



Portfolio Manager's View

15 June 2021

Fund Management Department

Regional

1. On June 14th, Malaysia recorded its lowest number of new Covid-19 daily cases at 4,949, with the 7-day moving average of new daily cases on a 10th consecutive day of downtrend. On the same day, daily vaccinations reached a record high of nearly 200,000 doses and almost 5 million vaccinated to-date. Similarly across Asia, governments are all jumping onto the vaccination bandwagon, when even the countries who have best managed the first wave of this Covid-19 pandemic experienced resurgences. If this can help mark the end to further national lockdowns, then impaired economies can get back to a period of sustained normalisation. We can look forward to days without the variants of MCOs that have plagued us for more than a year.
2. The G20 was borne out of the need to better integrate emerging economies with the rest of the world. Last week's G7 needs to be looked upon as a regression, a global ideological challenge of the success of western style democracies to that of China. It has still proven difficult for the US to repair the damage in relations with some of their closest allies after Donald Trump. The tensions between the West and China will continue; but short of having to pick sides, emerging countries have many benefits to look forward to in the coming years.

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3. First of all, G7 will donate 1 billion Covid-19 vaccines to poorer countries, taking on more responsibility to lead the post pandemic recovery. This ties in with our expectation of a quicker economic normalisation for emerging countries. G7 will also commit to a Build Back Better World (BBBW) infrastructure plan rollout to help fund an estimated US\$40 trillion (up to year 2035) needed by developing countries, to compete with China's One Belt One Road (OBOR) initiative. History will tell us that as with the experience of the industrialisation of China in the mid 2000s, this industrialisation of emerging countries can also have the same positive impact on commodities.
4. Will the underperforming emerging Asia region be due for a better period of higher economic growth and creation of a larger wealthier middle class?

Malaysia

1. The KLCI closed at 1,581 @ 15.06.21, a decline of 0.5% M-o-M. Last week, Construction (+2.6%) and REITs (+1.2%) were the best performing sectors. Meanwhile, Industrial Metal & Mining (-2.4%) and Healthcare (-2.0%) were the worst performing sectors. Year-to-date @ 11.06.2021, the KLCI has retreated by -3.2%.
2. World Semiconductor Trade Statistics (WSTS) published its April 2021 semiconductor sales data. Total semiconductors sales increased by 21.6% YoY (vs 17.8% YOY for Mar-21) and 2% MoM (vs 13.9% MoM for Mar-21). Exhibit 1 shows that growth in global semiconductor sales are still trending upwards. We maintain our positive view on technology stocks as we believe the outlook remains positive for at least another 1-2 quarters. Exhibit 2 shows the duration and magnitude of the semis cycle. Since 1996, there has been 7 upcycles. The average duration of an upcycle is 31 months with an average increase in monthly sales orders of 23% from start to peak. We are in the 14 months of this current upcycle.
3. With the ongoing tensions between China and US, Malaysia has benefited from ongoing trade and supply chain diversions. Last week, Austria's AT&S, a manufacturer of high-end printed circuit boards (PCB) and IC substrates for

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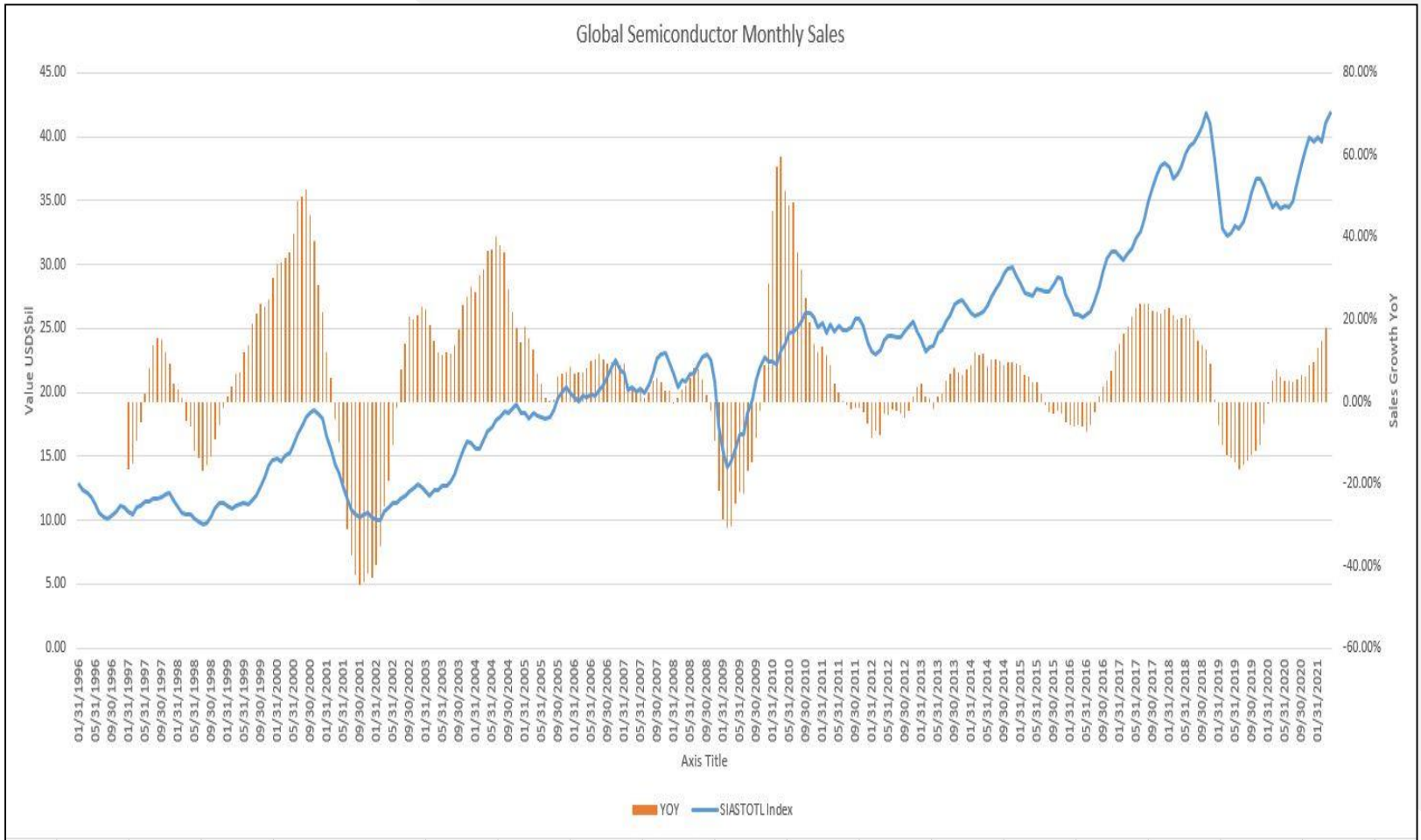
semiconductors, has chosen Penang in Malaysia for its RM 8.5bil investment in a PCB plant.

4. Taiwan-listed technology companies continue to announce robust earnings in May 2021. Foundry player TSMC reported its May revenue grew 0.9% MoM and 19.8% MoM to US\$ 4.1bil. Separately, UMC May quarter revenue which grew 4.9% MoM and 16.6% YoY to US \$620mil. In addition, the world's largest OSAT player ASE Technology also announced record high May revenue 2.3% MoM and 18% YoY to US\$ 1.5bil. These are positive read throughs particularly for packagers such as MPI, Unisem and Inari as supply capacity in the sector is still insufficient to meet demand.
5. We believe the KLCI's downside is very modest at current levels - barring any external events. I-Sinar redemptions have peaked and payments will gradually subside as the facility ends in June 2021. This will reduce the risk of selling pressure in the equity market. The country's vaccination rate hit a new high of 197,963 doses on 14 June 2021. So far, 4.69 mil doses of Covid-19 vaccines have been dispensed with 3.3 mil recipients receiving at least 1 dose (or more). As at 13/6, Covid-19 cases have declined for 10 consecutive days.

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6. Based on KLCI at 1,581 @ 15.6.2021 and market eps integer of 117/112, the market is trading at a PER of 13.5x/14.1x for CY21/CY22 respectively. This is lower than the market's mean PER of 16x. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.0x and 15.7x in CY21/CY22 respectively vs the 5 year average ex-gloves PER of 19.4x. We believe the risk to reward for the KLCI is reasonable.

Exhibit 1: Semiconductor Up Cycle



(Source: Bloomberg)

Exhibit 2: Semis Cycle – Duration and Magnitude

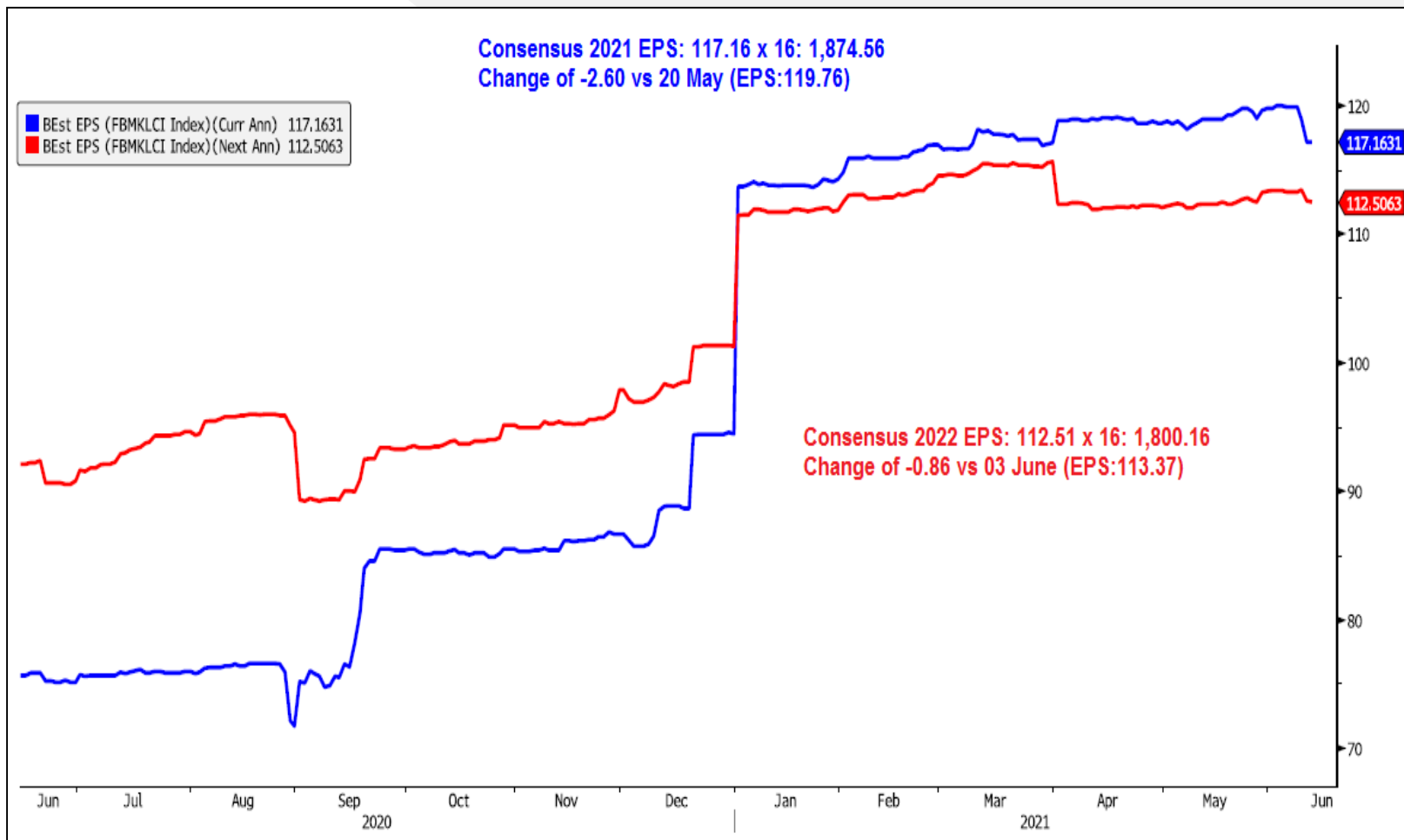
Semiconductor Sales Cycles

	Dates			Duration (Months)		Monthly Orders
	<u>Start</u>	<u>Peak</u>	<u>End</u>	<u>Start to end</u>	<u>Start to peak</u>	<u>% Increase to Peak</u>
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	01/31/2021	02/28/2021	14	14*	20%
Average -excluding current cycle				31	12	22%

* Current cycle

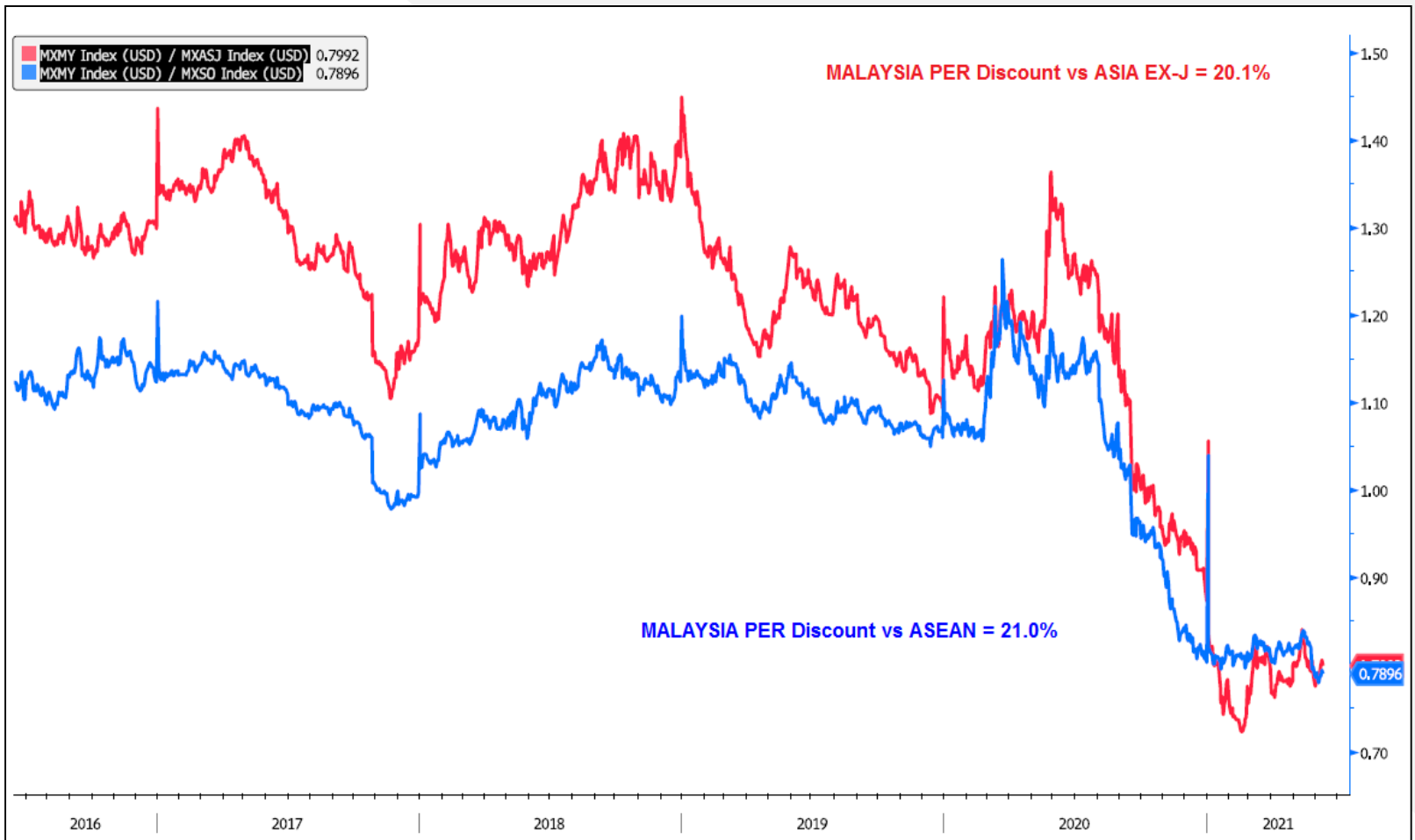
(Source: Bloomberg)

Exhibit 3: FBMKLCI Consensus Earnings Per Share (EPS) @ 11.06.21



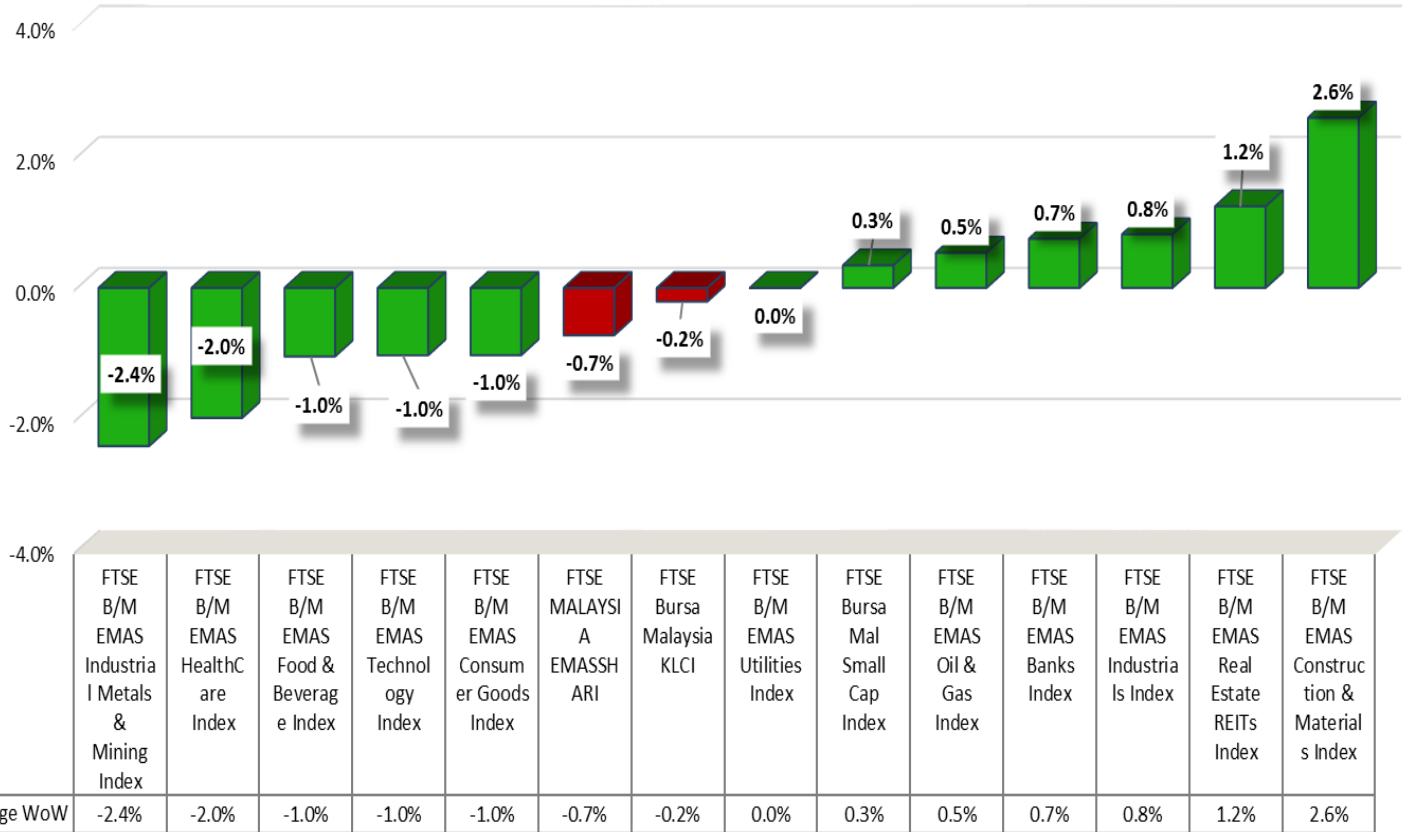
(Source: Bloomberg)

Exhibit 4: MALAYSIA P/E is at a discount to the region @ 11.06.21



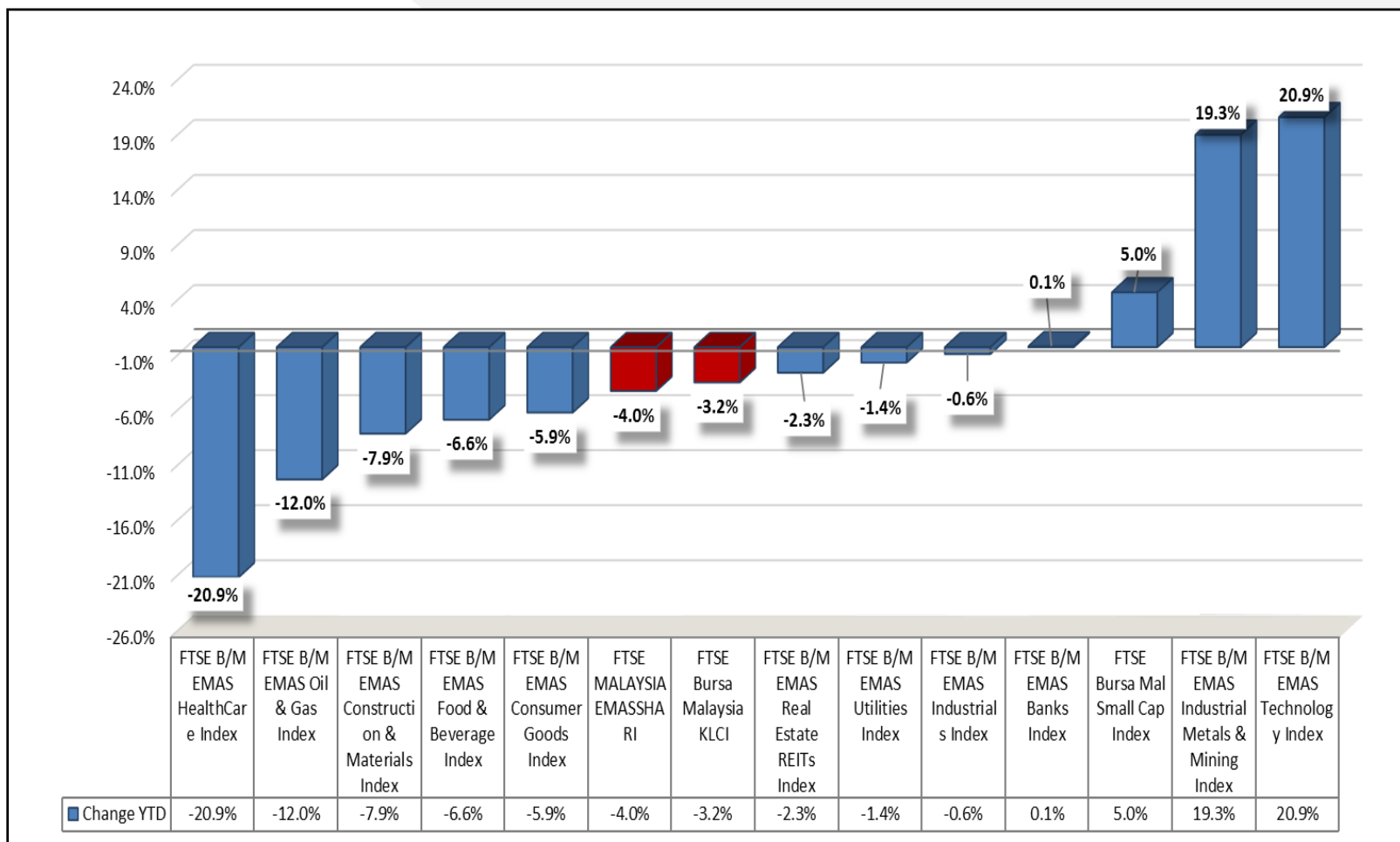
(Source: Bloomberg)

Exhibit 5: Sector Performance (Week-on-Week) @ 11.06.21



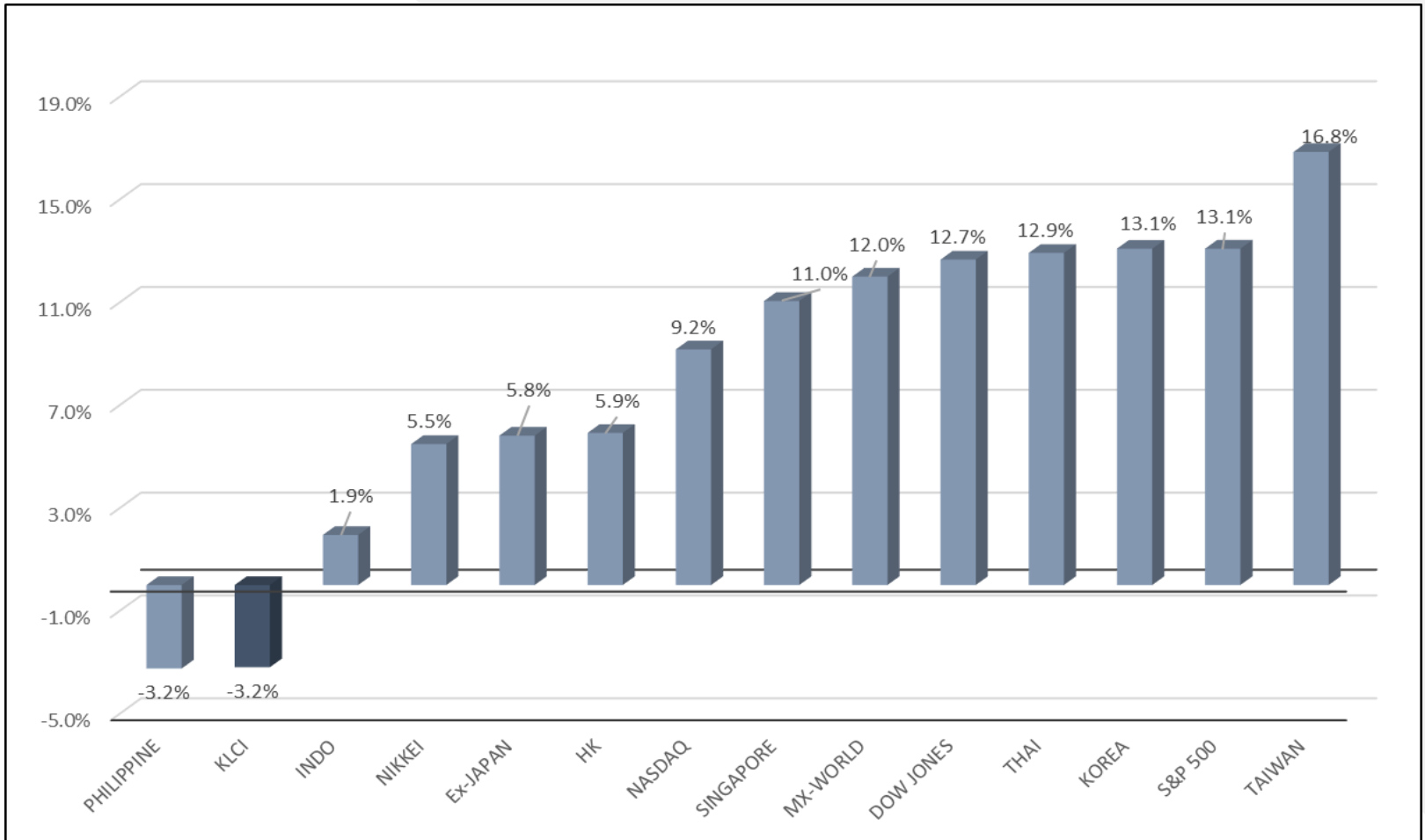
(Source: Bloomberg)

Exhibit 6 : Sector Performance (Year-to-Date) @ 11.06.21



(Source: Bloomberg)

Exhibit 7 : Performance of Indices (Year-to-Date) @ 11.06.21



(Source: Bloomberg)

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