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

Portfolio Manager's View

27 January 2022

Fund Management Department

Regional

1. Global equities fell 4.7%, weighed down by US (S&P 500 -5.7%, NASDAQ -7.6%) after more US corporates reported disappointing Q4 2021 earnings and outlooks. In the previous week, JP Morgan's Q4 earnings beat estimates, but fell after guiding lower profitability going forward; last week, US Bancorp reported below-consensus Q4 results, coinciding with a flood of selling of US and European financials. Adding to the downbeat, "stay-at-home" trades that did well during the COVID-19 pandemic (e.g. streaming services like Netflix, connected exercise bike maker Paleton Interactive) fell on slower demand outlook for their services. Risk-off in equities saw US 10Y Treasury yield fall by 5 bps last week.

2. The regional Asia ex-Japan (AXJP) benchmark fared better although it fell by 1.0%. China lowered its loans rate and homebuyers' mortgage rates, sparking a relief rally in beleaguered China property stocks. China internet stocks also rebounded after the sector was depressed by an internet giant's selling of stakes in other e-commerce companies. Large index constituents from these sectors mitigated the Asian benchmark's fall.

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3. In just three weeks, global markets have plunged 6.4%, primarily from US (S&P 500 -7.7%, NASDAQ -12.0%). YTD 21 January, Asia ex-Japan (+0.8%) and ASEAN (+0.8%) have bucked the global downtrends for good reasons. The Asia-region's one-year forward valuations attractive at 13x price-earnings ratio ("PER"), compared to global (17x) and US (18x) valuations that remain elevated despite the fall in markets. As highlighted in last week's edition, ASEAN remains in focus, as COVID-19 vaccination rates rise and economies reopen further, lending support to rebound in corporate earnings in 2022.

Malaysia

1. The KLCI closed at 1,527 @ 21.01.2022, an increase of 2.3% MoM. All sectors experienced a sell down last week. Utilities & REITs were the least impacted but Technology and Industrials bore the brunt of the sell down. Valuations for the Malaysia market remains fair though it appears less attractive than before due to persistent earnings downgrades.

2. The KLCI has not traded at a lower absolute level in January since 2012 (10 years ago). The market's weakness is due to a combination of factors. Markets are unnerved by a hawkish Fed which is on the cusp of raising interest rates in the next 1-2 years. In addition, is also possible that the FED will end their asset (bond) purchases as early as March. These actions will remove the very accommodative policy stance by the FED and reverse the ultra-low interest rate environment which has prevailed since the early stages of the Covid-19 Pandemic in early 2020. Elsewhere, the growing risk of an invasion of Ukraine by Russia is keeping investors in a risk-off mode. Meanwhile, consensus earnings forecast for the Malaysia market is set to drift lower in the next 1-2 quarters due to the modest economic recovery and a lack of earnings catalysts.

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3. Up to 21 March 2022, local funds have *net sold* RM 640 mil of equities YTD. Foreigners have been net bought RM 347 mil of equities in two out of the last 3 weeks over the same period. Retailers have been net buyers. Foreign holding of 20.4% on Bursa is at a 15-year low.

4. On 24 Jan 2022, Genting Hong Kong which is 76% owned by the family of Tan Sri Lim Kok Thay, filed to wind-up its business. The stock has been suspended in HK. We believe there is no cross holding with other companies in the Genting Group. Meanwhile, Maybank has dismissed speculation that it will face major financial difficulties due to Genting HK's default. Maybank stated that "our "current net credit charge of guidance for loan provisioning remains unchanged and we can confirm that our financial position remains strong."

5. Coal prices continue to trend upwards from Indonesia's ban on coal exports since the start of the year. Indonesia is the 2nd largest coal exporter and accounts for 17.6% of global coal exports in 2020. Year-to-date, coal has increased from US$145/t to US$225/t (+33%). We believe this uptrend is caused by other Asian countries looking to overcome the delay in coal shipments which was caused by these export bans. Although Indonesia has eased some of its coal

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export bans, the coal market will remain tight until Indonesia lifts its export bans on coal producers. In the near term, coal-intensive businesses such as cement manufacturers and power generations may experience margin compression from high coal prices.

6. The Malaysian Aviation Commission (MAVCOM) has approved aviation licenses for MYAirline and SKS Airways into the airline industry. As international borders are likely to remain closed in the near term, these players will have to compete for customers in the domestic market. This may lead to price discounting as these new players vie for market share. In addition, the industry is also experiencing margin pressure as energy prices (which accounts for 30–40% of revenues) continue to trend upwards.

7. Based on KLCI at 1,527 @ 21.01.2022 and assuming consensus eps integer of 102 for 2022 (Exhibit 1), the market is trading at a PER of 15.0x for CY22 (Exhibit 5). This is slightly below the KLCI's 5Y average PER of 15.7x. Secondly, the PBR of the market of 1.4x is -1SD below its 5Y average PBR of 1.5x. Finally, market's DY of 4.0% is attractive at +1SD above its 5Y average of 3.60% (range 3.0% to 4.5%).

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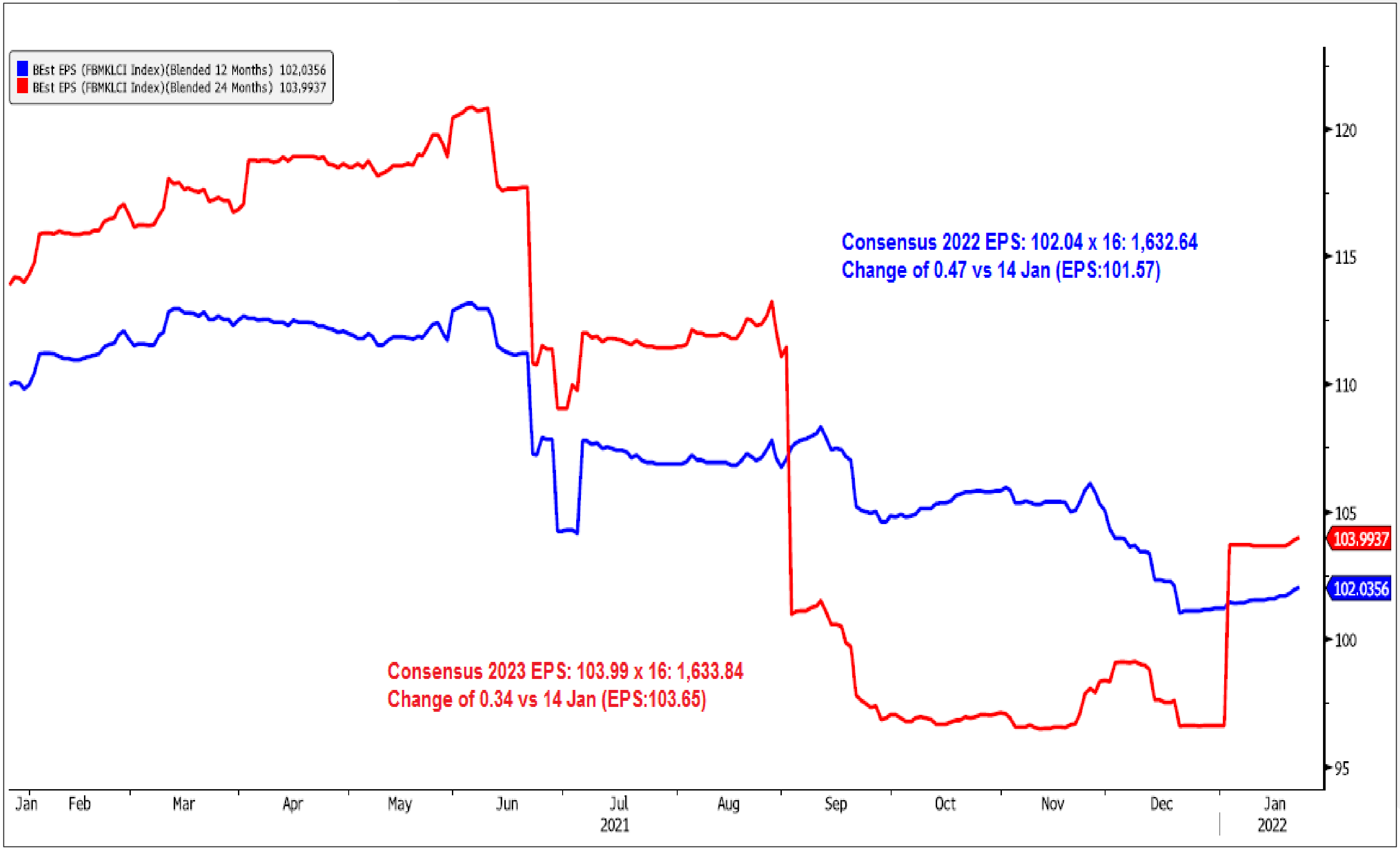
8. Using another approach, assuming a 10% decline in glove stocks in 2022 and applying a PER of 17.5x for the market ex-gloves (vs 5-year average of 19.4x), a potential fair value for the KLCI is 1,660 (Exhibit 9). At this level, it implies a 2022 PER of 16.4x which is slightly above its 5-year average of 15.5x.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 21.01.22



(Source: Bloomberg)

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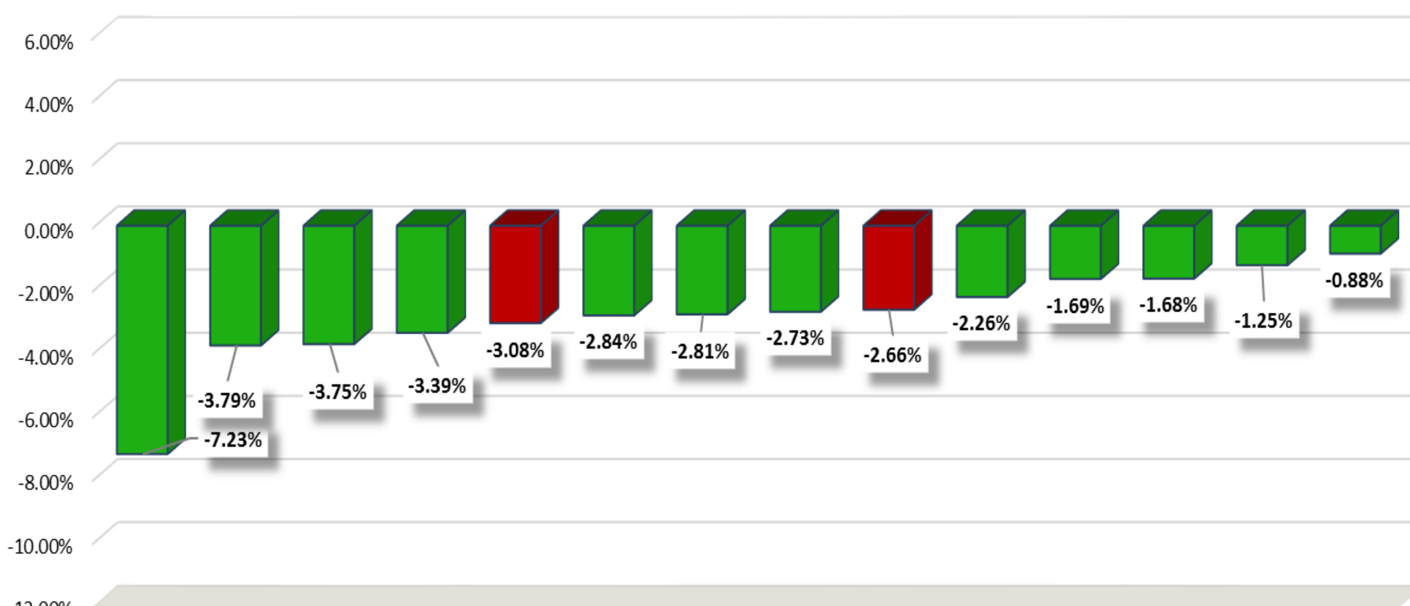
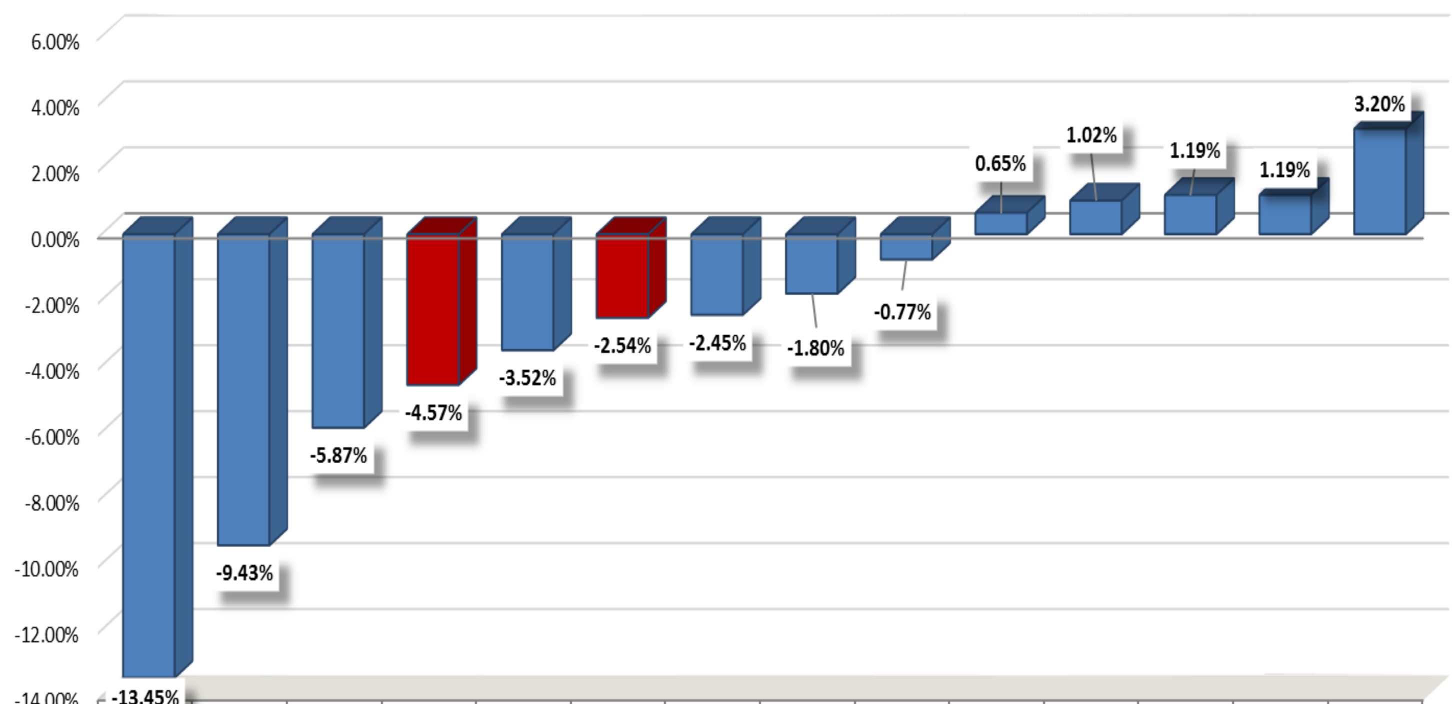
Exhibit 2 : Sector Performances (Week-on-Week) @ 21.01.22



	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS HealthCare Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Banks Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Construction & Materials Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Utilities Index
Change WoW	-7.23%	-3.79%	-3.75%	-3.39%	-3.08%	-2.84%	-2.81%	-2.73%	-2.66%	-2.26%	-1.69%	-1.68%	-1.25%	-0.88%

(Source: Bloomberg)

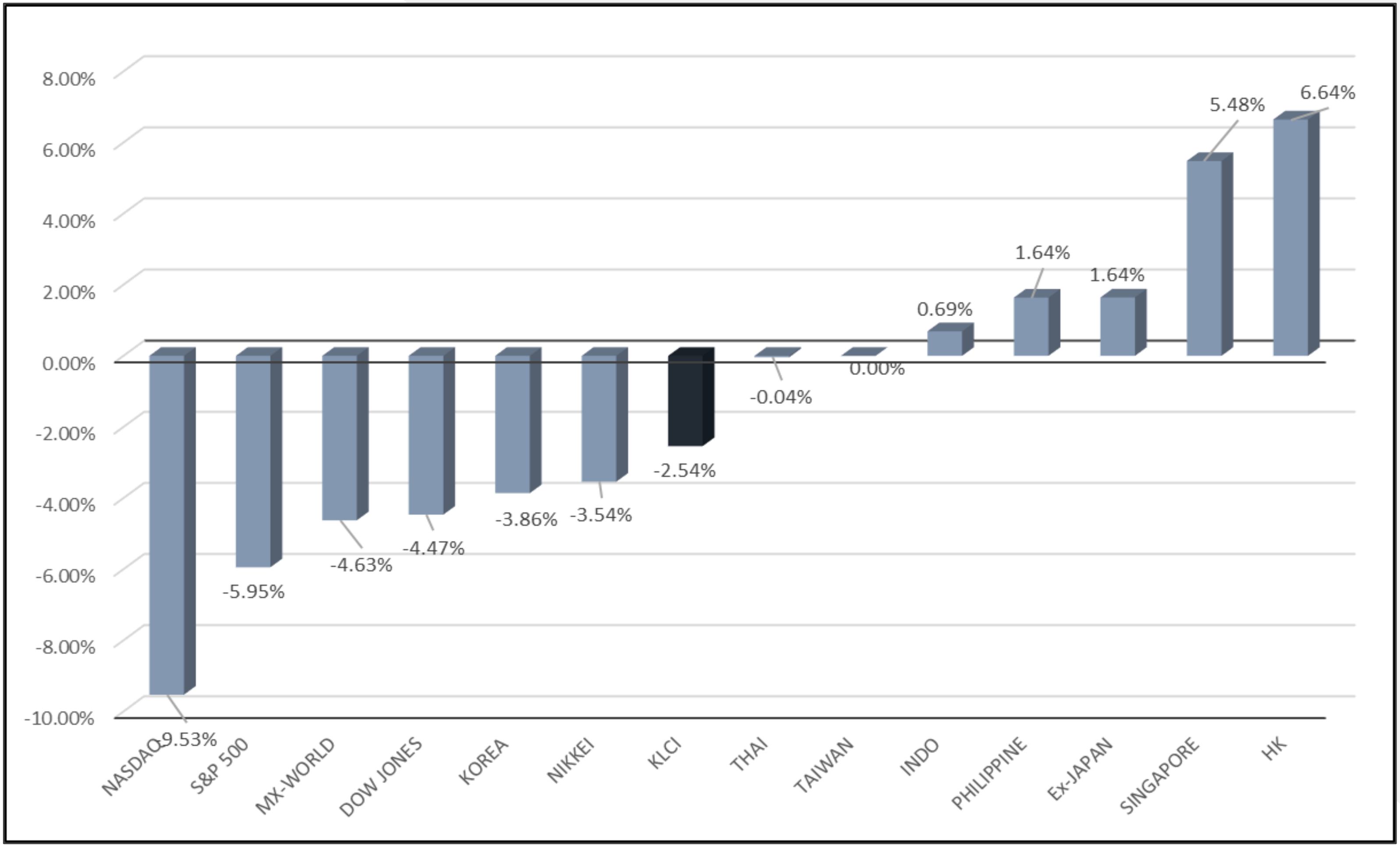
Exhibit 3 : Sector Performances (Year-to-Date) @ 21.01.22



	FTSE B/M EMAS Technology Index	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Industrials Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Utilities Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Construction & Materials Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change YTD	-13.45%	-9.43%	-5.87%	-4.57%	-3.52%	-2.54%	-2.45%	-1.80%	-0.77%	0.65%	1.02%	1.19%	1.19%	3.20%

(Source: Bloomberg)

Exhibit 4 : Performance Indices (Year-to-Date) @ 21.01.22



(Source: Bloomberg)

Exhibit 5 : KLCI 12M Forward PE @ 21.01.22

(Source: Bloomberg)

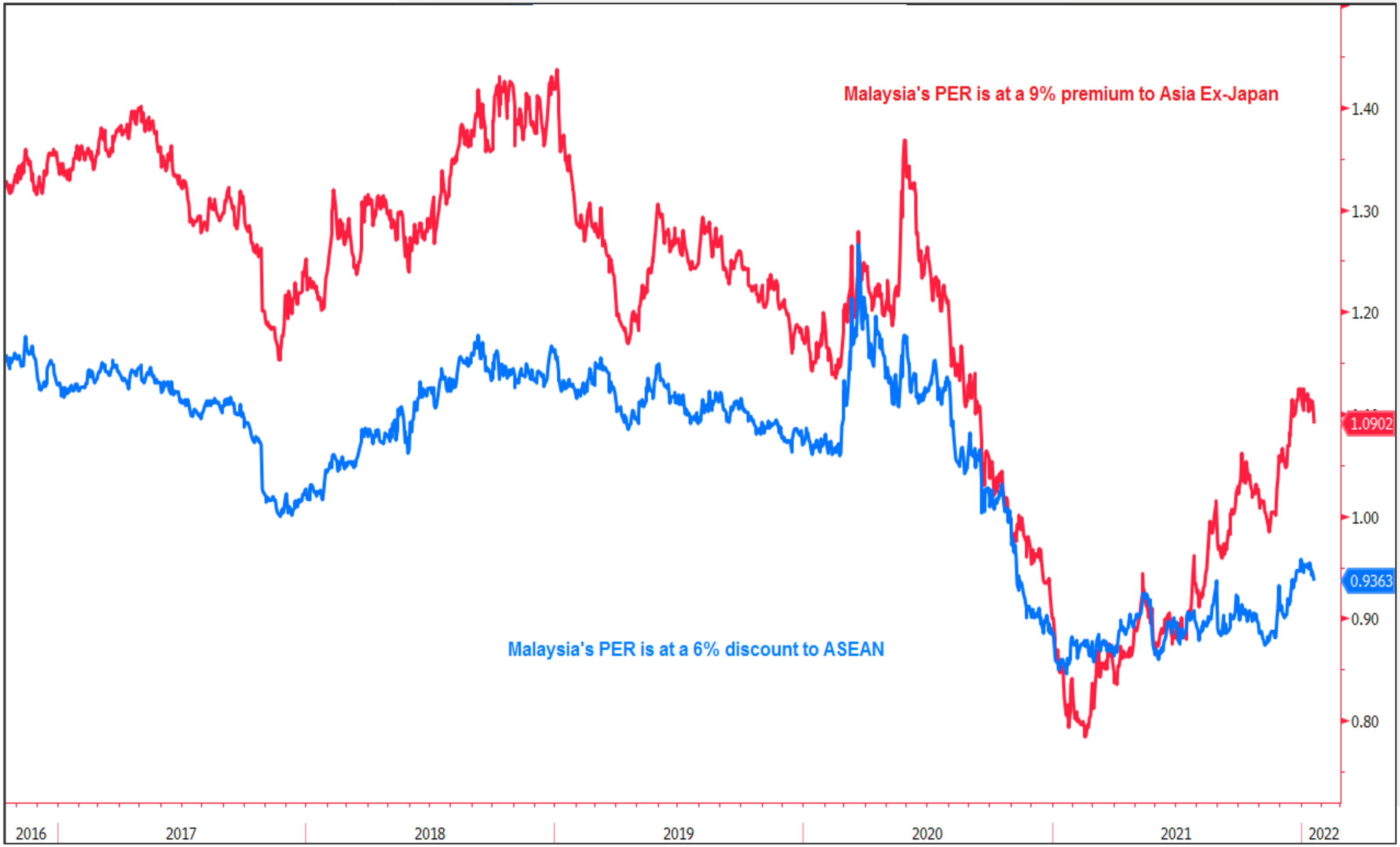
Exhibit 6 : KLCI 12M Forward PB @ 21.01.22

(Source: Bloomberg)

Exhibit 7 : KLCI 12M Forward Dividend Yield @ 21.01.22

(Source: Bloomberg)

Exhibit 8 : Malaysia’s Relative PE to the Region



(Source: Bloomberg)

Exhibit 9 : KLCI ex-gloves @ 21.01.22

			2019	2020	2021	2022
Total earnings (RM bil)			53.3	37.3	68.5	66.7
Gloves earnings (RM bil)			0.8	2.2	11.7	4.5
Total earnings ex gloves (RM bil)			52.5	35.1	56.8	62.2
MKT PER			19.4	27.7	15.1	15.5
Gloves only PER			44.7	16.6	3.1	8.2
MKT PER ex gloves			19.0	28.4	17.5	16.0
Net profit growth				-30%	84%	-3%
Net profit growth ex gloves				-33%	62%	10%
2022 Earnings - ex gloves (RM bil)						62.2
Target 2022 PER ex gloves						**17.5**
Market cap - ex gloves (RM bil)						1,089.0
Add: Market cap gloves (RM bil)	ASSUME			10% DECLINE		33.0
Total market cap (RM bil)						1,122.0
KLCI market cap - current						1,032.9
Upside						**8.6%**
KLCI current @ 21.01.2022						1,527.06
Target - KLCI						**1660**

(Source: AISB & Bloomberg)

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