



Fund Manager's View

As at 2 June 2020

Fund Management Group

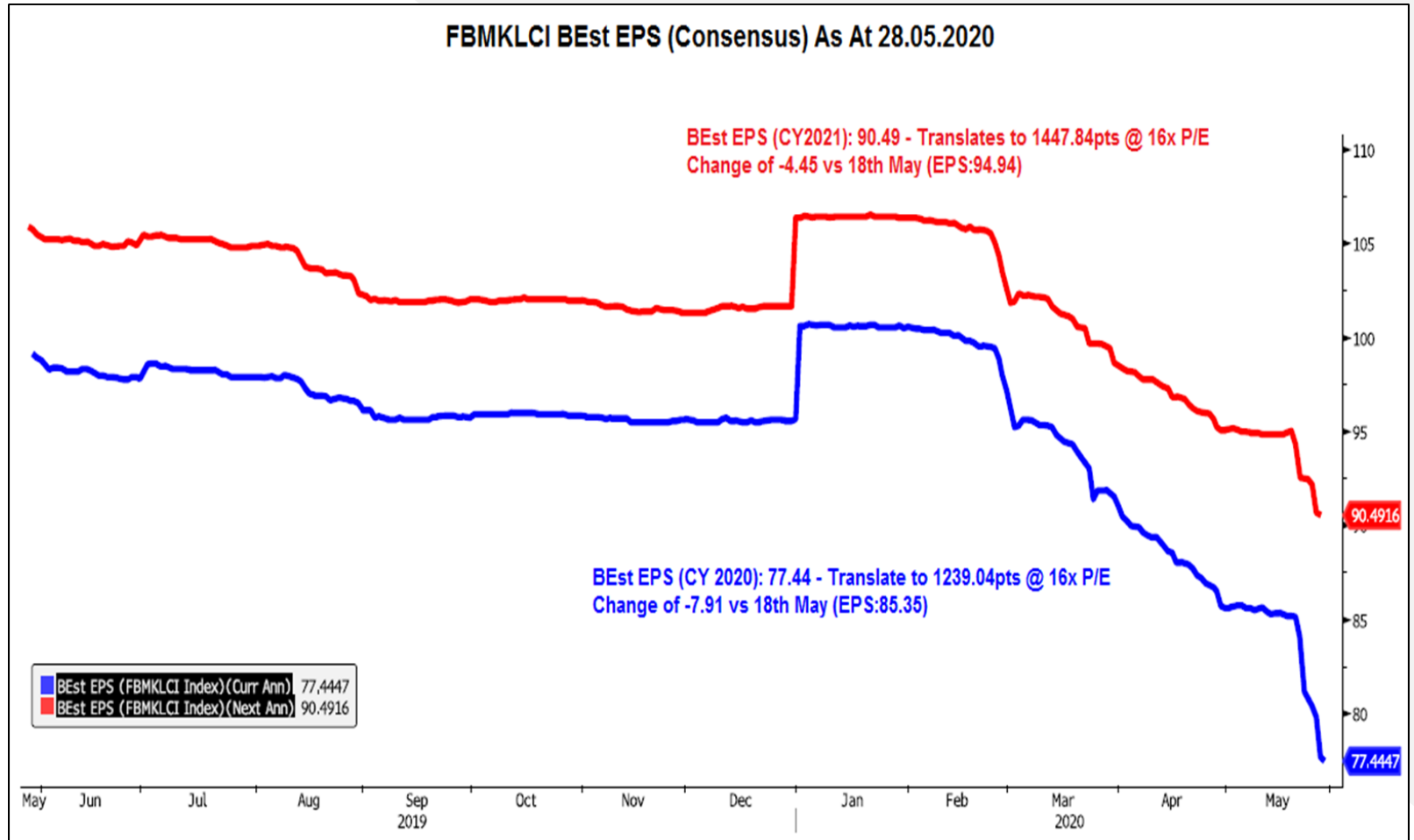
Malaysia

1. The KLCI closed at 1,508 @ 02.6.20. The stock market was up 6.4% month-on-month. YTD, it has declined by 8.3%.
2. For 5M 2020, the worst performing sectors on the KLCI were banks (-22%) and metals & mining (-19%). The best performing sector was healthcare (+81%). We estimate the healthcare sector contributed approx. 7% percentage points to the KLCI's performance. In spite of this, the KLCI still declined by 8.3% year-to-date.
3. The KLCI's turnover hit an all-time high of RM 9.31bil on 29.05.20. Market turnover was lifted by MSCI rebalancing outflows which was estimated at above USD \$200mil. The previous peak in market turnover was RM 9.27bil on 31.08.20. Retail buying has surged and has fueled the rise in market turnover. In contrast, foreigners have net sold RM 13.3bil YTD up to end-May (vs RM 11.1bil net outflow for the whole of 2019).
4. The Edge Weekly, reported that the Kuala Lumpur to Singapore High Speed Rail (HSR) may cost as much as RM 68bil. The Japanese are likely to play a key role in this project. While the deadline for Malaysia and Singapore to resume discussions for was extended to 31 Dec 2020, sentiment was lifted by the commitment of both governments to proceed with this project.

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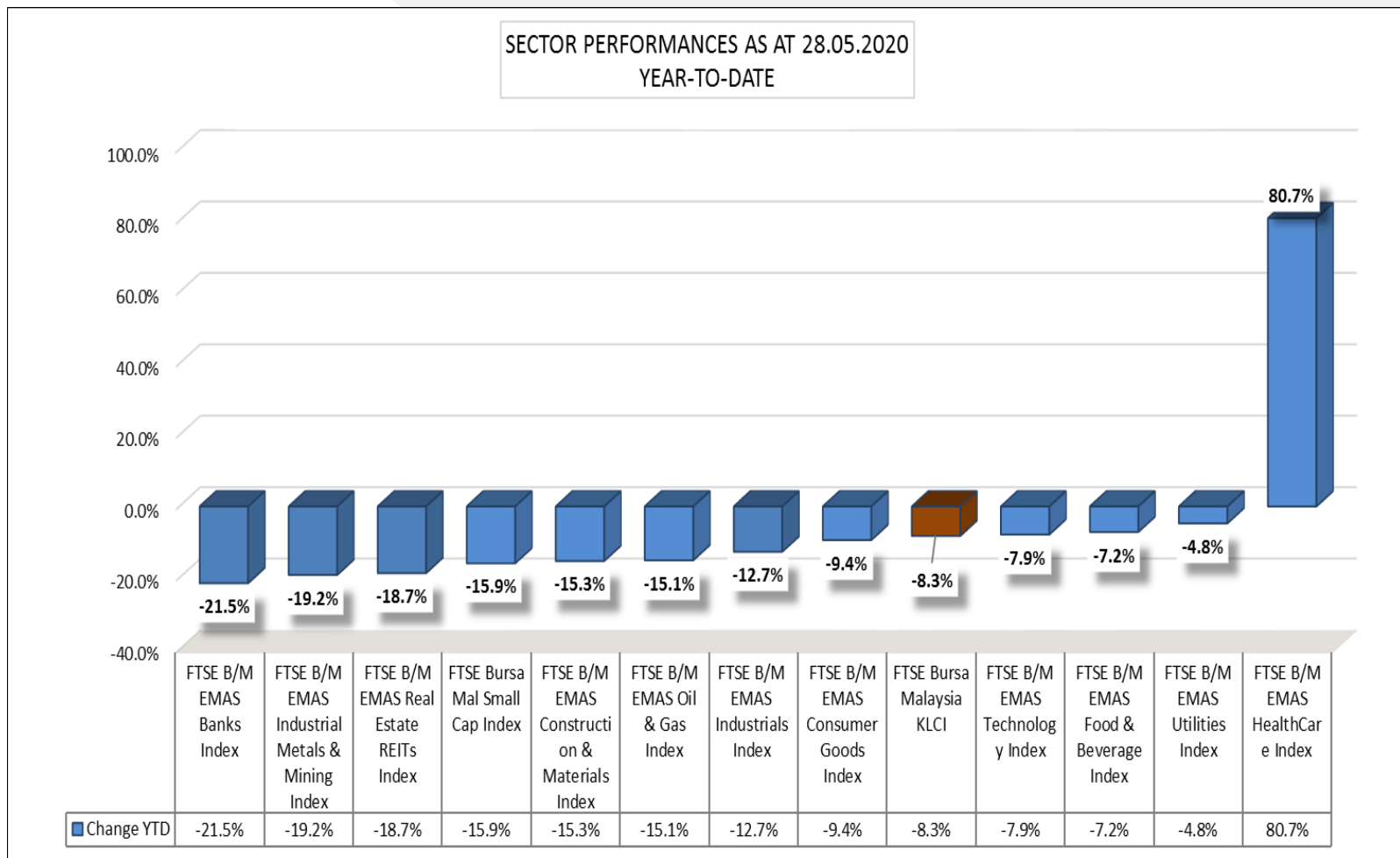
5. We are in the midst of the March-quarter reporting season. Large cap names such as PChem, Malaysia Airports, Petronas Dagangan, Carlsberg and GENM have reported below expectation results. The market has yet to see the full impact of the MCO which started on 18 March. This will be evident in the June-quarter reporting season.
6. The Malaysian market price earnings ratio (PER) premium has risen to 35% against the Asia Ex-Japan region. The premium is at the higher-end of its 5 year range of 10% to 45%.
7. During the month, consensus market eps for the KLCI edged lower to 77.3 @ 29.5.2020. This is down 24% from 101.9 at end-Jan. At KLCI level of 1,508 @ 02.6.2020, the PER for the market is trading at 19.1x/16.3x for CY20/CY21. This is not cheap vis-a-vis its 12M mean PER of ~16x. We caution investors on over-relying on PER valuations due to the risk of further earnings cuts for the rest of 2020.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS)



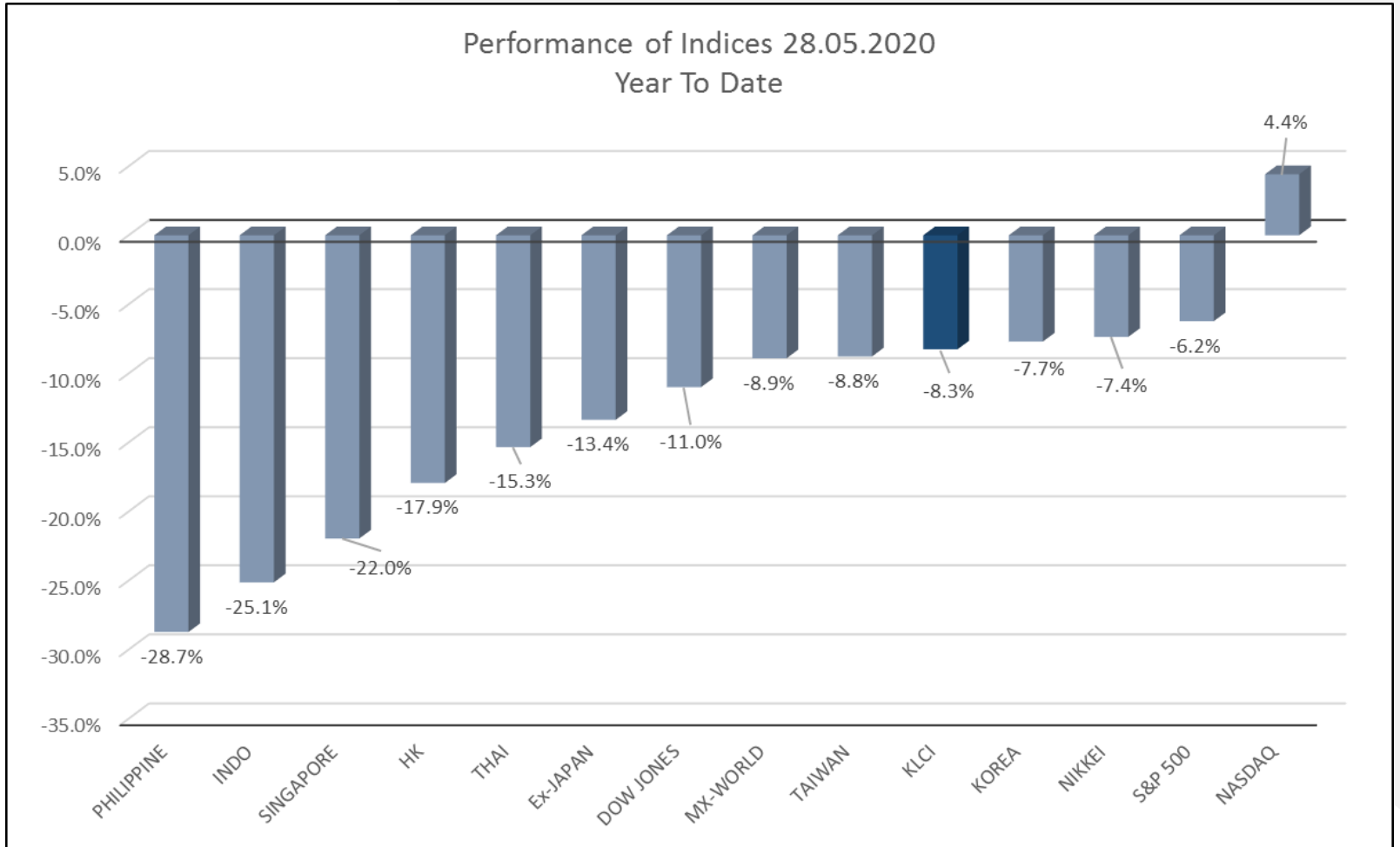
(Source: Bloomberg)

Exhibit 2: Sector performances (Year-to-Date)



(Source: Bloomberg)

Exhibit 3: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. Massive numbers of protestors in Hong Kong and the USA took to the streets in the last week. Aside from the cries for freedom of rights and racial discrimination, these are two very interesting test cases for Covid-19. Whether there is the need for sustained social distancing will legitimize the speed and the magnitude of economic recovery. The 'experts' have called a new norm for post Covid-19; the hopefuls would want this to be "this time, it is no different".
2. Should the USA have condoned and supported the Hong Kong rioters a year back? Former President Barrack Obama in his address on the riots over police brutality that led to the death of George Floyd, "Lets not excuse violence, rationalize it, or participate in it". Is this the tipping point in the Rise and Fall of the USA as the undisputed superpower? "The moment of critical mass, the threshold, the boiling point"? We will never know without hindsight.

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3. China's official manufacturing Purchasing Managers Index (PMI) for the month of May showed a consecutive third month of recovery into an expansionary phase. Countries opening up across the world will be critical to the sustainability of China's economic momentum. Likewise, whether President Trump can sustain a trade war with China and also manage a domestic crisis into November's Presidential Elections? Interesting times indeed.
4. Asia lives in peaceful-ier times. Asia seems blessed to have credibly forceful leaders who mostly looked to have managed their countries out of this Covid-19 crisis well. Global investors should look no further where their future investment potential lies.....

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