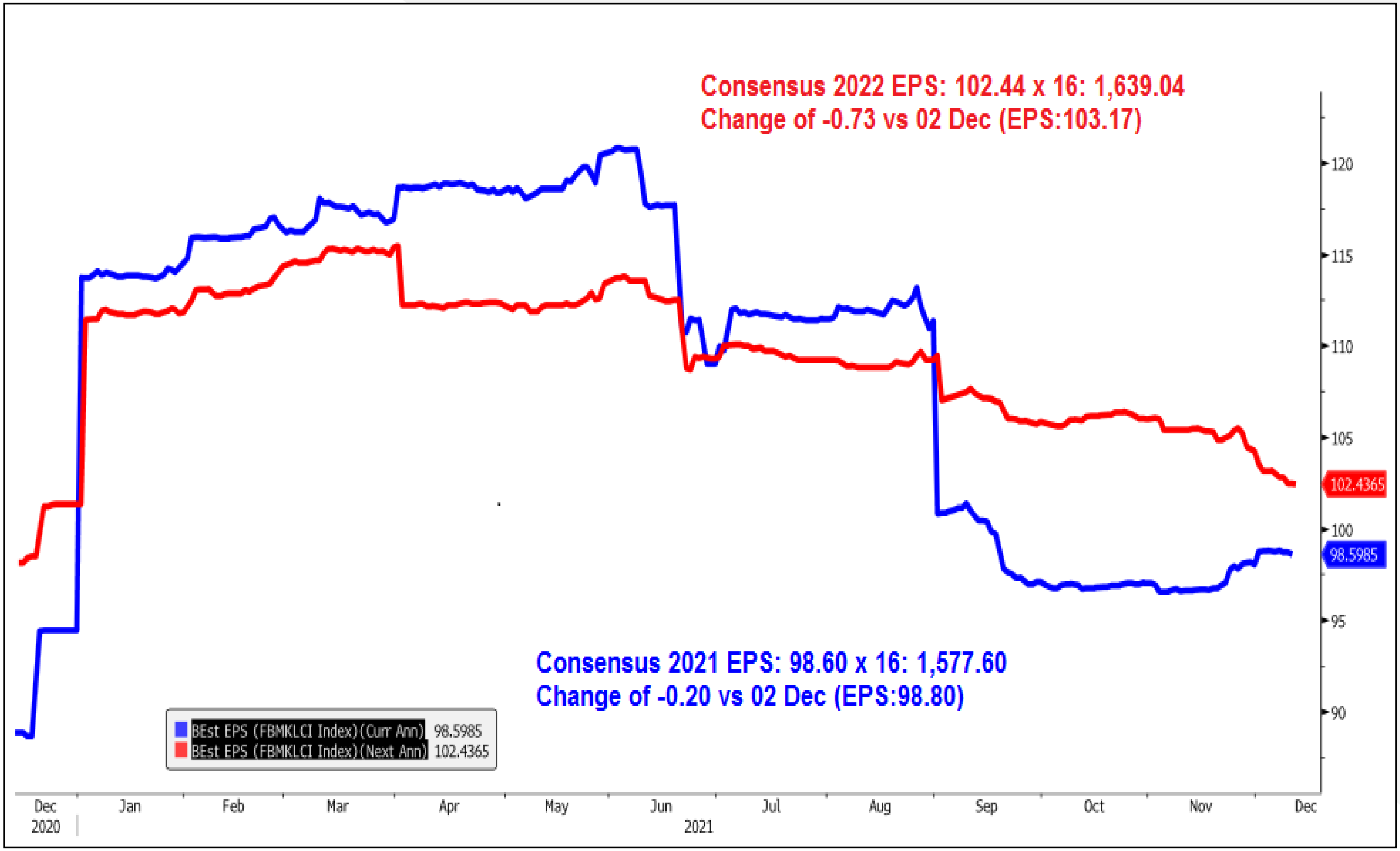
2. Malaysia's telco companies are calling for a 2nd 5G service provider to be set-up. The Cabinet will decide on Jan-22 whether to allow *multiple* 5G providers. There is not a great deal of information to indicate why the telcos have raised their objection except over pricing and transparency reasons. With a single wholesale network under Digital Nasional Berhad ("DNB"), telcos will lose their control over their network and will compete on service and products. The argument in support of DNB is with a single network for 5G, the government can avoid a duplication of capex by the telcos. This will effectively lower the cost to the consumer. An article in the Weekly Edge estimates that the cost for the consumer may drop from RM1.96/GB currently to RM 1.05/GB under DNB's 5G Plan (see page 80, The Edge Malaysia, 13 Dec, 2021). Malaysia is lagging in ASEAN in terms of 5G roll-out. The Plan by DNB gives Malaysia a chance to catch-up and achieves a 5G penetration of 40% by 2022, ~70% by 2023 and ~80% by 2024.

-continued

3. The imposition of Cukai Makmur (Prosperity Tax) and the proposed stamp duty hike from 1 Jan 2022 have contributed to the negative sentiment on Bursa currently. In addition, the Sep-quarter (3Q) reporting season saw a bigger percentage of companies reporting results which were below expectations. This has renewed the pressure on share prices coming from earnings downgrades. It was reported that the association of stockbroking companies is in talks with MoF to maintain the stamp duty rate at 0.10% - but with a proposed cap which is higher than the existing RM200. If this materializes, it will be a relief for investors. If the stamp duty hike goes ahead, the transaction cost for Bursa is set to soar and is likely to negatively impact trading volumes in 2022 (similar to the impact of the stamp duty hike in Hong Kong in Feb-21 on market volumes).

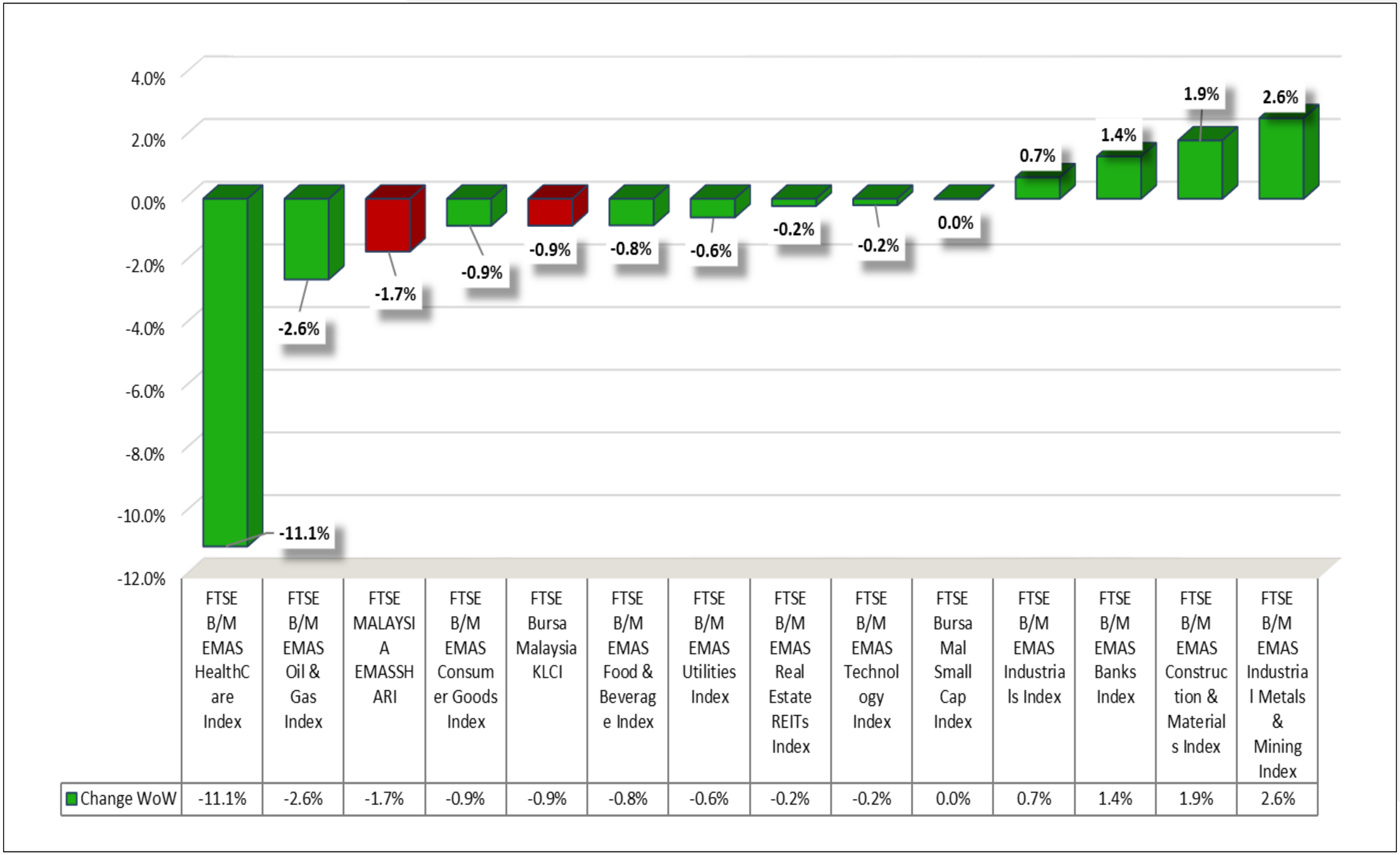
4. In our view, the KLCI's valuations are inexpensive. Based on KLCI level of 1,489 @ 10.12.2021 and using consensus market EPS integer of 102 for 2022, the market is trading at a 2022 PER of 14.6x (see Exhibit 5). This is -1 standard deviation below its long-term average of approximately 15.3x. The 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) @ 10.12.21



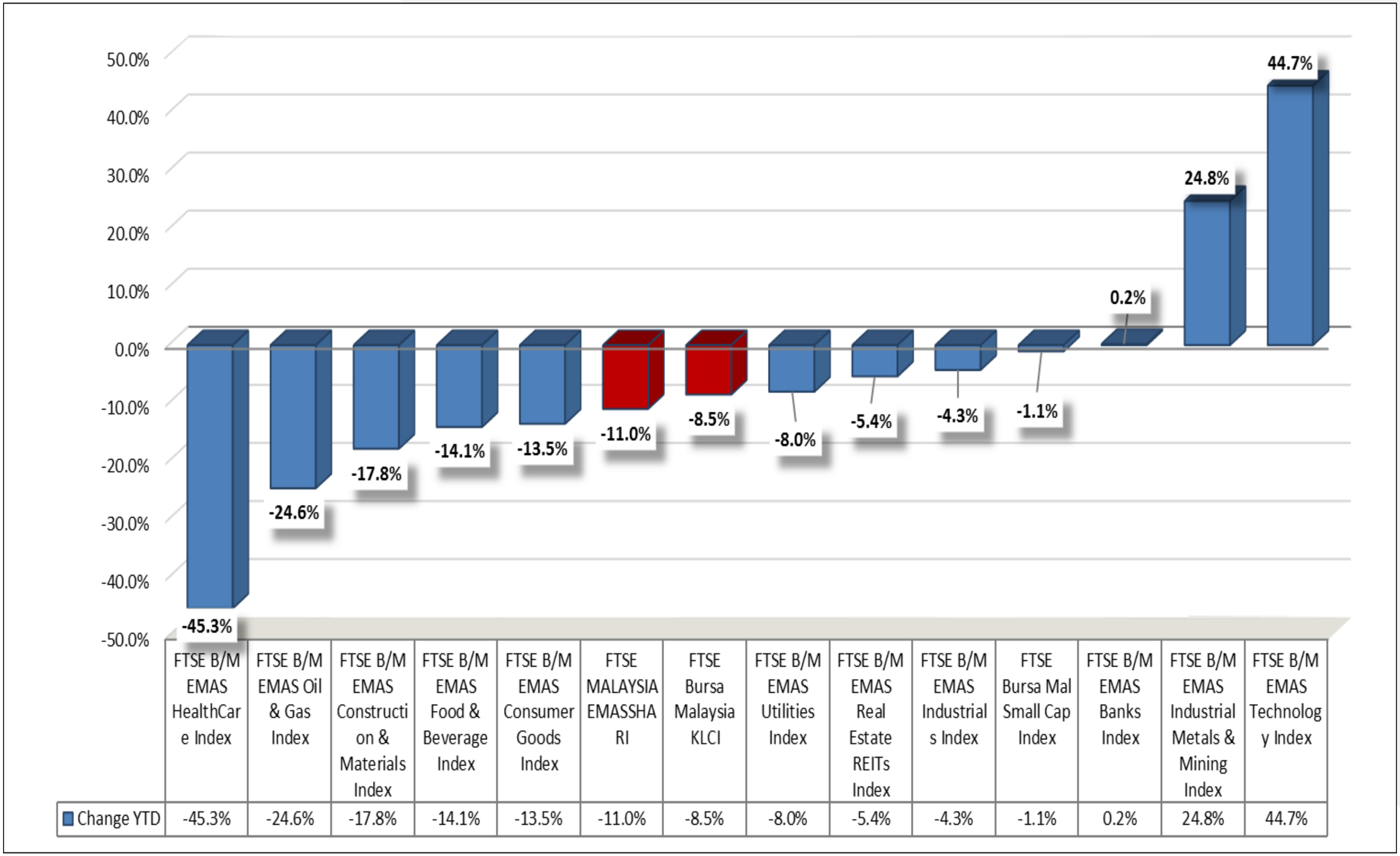
(Source: Bloomberg)

Exhibit 2 : Sector Performances (Week-on-Week) @ 10.12.21



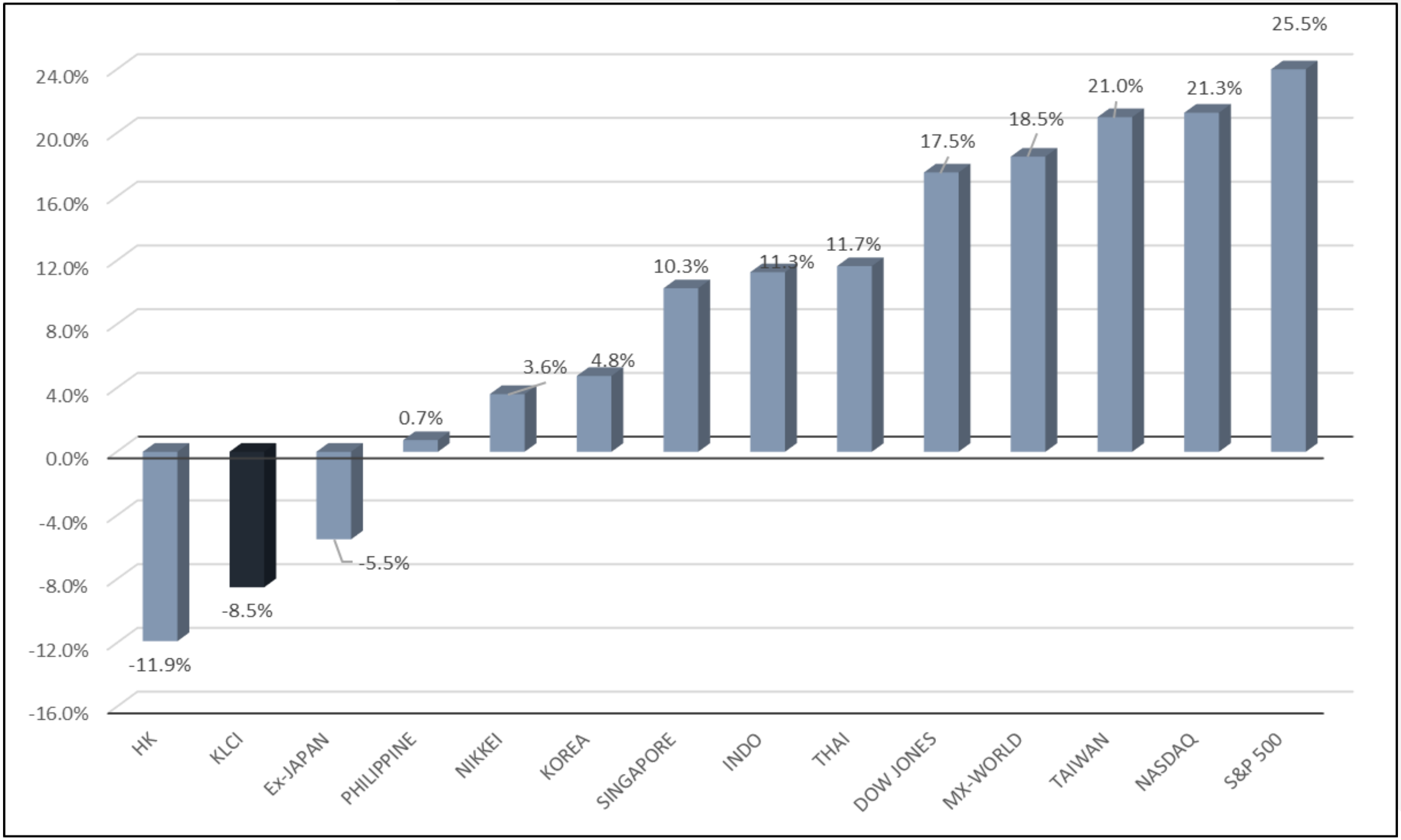
(Source: Bloomberg)

Exhibit 3 : Sector Performances (Year-to-Date) @ 10.12.21



(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 10.12.21



(Source: Bloomberg)

Exhibit 5 : KLCI 12M Forward PE Ratio @ 10.12.21

(Source: Bloomberg)

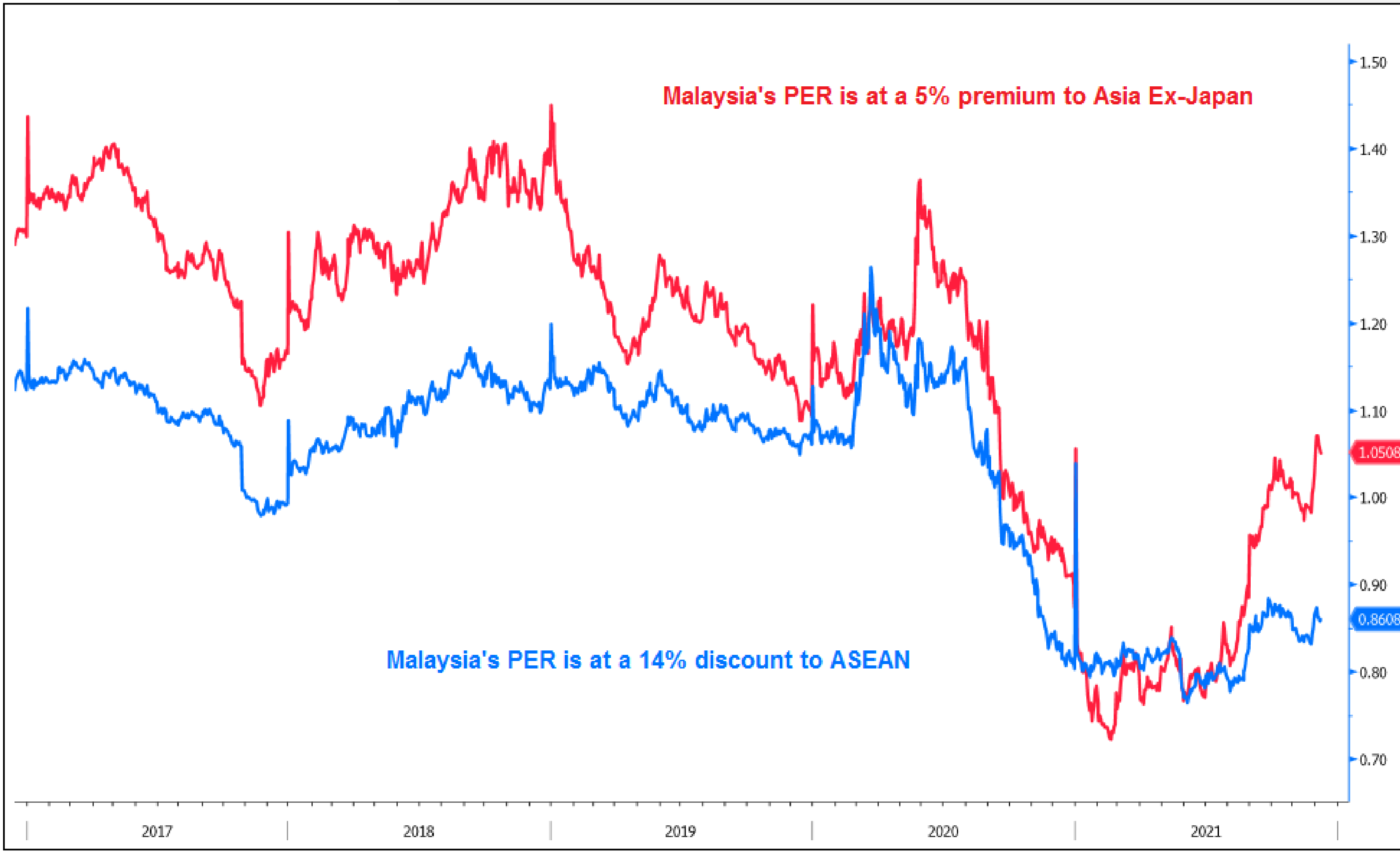
Exhibit 6 : KLCI 12M Forward PB Ratio @ 10.12.21

(Source: Bloomberg)

Exhibit 7 : KLCI 12M Forward Dividend Yield @ 10.12.2021

(Source: Bloomberg)

Exhibit 8 : Malaysia's Relative PE to the Region



(Source: Bloomberg)

Disclaimer

This document is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Fundamental ratings include various financial data from the income statement, balance sheet, and cash flow statement items such as sales, profit, all important ratios, cash flows, working capital, cash conversion cycle and etc. over the past quarters and years. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not indicative of future performance. This document is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this document. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this document. The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Apex Investment Services Berhad ("AISB") and consequently no representation is made as to the accuracy or completeness of this document by AISB and it should not be relied upon as such. Accordingly, AISB and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this document. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice. This document may contain forward-looking statements which are often but not always identified by the use of words such as " anticipate", "believe", "estimate", "intend", "plan", " expect", "forecast", "predict" and "project" and statements that an event or result "may", “will", "can", "should", "could " or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. AISB expressly disclaims any obligation to update or revise any such forward-looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. AISB and its officers, directors and employees, including persons involved in the preparation or issuance of this document, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this document, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this document. One or more directors, officers and/or employees of AISB may be a director of the issuers of the securities mentioned in this document to the extent permitted by law. This document is prepared for the use of AISB clients, consultants or Representatives and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of AISB. AISB and its Representatives accepts no liability whatsoever for the actions of third parties in this respect. This document is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This document is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this document.

This document has not been reviewed by the Securities Commission Malaysia (“SC”), Federation of Investment Managers Malaysia (“FIMM”) and Employees Provident Fund (“EPF”). The SC, FIMM and EPF are not liable for this document and are not in any way associated with this document. The SC, FIMM and EPF are not responsible for the contents herein and do not make any representation on the accuracy or completeness of this document, either in whole or in part.