Portfolio Managers' View

As at 4 August 2020

Fund Management Department

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Malaysia

1. The KLCI closed at 1,576 @ 04.08.20. The stock market has risen by 7.3% since the end of the previous month. YTD-2020, the KLCI has risen by a modest 0.9%.

2. Last week, Malaysia recorded its largest-ever monthly trade surplus in June. This was due to strong recovery in export to the USA (+27.6% YoY) and China (+46.8%). Exports which performed strongly were electrical and electronics (15.9% YoY), palm oil (45.4% YoY) and machinery, appliances and parts (29.4% YoY).

3. Over the last one month, the Malaysia Ringgit (MYR) was the best performing currency. The MYR has risen by 1.6% since the end of the previous month. YTD-2020, the MYR is still down by 3%. A stronger MYR vs the USD is positive for foreign inflows.

4. The technology sector received a boost from Apple’s strong 3Q (June) results. Apple’s revenue came in at $59.7 bil (+11% YoY, +2% QoQ) with a net profit of $11.25 bil (+12% YoY). AAPL’s earnings were 14% ahead of consensus. The strong results were achieved in spite of the disruptions caused by the Covid-19 pandemic. Importantly, management’s commentary indicated this momentum will continue into its 4Q (Sep). The upcoming iPhone 12 launch (expected in Oct) and higher demand due to work-from-home trends augur well for our Overweight in technology.

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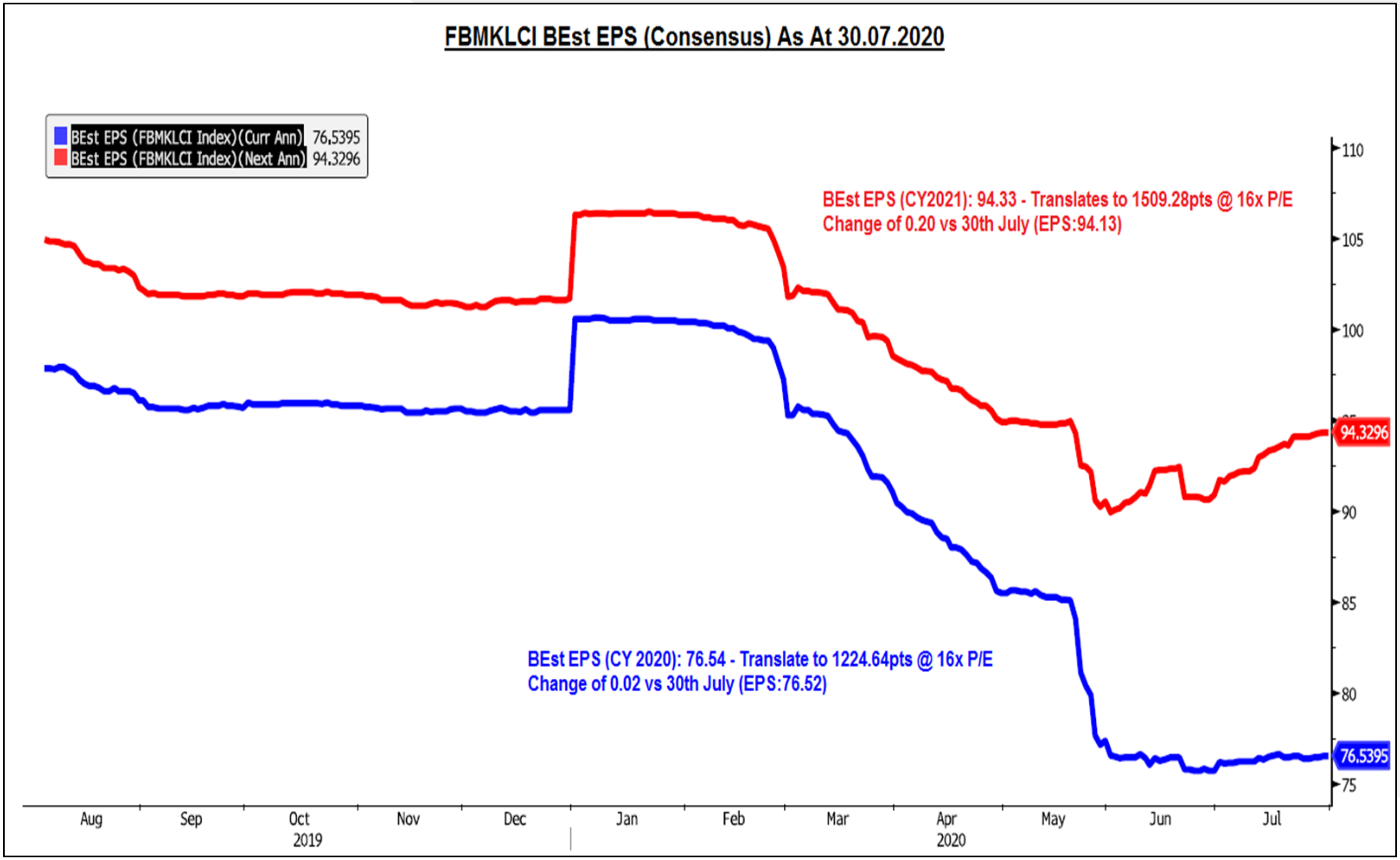
5. The impact of the Movement Control Order (MCO) on corporate earnings will be revealed as the 2Q reporting season begins. Companies in the technology sector such as Mi Tech and Unisem reported better than expected earnings despite the demand and supply chain disruptions caused by the global pandemic. We are Overweight technology in our portfolios. As work-from-home and technology trends evolves, the technology sector is standing out as a beneficiary of the pandemic.

6. PM Tan Sri Muhyiddin announced that the 6-month loan moratorium will be extended by 3 months for individuals who either lost their jobs or had pay cuts due to the Covid-19 pandemic. This is negative for the banks due to the additional modification loss they will have to incur. Separately, the repayments under the 6-month loan moratorium have reached an estimated RM 38.3 (> 7 mil individuals) and RM 20.7 bil (243K SMEs) as at 20 July 2020.

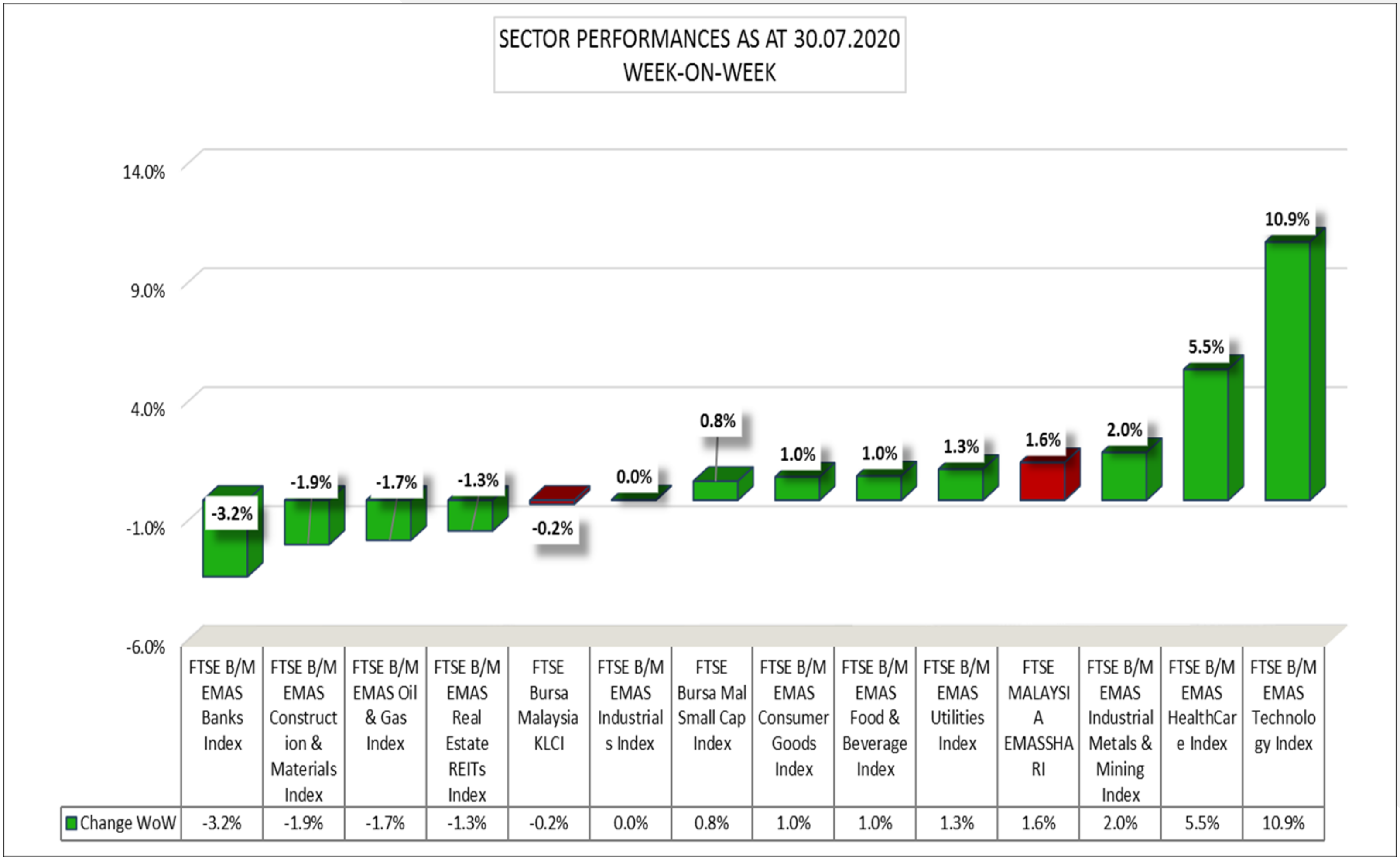
7. Consensus 2021 market eps has been cut by 11.6% from 106.5 sen @ end-Jan to 94 sen @ 30.7.2020. However, we have seen a pick-up in 2021 earnings estimate recently due to upgrades for the glove makers and Genting Malaysia (see Figure 1). At 1,576 @ 04.08.2020, the market is trading at a PER of 21x/17x for CY20/CY21. This is **not cheap vis-a-vis** the KLCI’s 12M mean PER of ~16x. We believe the upcoming 2Q (June) reporting season will result in further downward adjustments in earnings expectations.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS).



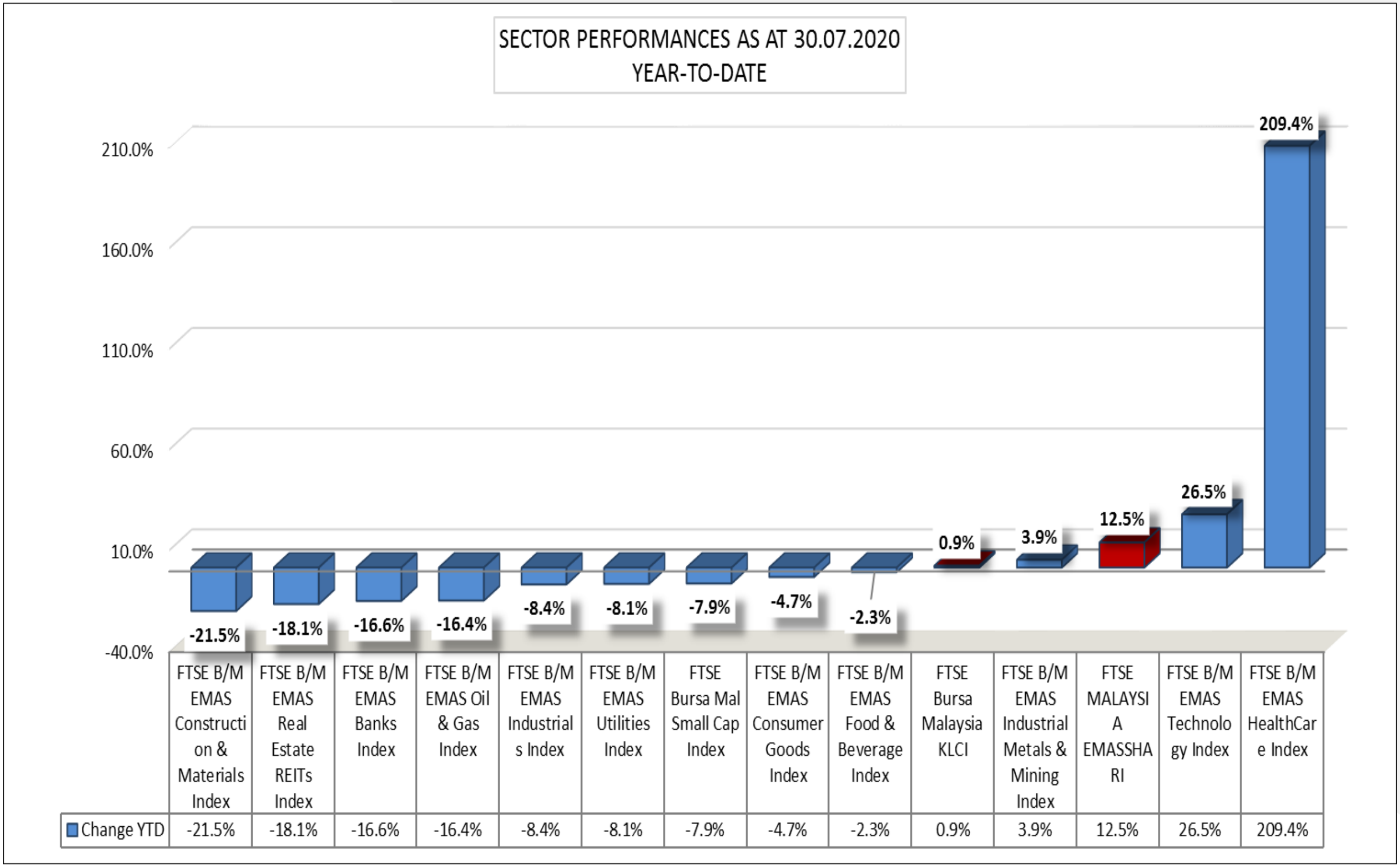
(Source: Bloomberg)

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



(Source: Bloomberg)

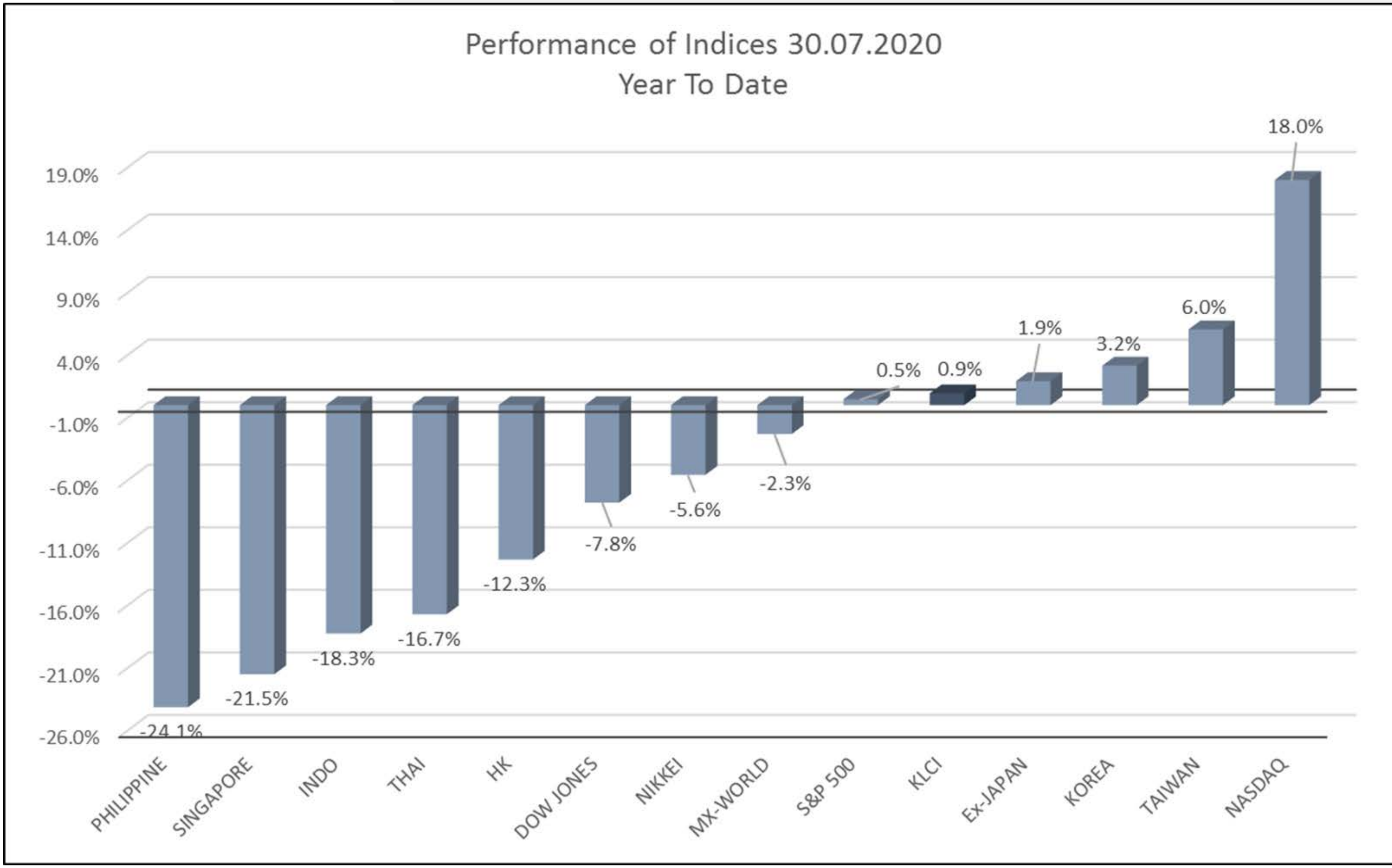
Exhibit 3: Sector Performances (Year-to-Date)



	FTSE B/M EMAS Construction & Materials 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 Industrials Index	FTSE B/M EMAS Utilities Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Technology Index	FTSE B/M EMAS HealthCare Index
Change YTD	-21.5%	-18.1%	-16.6%	-16.4%	-8.4%	-8.1%	-7.9%	-4.7%	-2.3%	0.9%	3.9%	12.5%	26.5%	209.4%

(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. In last week's concluded US Federal Reserve FOMC, US Federal Reserve Chair Jerome Powell was asked if asset purchases are meant to support orderly markets or to ease financial conditions. Jerome Powell replied that he is fine with the fact of doing both. It is important to differentiate between the two. The easing of financial conditions is critical to the well-functioning of the financial system and ultimately the transmission to the real economy. It is definitely interesting that Jerome Powell does not tolerate market fallouts either, a la Alan Greenspan. Liquidity is here to stay, or rather excess liquidity, for a long time.

2. In past commentaries, we have warned that the equity market rally has brought us back to pre Covid-19 levels, and thus vulnerable for profit-taking. Indeed, the resurgence of Covid-19 confirmed cases in Melbourne, Australia, Hong Kong, and Japan, coupled with extended lockdowns in Indonesia and Philippines were enough to prod investors into jumping ship. Also, some signs of Covid-19 situation stabilising out in the US was enough to lead the US dollar higher and correspondingly weakness in Asian currencies. We see this as temporary.

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3. Yesterday, China's Caixin Purchasing Managers Index (PMI) recorded a historical high of 52.8. Compared to the official PMI which measures large corporates and state-owned enterprises, Caixin PMI also incorporates private enterprises including small and medium size enterprises, and is therefore seen as a better and accurate gauge of the broad economic recovery in China. This bodes well for the rest of Asia, which are increasing more dependent on the health of the Chinese economy.

4. Thus, the Chinese Rmb has held its own against the US Dollar despite the weakness in other Asian currencies. Looking beyond Covid-19 is the likely scenario of a better Asian equity environment.

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