



Portfolio Manager's View

20 April 2021

Fund Management Department

Regional

1. WHO made a valid point. As we had highlighted in last week's commentary, WHO has condemned what it describes as a "shocking imbalance" in the distribution of vaccines between the high- and low-income countries. However, the implication extends beyond what WHO sees as a "catastrophic moral failure". The US may have moved ahead of the rest of the world in its vaccine roll-out but an uneven and patchy global economic normalisation will undermine the sustainability of her own economic recovery. We are too integrated to survive alone.
2. Those who have been reading our commentaries, we wrote in September 2020 that global pensions warned of the need to rethink their allocation to bonds, whether that's the right thing to do at the zero-bound. Rational investors will demand a higher yield, commensurate with the rising supply of US Treasuries to finance her rising spending needs. Consequently, with the increasing confidence of an economic turnaround, the bond market has sold off sharply.

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3. We are of the view that bond yields could be higher by the end of the year or next year than where they are now. However, we should see a temporary reprieve for two reasons. Firstly, the US 10-year bond yield has recovered back to the level just prior to the Covid-19 pandemic. Yet, even as we think that the economic bottom has been marked, the recovery is still fraught with much risks. Secondly, US Treasury Secretary Janet Yellen has pushed for a higher corporate tax rate to fund the US Government's spending programmes. This will take some pressure off the need to issue more US Treasuries. Bond investors, realising that Treasuries supply may be less than anticipated, will likely cap any further rise in bond yields in the short-term.
4. When the US and global economies are on firmer footing further out, rising and higher bond yields and the steepening yield curve will be accepted by investors with greater confidence too!

Malaysia

1. The KLCI closed at 1,608 @ 20.4.21, declined by -1.0% M-o-M. Last week, Industrial Metals & Mining (+4.3%) and Construction (+1.4%) were the best performing sectors. Meanwhile, REITs (-1.1%) and Small Cap (-1.3%) were the worst performing sectors. Year-to-date @ 15.04.2021, the KLCI has retreated by -1.2%.
2. Last week Taiwan Semiconductor Manufacturing Company (TSMC) announced its 1Q21 results which came in above consensus. Revenues reached US\$ 12.9bil (vs consensus US\$ 12.8bil) and EPS came in at US\$0.96 (vs consensus \$0.92). Advanced semiconductor chips accounted for 49% of TSMC total wafer revenues in 1Q21. 7nm (nanometer) and 5nm made up 35% and 14% of the total revenues respectively. In the post 1Q21 briefing, TSMC stated that 1Q21 was driven by High-Performance Computing (HPC) chips which offset the weaker seasonal phone sales growth. Exhibit 1 & 1.1 show TSMC revenue breakdown. As most HPC chips are manufactured using 7nm and 5nm processes, this is positive for Frontken as the demand for Frontken wafer cleaning process for advance chips will increase.

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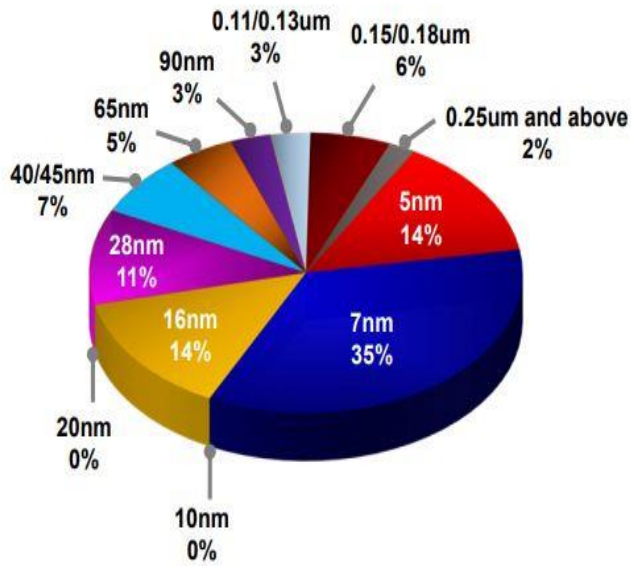
3. On 19 April 2021, Microsoft announced it will invest US\$1 bil over the next five years in Malaysia as part of the Bersama Malaysia initiative. Microsoft will set up **multiple data centers** in Malaysia to manage data from various countries. As we mentioned in our fund management summary in 3.11.20, the consumption of data storage has grown tremendously. This arose from the work from home, stay at home and learn from home trends due to the Covid-19 pandemic. To cater for this surge in demand for storage, hard disk drive manufacturers are producing hard disk drives (HDDs) with higher capacity i.e. 18 terabyte HDDs. In our view, our holding in Dufu Technology which manufactures disk spacers used in HDD will continue to benefit from this trends.
4. Exhibit 2 shows the capex spending by companies listed in the Philadelphia Semiconductor Index (SOX). We observed that capex spending continue to rise as semiconductor companies expand their capacity to address the current shortages in the semiconductor market. We strongly believe that Malaysia's technology equipment players such as MI Tech and Pentamaster will benefit from this increasing capex spending trend by the semiconductor companies.

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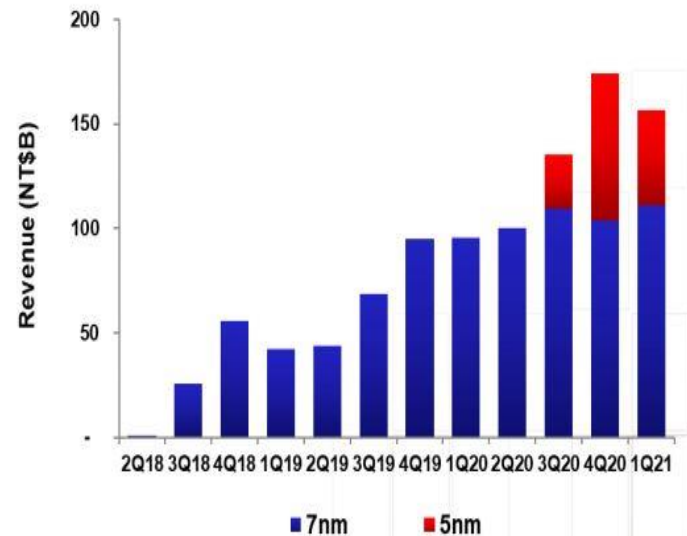
5. Recently we are seeing a resurgence in Covid-19 cases in Malaysia. On 19 April 2021, Malaysia reported 2,078 new Covid-19 cases. This created concern that restriction of movement might be prolonged, which will be a negative sentiment for the Malaysia equity market. We continue to be overweight in the technology sector across our funds as earnings are less likely to be impacted by new lockdown.
6. At 1,608 @ 20.04.21, Malaysia market is trading at a PER of 13.5x for CY21. The market's valuation for 2021 is at a 16% discount to its 12M mean PER of ~16x. The market's valuation is flattered by the low PERs of the glove companies. Excluding the latter, the KLCI is trading nearer to 18.0x (source: AISB). Separately, Malaysia is trading at a 21% discount to Asia ex-Japan's 2021 PER of 16.5x (see Exhibit 4). This is the steepest discount in the last 5 years. The latter reflects the consistent outflow of foreign funds from Malaysia in recent years. As most foreigners are significantly Underweight Malaysia, we do not foresee foreign selling to be a major negative going forward.

Exhibit 1: TSMC 1Q21 Revenue Breakdown

1Q21 Revenue by Technology



7nm and Below Revenue

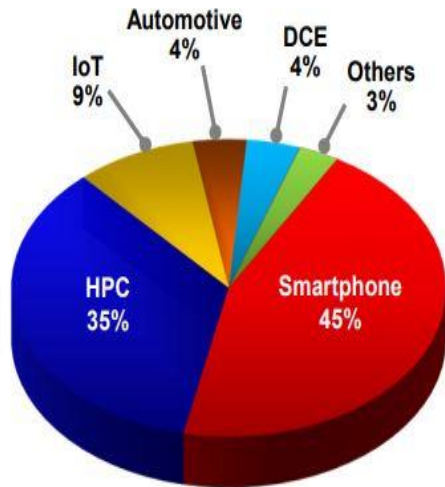


(Source: TSMC)

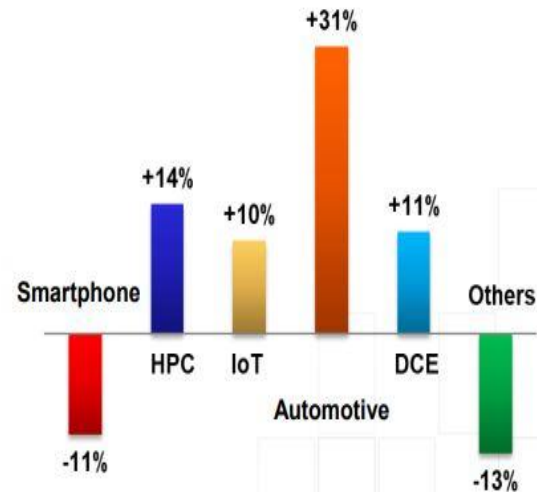
Exhibit 1.1: TSMC 1Q21 Revenue Breakdown

1Q21 Revenue by Platform

Unleash Innovatio

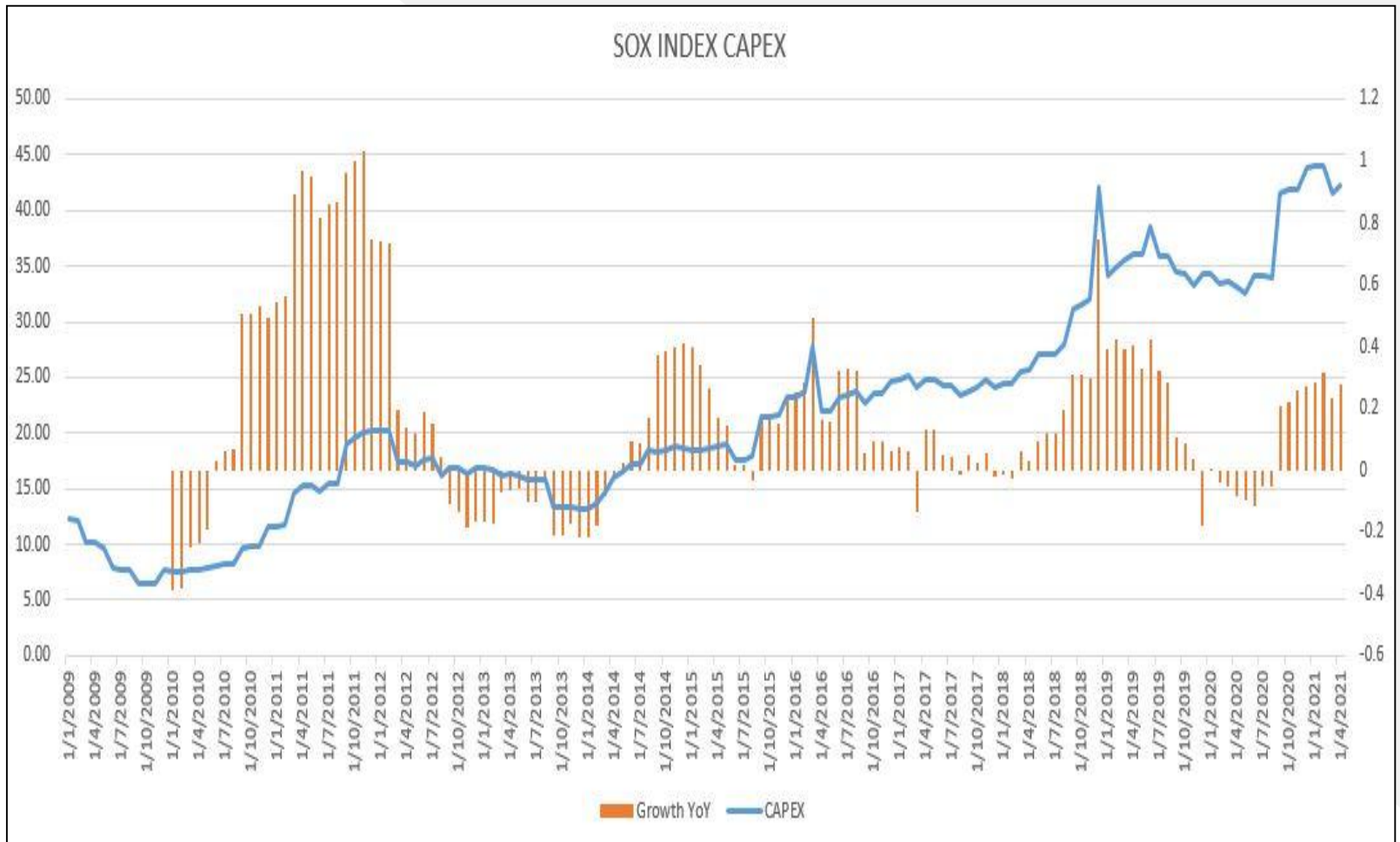


Growth Rate by Platform (QoQ)



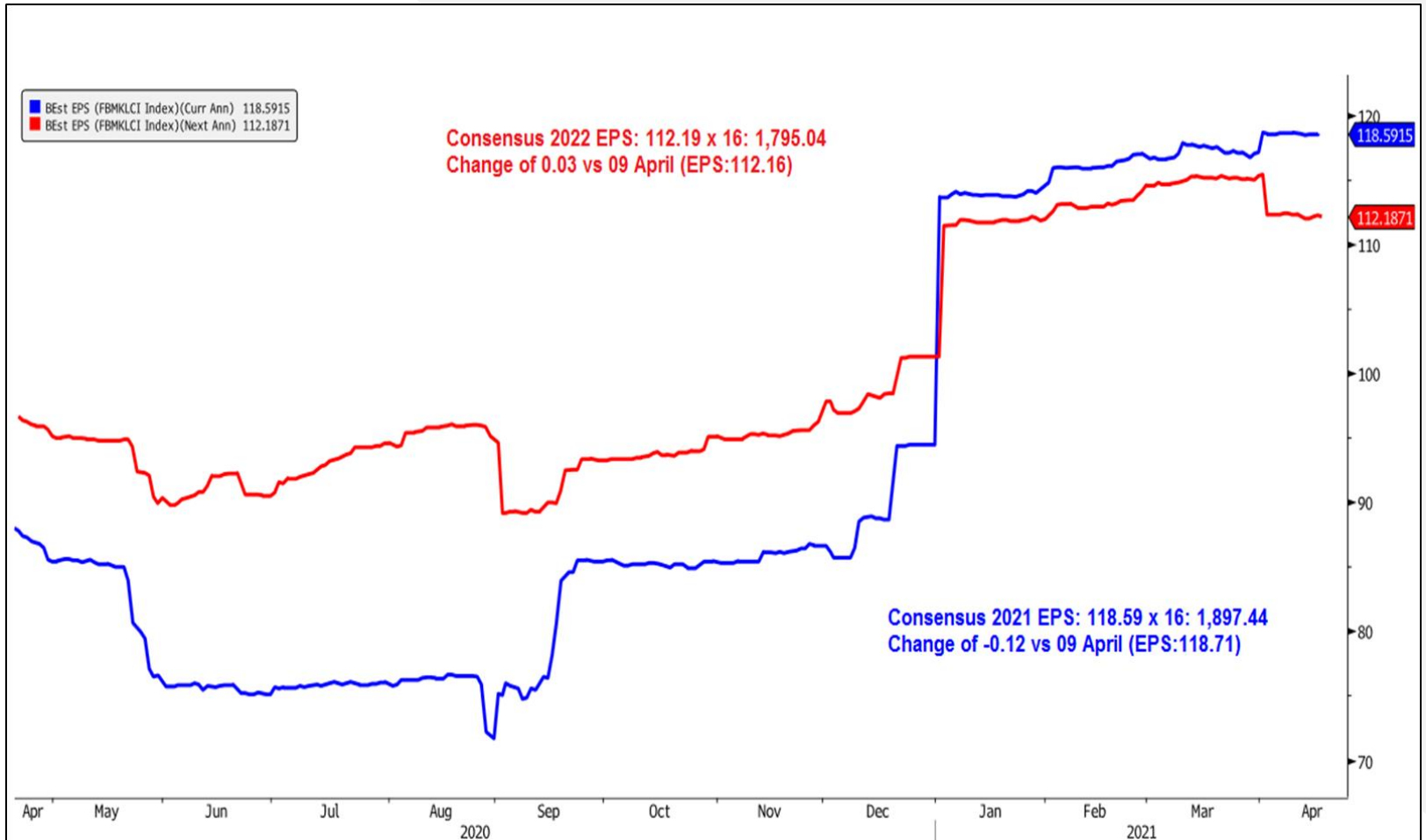
(Source: TSMC)

Exhibit 2: Philadelphia Semiconductor Index (SOX) Capex Cycle



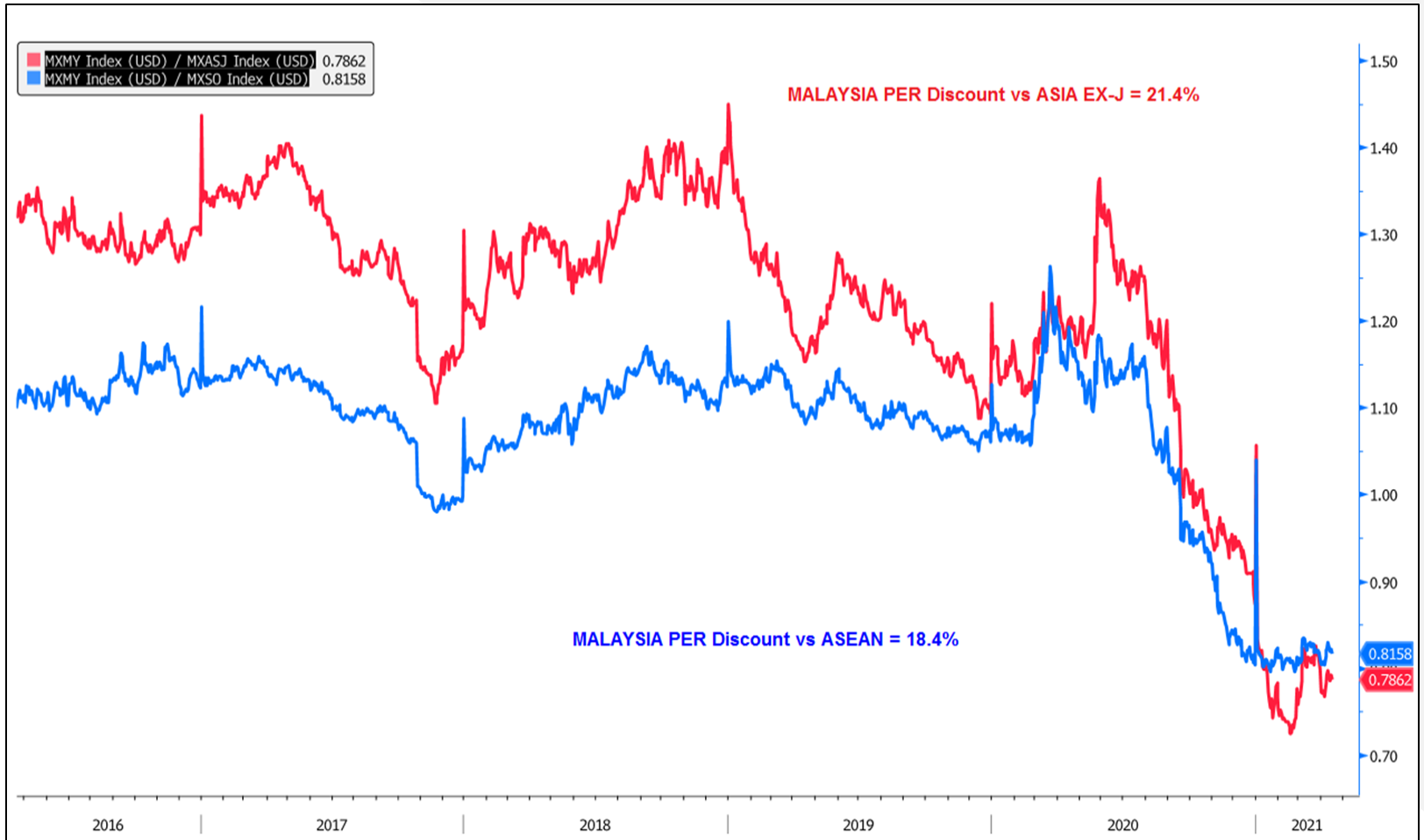
(Source: Bloomberg, AISB)

Exhibit 3: FBMKLCI Consensus Earnings Per Share (EPS) @ 15.04.21



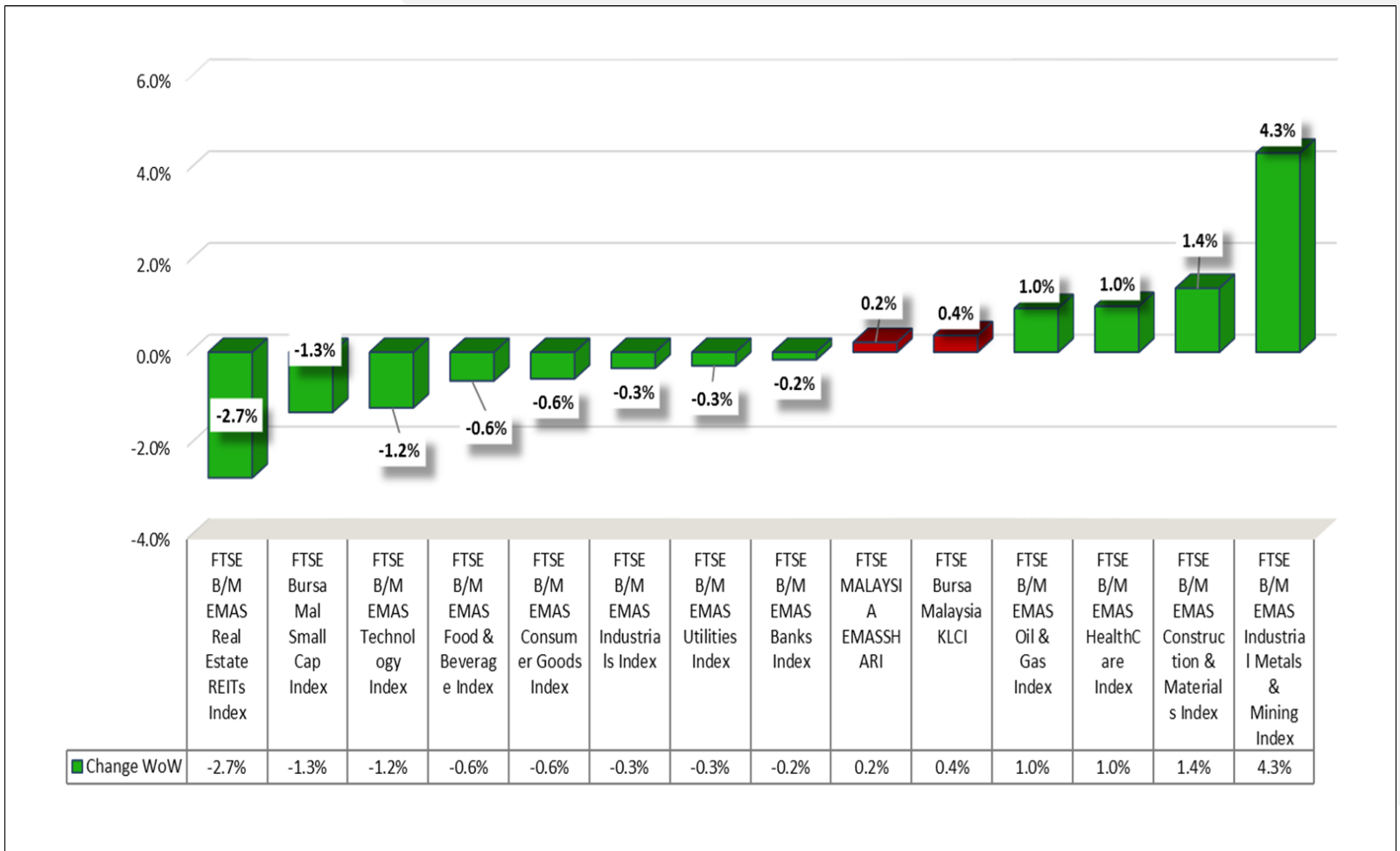
(Source: Bloomberg)

Exhibit 4: MALAYSIA P/E is at a discount to the region @ 15.04.21



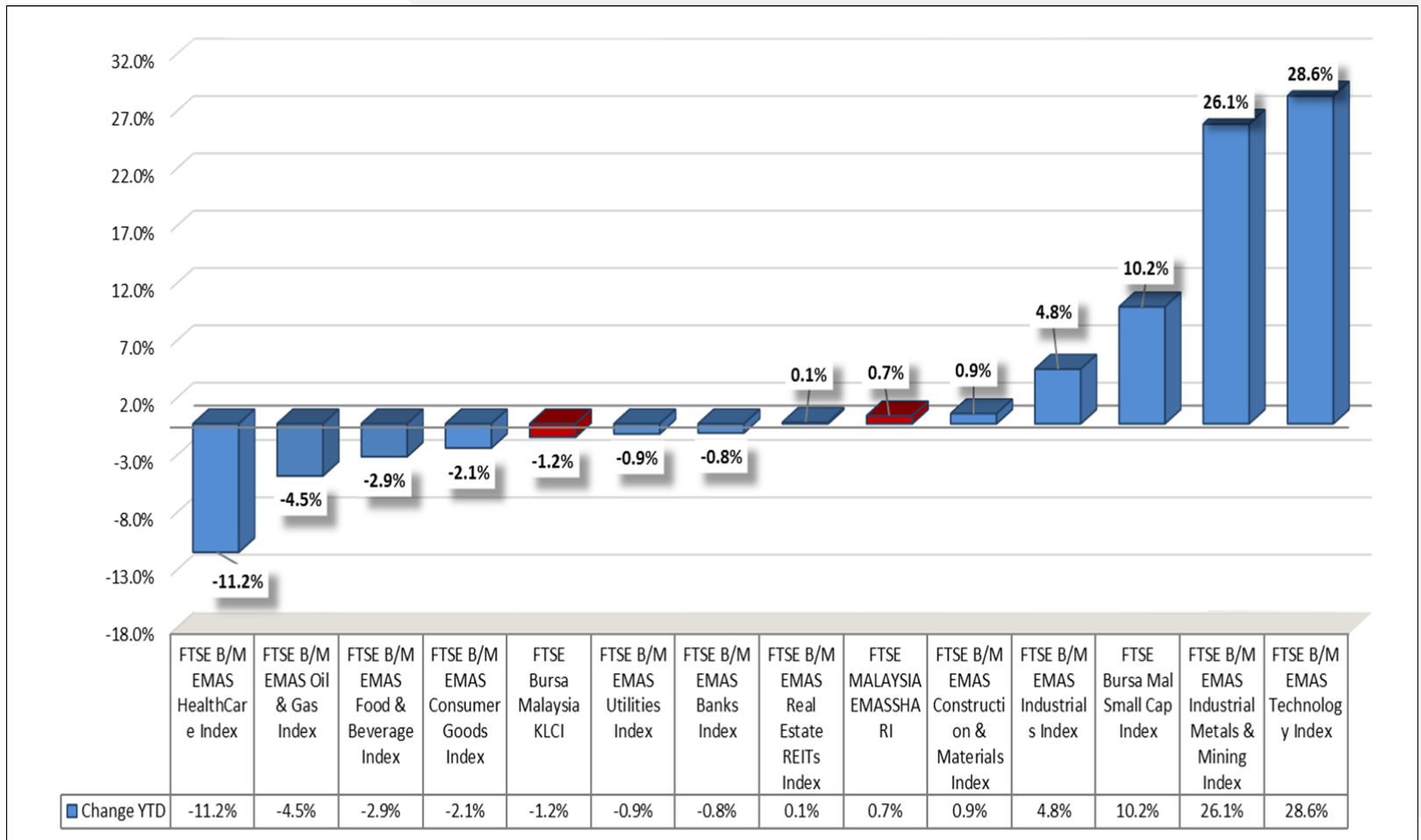
(Source: Bloomberg)

Exhibit 5: Sector Performances (Week-on-Week) @ 15.04.21



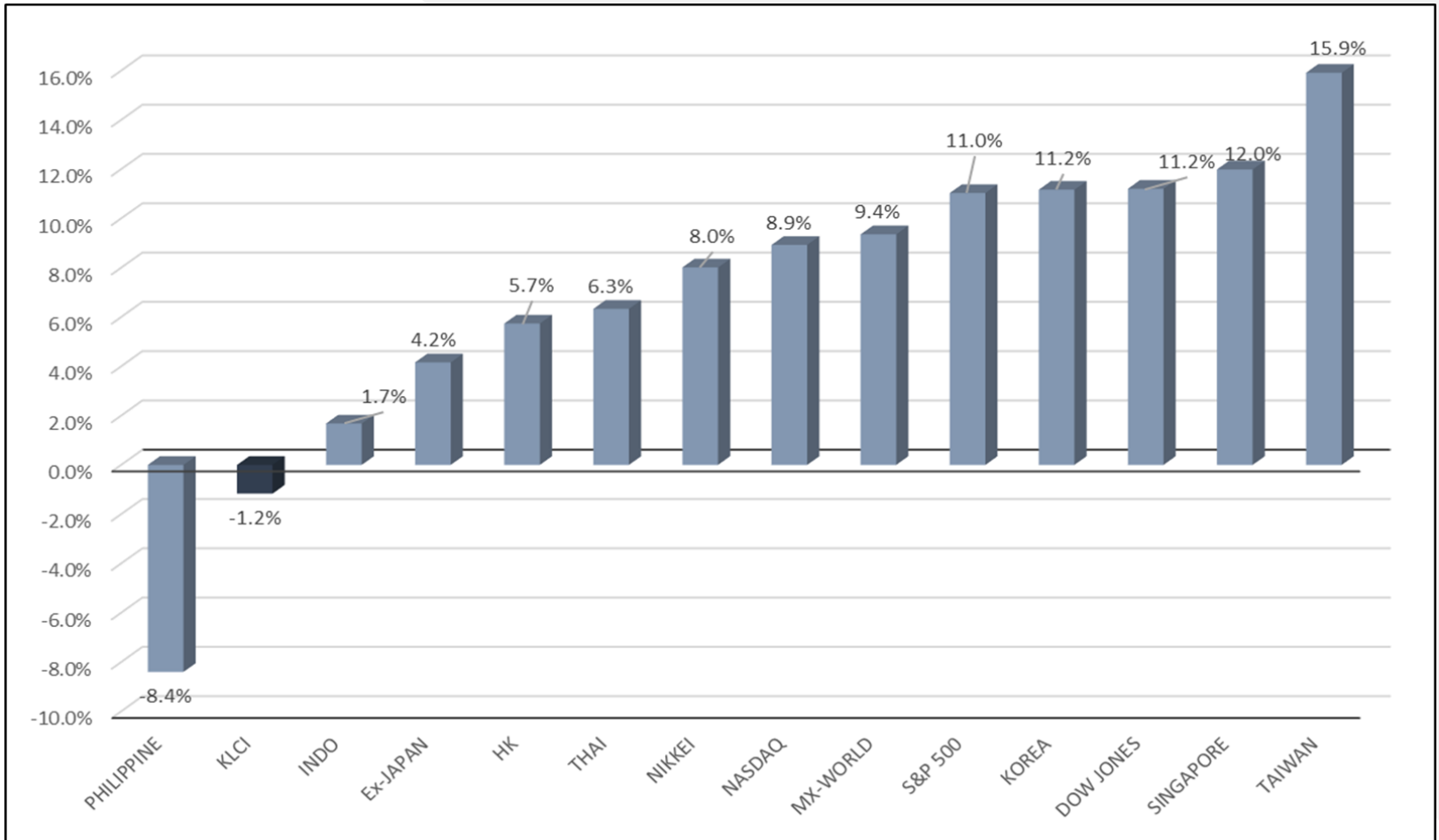
(Source: Bloomberg)

Exhibit 6 : Sector Performances (Year-to-Date) @ 15.04.21



(Source: Bloomberg)

Exhibit 7 : Performance of Indices (Year-to-Date) @ 15.04.21



(Source: Bloomberg)

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