Portfolio Managers' View

As at 23 June 2020

Fund Management Department

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Malaysia

1. The KLCI closed 1,507 @ 23.06.20. The stock market has risen by 6.7% since the end of the previous month. YTD-20, it has declined by 5.3%.
2. The Edge Weekly's interview with the Finance Minister (FM) Tengku Dato' Sri Zafrul provided some interesting insights. The FM highlighted the following: (i) There is room for *more direct fiscal injection* as forecast fiscal deficit in 2020 is 5.8% to 6.0% is still lower than 6.7% recorded in 2009 i.e. (ii) The government hopes to reduce the fiscal deficit level to below 4% within 4 years. Separately, we note that during the Global Financial Crisis, Malaysia's fiscal deficit was above 4% for 5 consecutive years ie. 2008 to 2012 (see Exhibit 1) (iii) The Malaysia Government will not bailout the shareholders of the airline companies but will support the sector through funding e.g. airlines can tap loans from Danajamin where 80% of the risk is guaranteed by the Government and 20% by banks (iv) The government will not force consolidation of the airlines; it needs to be driven by the airlines themselves (v) His personal view was there is room for interest rates to be cut further (vi) The government will not force the banks to extend the loan moratorium beyond the current 6 months; however, he believes that banks should continue the loan moratorium or restructure the loans of people and companies who really need it after the 6-month period. *Comment: an extended period of higher than expected fiscal deficit and a dearth of reforms will play out in terms of a weak MYR. AISB has a positive bias on exporters.*

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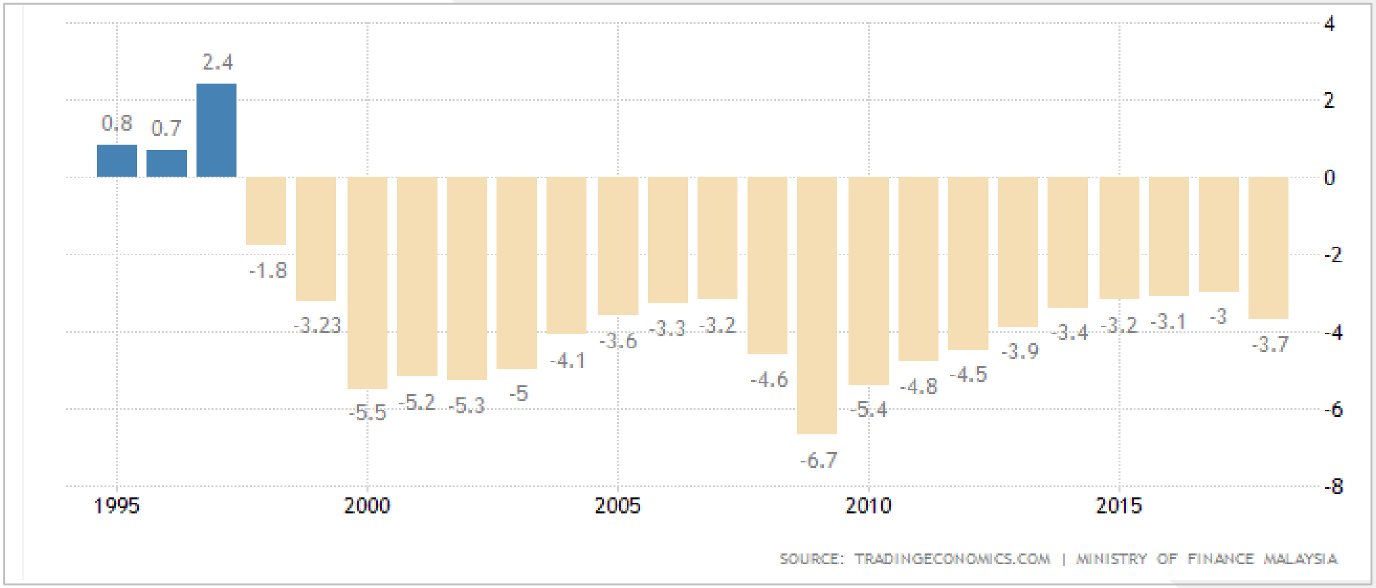
Exhibit 1: Malaysia Government Fiscal Deficit



3. We maintain a cautious view on the Malaysia market. Reasons: (i) Malaysia's PER premium of 26% against Asia ex-Japan region is at the middle of its 5-year premium range (+10% to +40%). (ii) The upcoming 2Q reporting season in Sep-20 will reflect the full impact of the slowdown resulting from the Mandatory Control Order on 18.3.2020. (iii) With the economy gradually opening up, there is a risk that retail liquidity will be diverted away from Bursa Malaysia. Our funds are sitting on **healthy cash levels** and we would be buyers at the right price levels.

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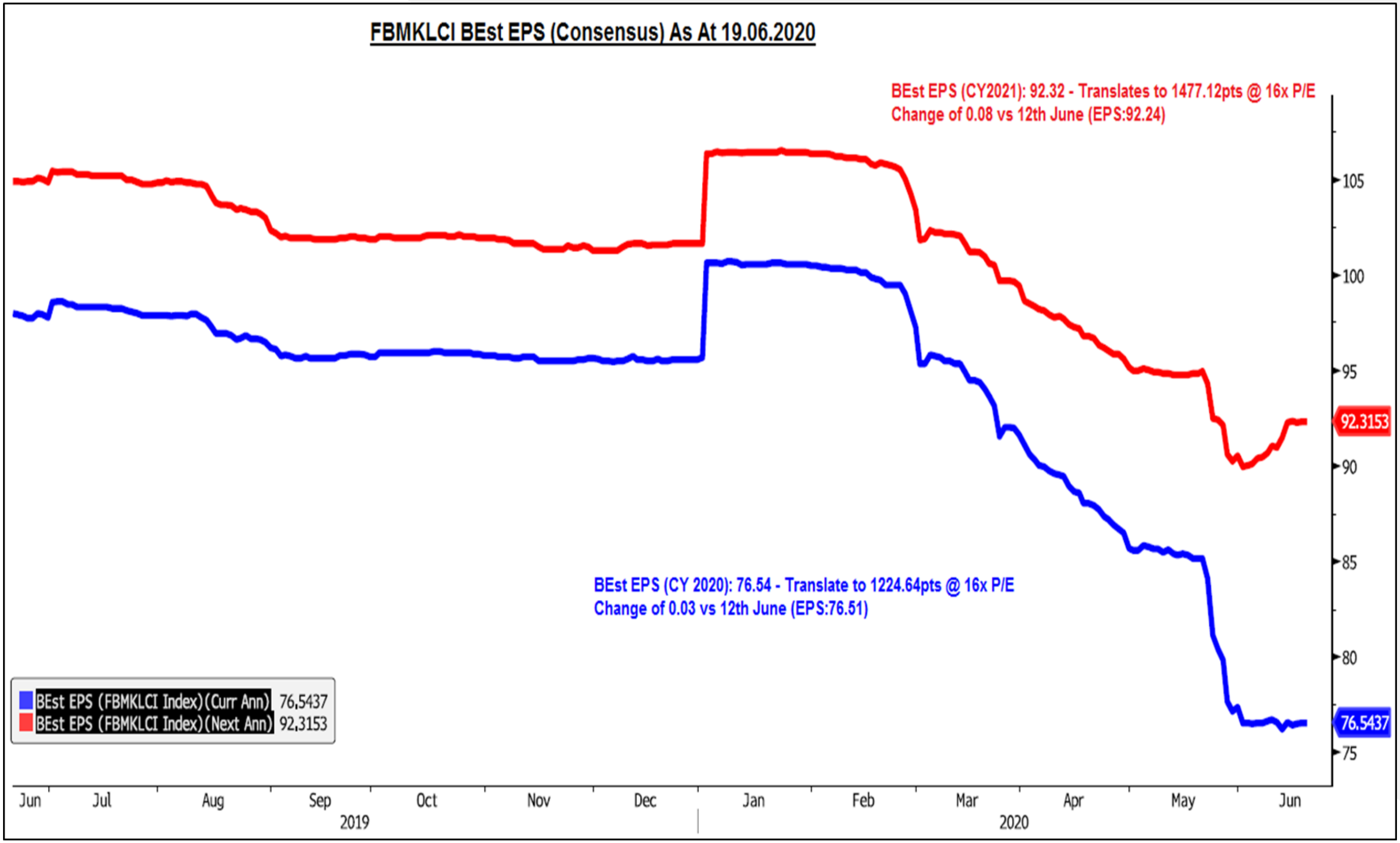
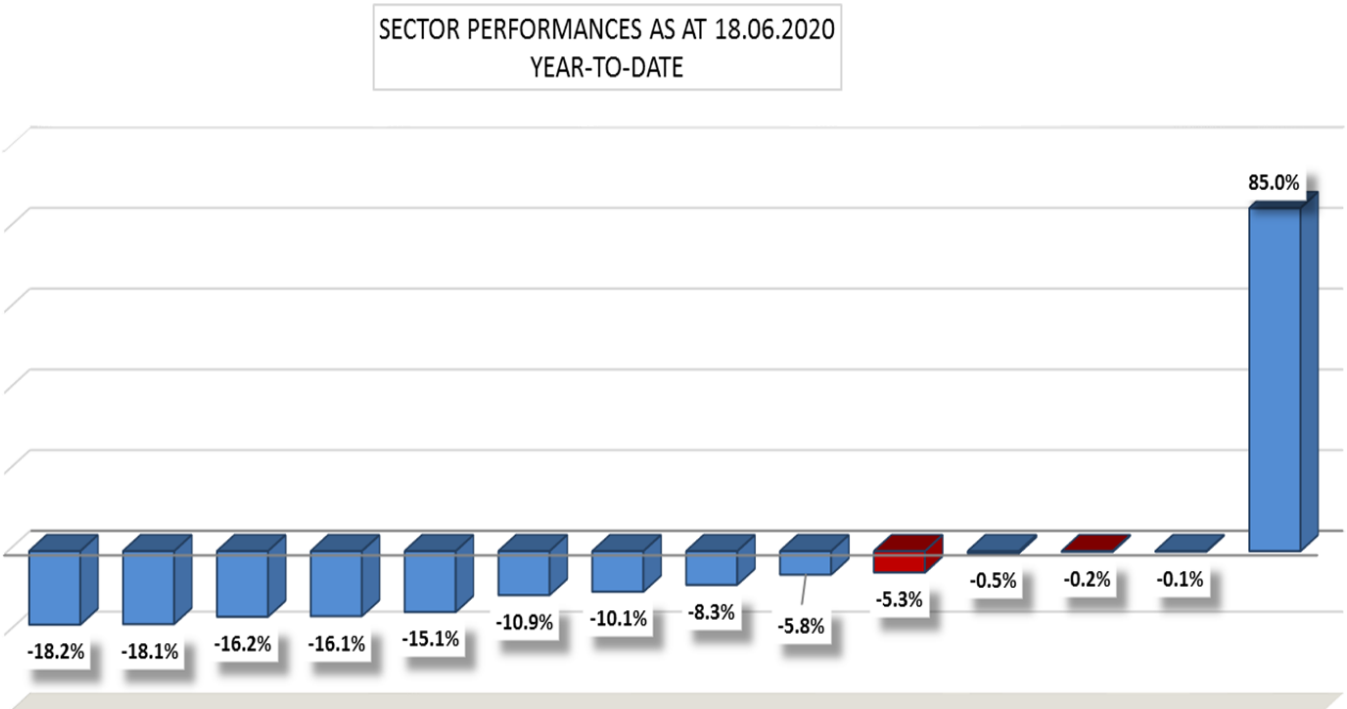
4. Consensus 2020 market eps has been cut by 24.9% from 101.9 sen @ end-Jan to 76.5 @ 19.6.2020. At 1,507 @ 23.6.2020, the market is trading at a PER of 19.7x/16.5x for CY20/CY21. This is **not cheap vis-a-vis** the KLCI's 12M mean PER of ~16x. We believe the earnings risk for 2020 remains on the downside. On the positive side, we have observed a slight uptick in 2021 consensus earnings.

Exhibit 2: FBMKLCI Consensus Earnings Per Share (EPS).



(Source: Bloomberg)

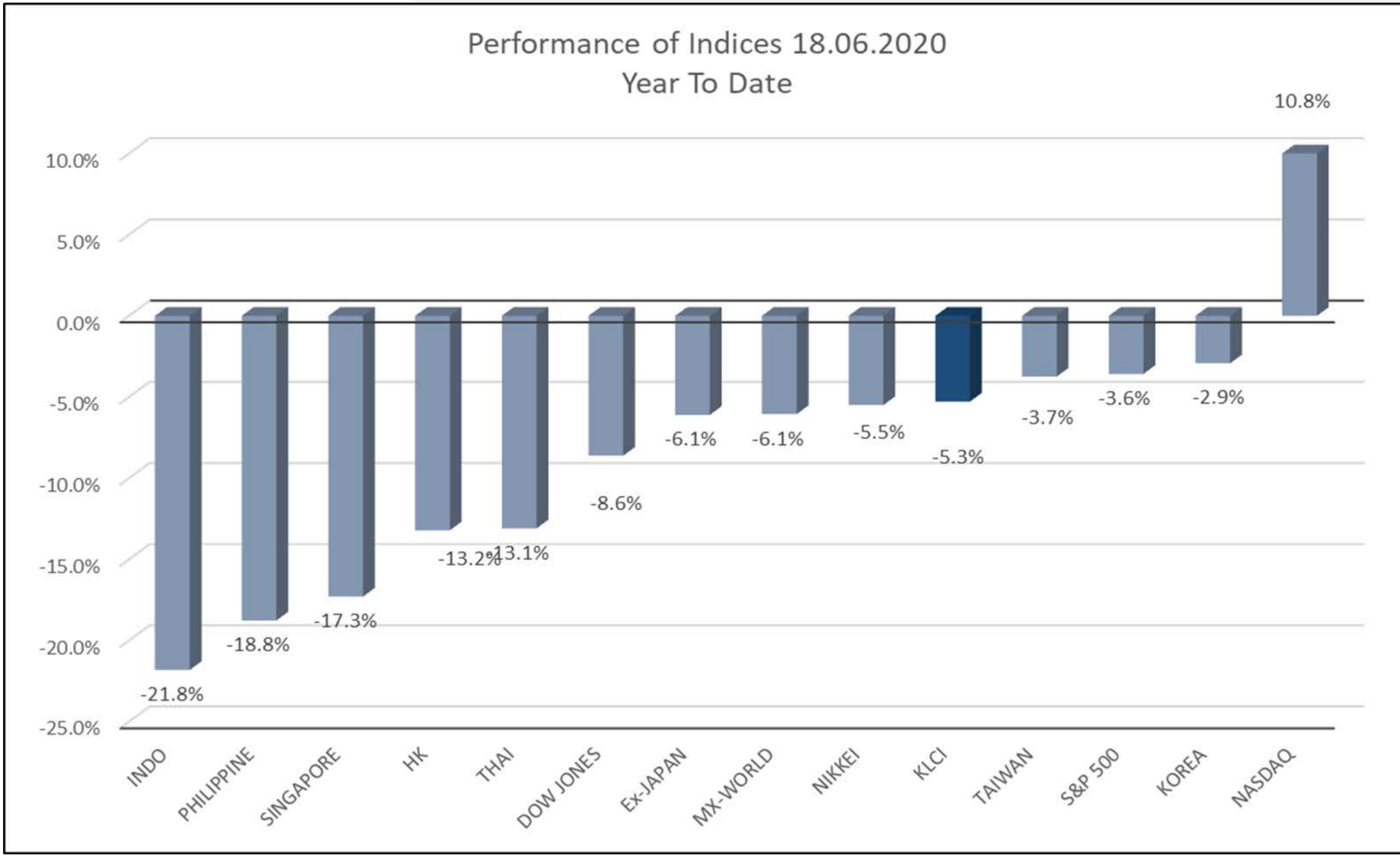
Exhibit 3: Sector Performances (Year-to-Date)



	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Utilities Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Technology Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS HealthCare Index
Change YTD	-18.2%	-18.1%	-16.2%	-16.1%	-15.1%	-10.9%	-10.1%	-8.3%	-5.8%	-5.3%	-0.5%	-0.2%	-0.1%	85.0%

(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. Bank of England Governor Andrew Bailey spoke on many issues of importance. The market is fixated on what would possibly be a significant taper of its pace of asset purchases over time and that the current scale of reserves should not be a permanent feature. It is a necessity as economies globally get back on track. The question is the timeline; a horizon of early or late 2021 or even 2022 matters for timing investment exits. We think it is likely later rather than earlier.

2. Andrew Bailey also spoke of another important matter. The capacity of Central Banks to make big and effective decisions must be reinforced and not be called into question. This is effectively a reinforcement of the "Greenspan Put". It is also an acknowledgement by Central Banks that both markets and economies cannot tolerate any extended and magnified form of crisis. When your free and efficient market hypothesis gets thrown out of the window, the question of self-correcting or mean reversion mechanism also gets called into question. Does valuation actually matters? Or Central Banks have decided what is appropriate?

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3. On a more fundamental front, it is encouraging that various economic data-points have shown that we are on a path of recovery. Whether it is a V or U-shaped recovery, we are directionally correct. Easy monetary conditions and massive fiscal supports will ensure that this economic recovery will never be undermined.

4. Markets perhaps may have run somewhat ahead of fundamentals. Nonetheless, the massive liquidity that will remain in the system way beyond a sustained economic recovery will create a long runway towards building support for any weakness in equity markets.

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