



Portfolio Managers' View

As at 3 November 2020

Fund Management Department

Malaysia

1. The KLCI closed at 1,461 @ 3.11.20. The stock market has declined by -2.5% since the end of the previous month. Utilities (-4.0% WoW) and Small Caps (-3.9% WoW) were the worst performing sectors in the last one week. YTD-2020, the KLCI has declined by 7.7%.
2. Last week, Malaysia recorded its 2nd largest-ever monthly trade surplus of RM 22.0 bil (vs RM 13.2 bil in Aug). Malaysia's exports expanded by 13.6% YoY in Sep (-2.9% YoY in Aug). Exports which performed strongly were electrical and electronics (E&E) (+33.0% YoY in Sep), rubber products (+115.8% YoY in Sep) and agriculture (+26.6% YoY in Sep). Exhibit 2 shows Malaysia E&E exports by value.
3. Bank Negara Malaysia (BNM) left its overnight policy rates (OPR) unchanged at 1.75%. To recap, BNM had lowered its OPR by a total of 125 bps via 4 separate cuts this year. While OPR is at an all-time low of 1.75%, real interest rates are still relatively high at circa 3.15%. This would indicate that BNM has room to lower interest rates if inflation does not rise significantly.

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4. Consensus 2021 market eps has been cut by 11.3% from 106.5 sen @ end-Jan to 94.5 sen @ 30.10.20 (see Exhibit 3). At 1,461 @ 3.11.20, the market is trading at a PER of 17.1x/15.4x for CY20/CY21. Although the market's valuation for 2021 is slightly below its 12M mean PER of ~16x, the pressure on earnings (excluding the glove companies) political uncertainty and rising Covid-19 infections will cap any upward move in the KLCI. Despite limited upside for the KLCI we are holdings names that are riding on good secular trend e.g. Dufu Technology which will be the main focus for this week **Special Feature Note**.

Special feature: The use of data storage equipment like servers has grown tremendously. This is arising from work from home and learn from home trends resulting from the Covid-19 pandemic. In addition, the introduction of 5G, greater usage of video conferencing for work and social purposes, growth of e-commerce and gaming products are some of the factors driving the demand for server capacity. To cater for this surge in demand for storage, manufacturers are producing HDDs with bigger and bigger capacity e.g. manufacturers have recently rolled out the higher capacity 18 terabyte HDDs while increasing the production of their existing 16 terabyte versions. Exhibit 1 shows that Seagate's Data Center (Nearline) demand for HDD growth 41% CAGR FY17-FY20.

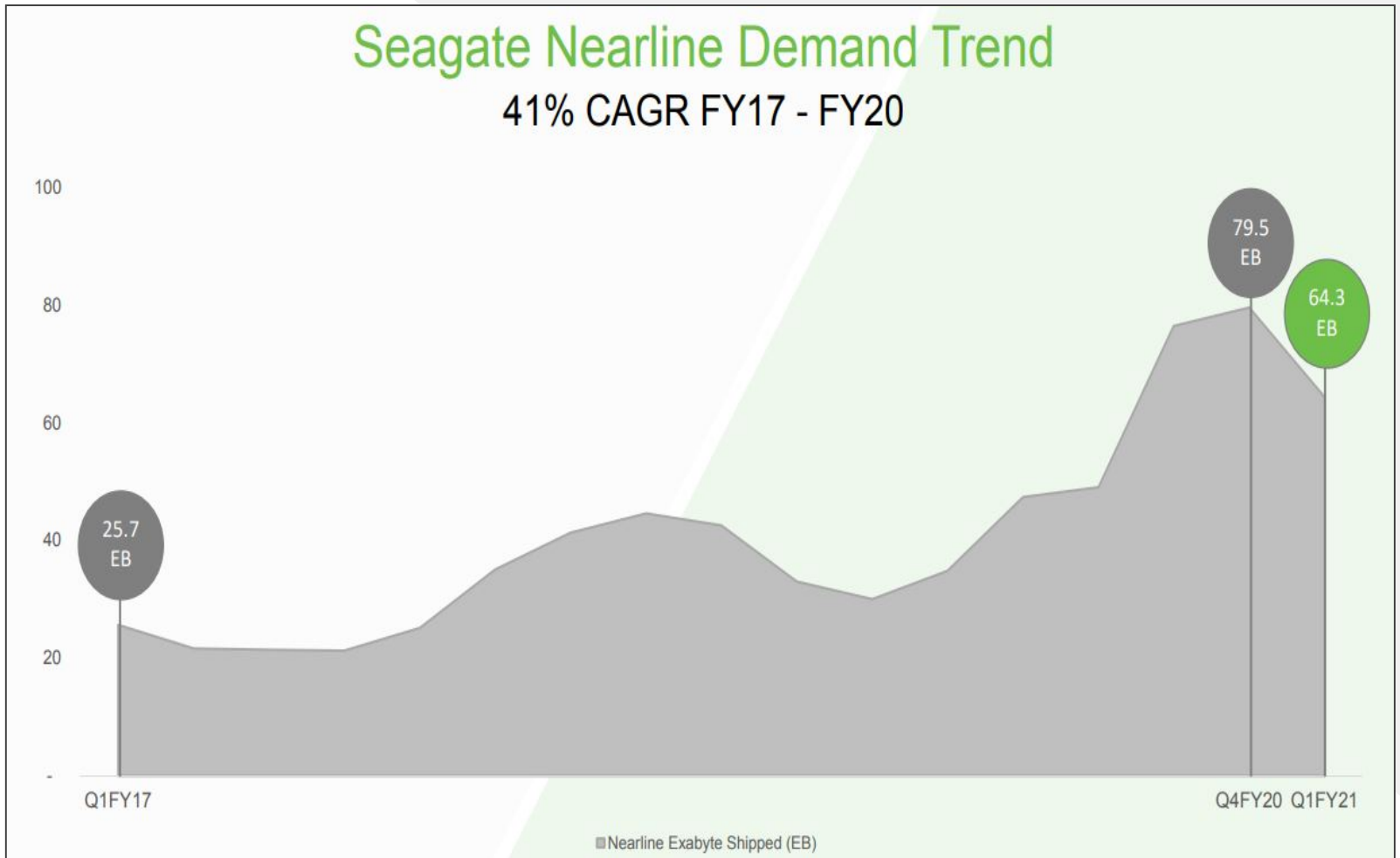
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- We observed some positive data points from the cloud storage and data center industry during the Sept quarter:
 - i. Cloud services provider Microsoft Azure saw revenue growth of +48% YoY and its video conferencing app Microsoft Teams saw daily active users increased from 75mil (Apr- 20) to 115mil (Sep-20). Similarly Amazon Web Services (AWS) saw revenue growth +29% YoY for Sep-20.
 - ii. HDD manufacturer for cloud storage, Seagate, saw its sales to data center customers growing by +36% YoY Sep-20. Similarly, Western Digital saw revenue growth from its data center customers of +32% YoY Sep-20.
 - iii. Hoya Corp which manufactures hard disk substrates (a component used in the manufacturing of HDDs) saw a +33% YoY rise in sales to HDD manufacturers (eg. companies such as Seagate and Western Digital).

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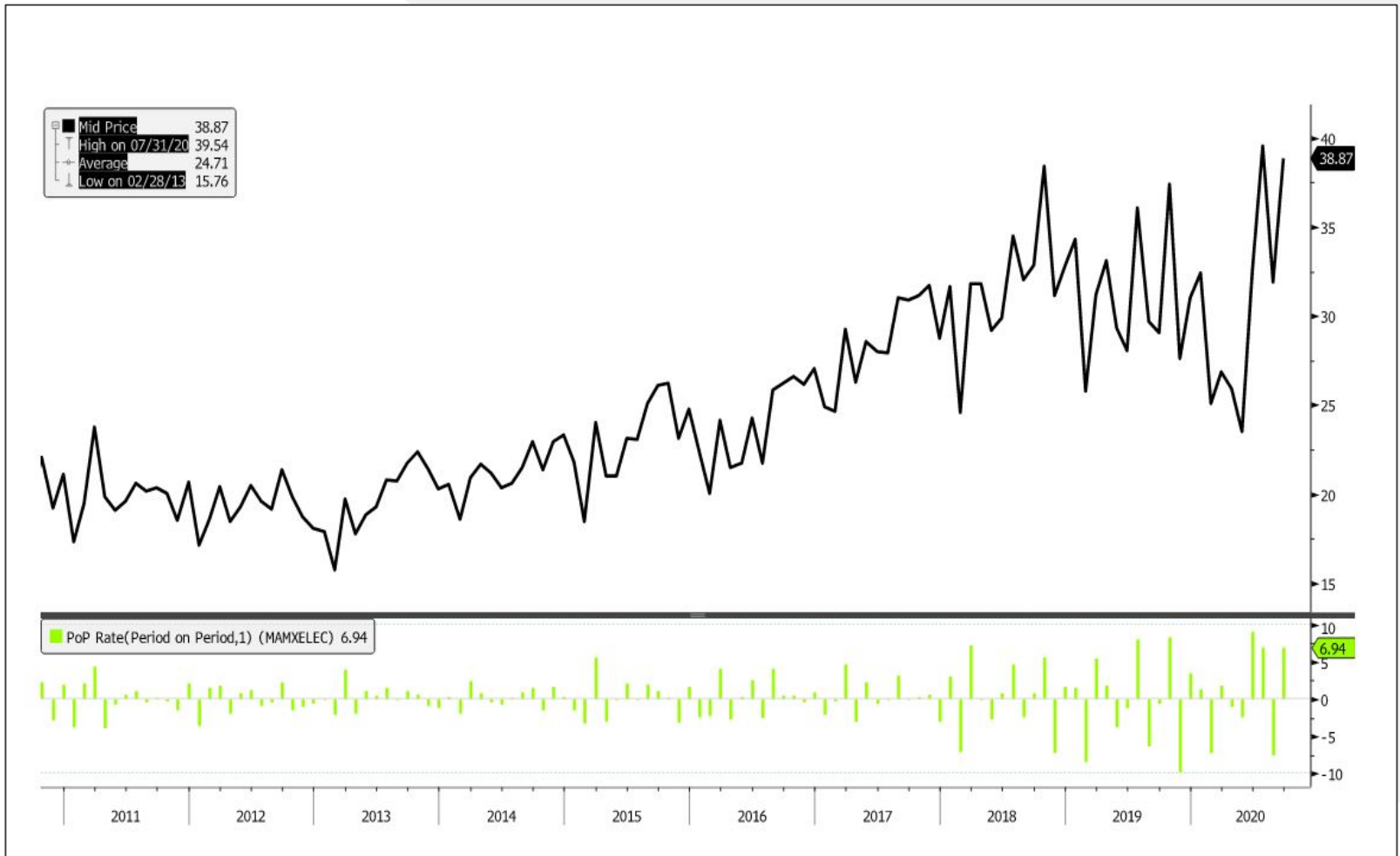
As highlighted above, the strong demand for cloud usage, video conferencing etc are among the factors driving demand for servers and high capacity HDDs. In our view, our holding Dufu Technology which manufactures spacers used in hard disk drives will benefit from these trends.

Exhibit 1: Seagate Data Center (Nearline) Demand Chart 1 Exabyte = 100k TB.



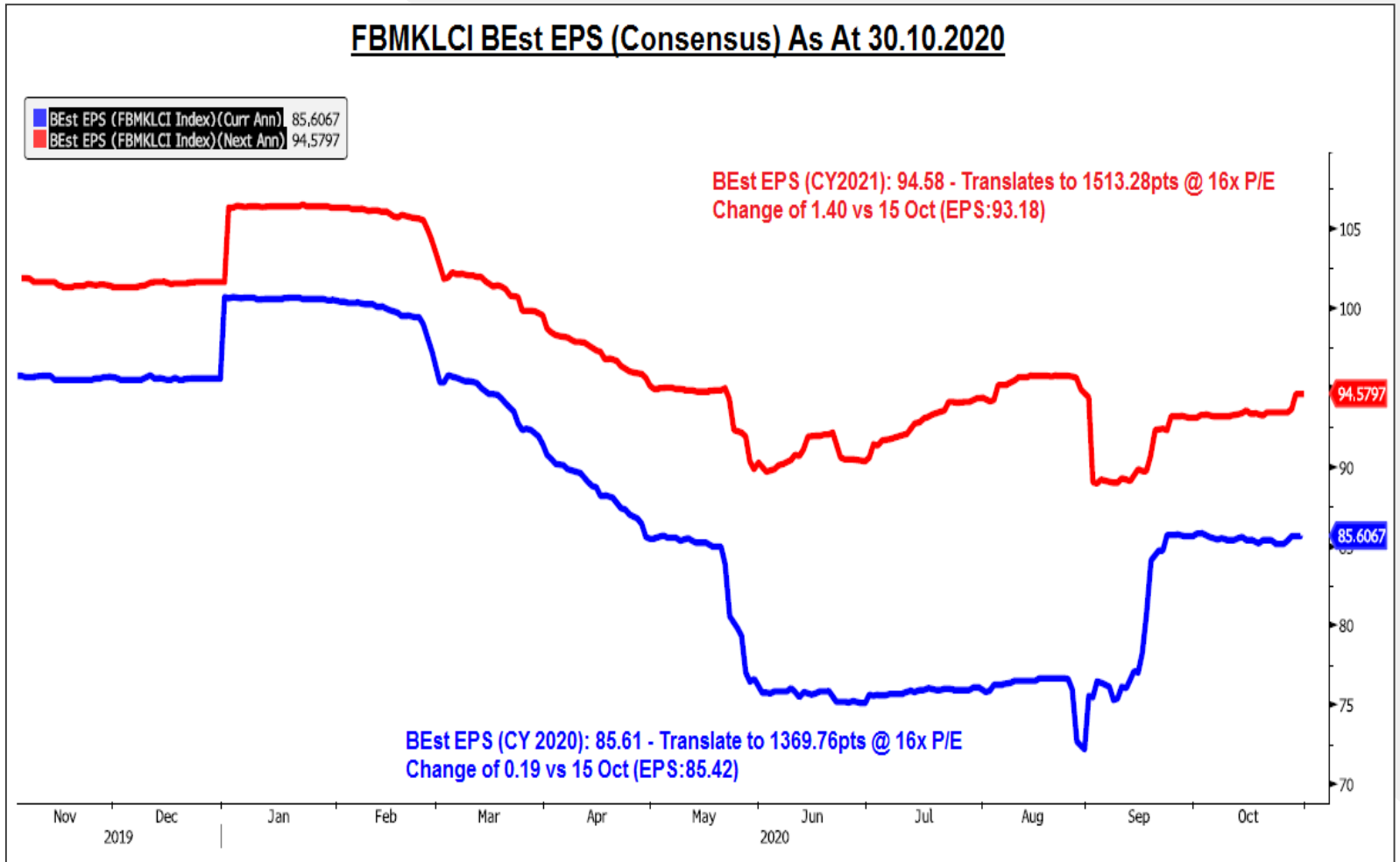
(Source: Seagate Technology PLC)

Exhibit 2: Malaysia E&E exports by value (RM bil)



(Source: Bloomberg)

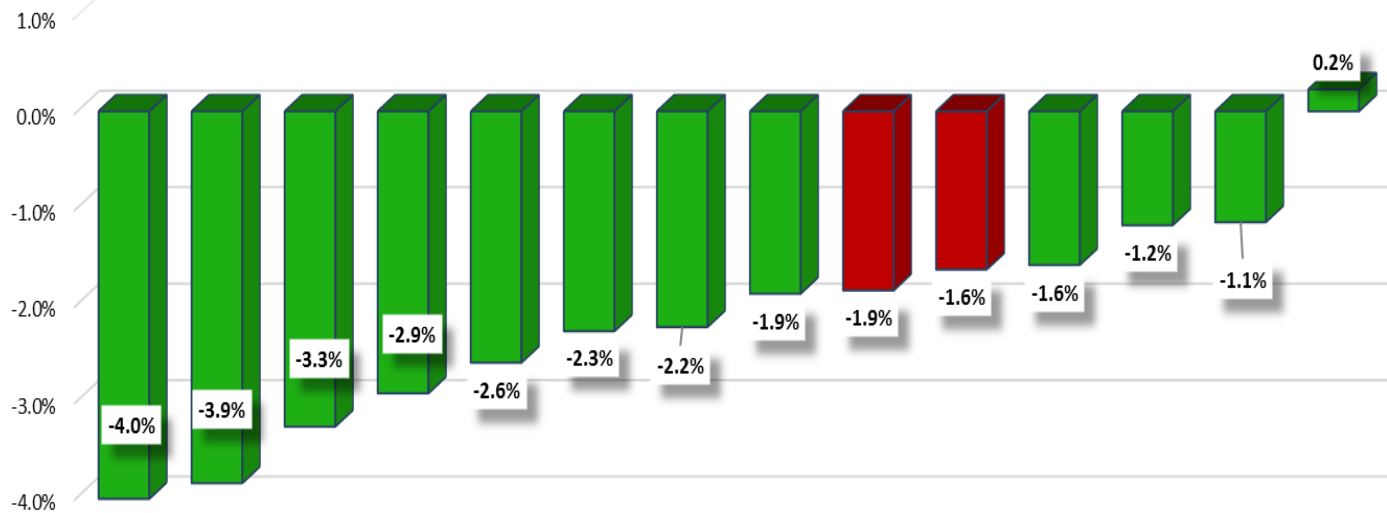
Exhibit 3: FBMKLCI Consensus Earnings Per Share



(Source: Bloomberg)

Exhibit 4: Sector performances (Week-on-Week)

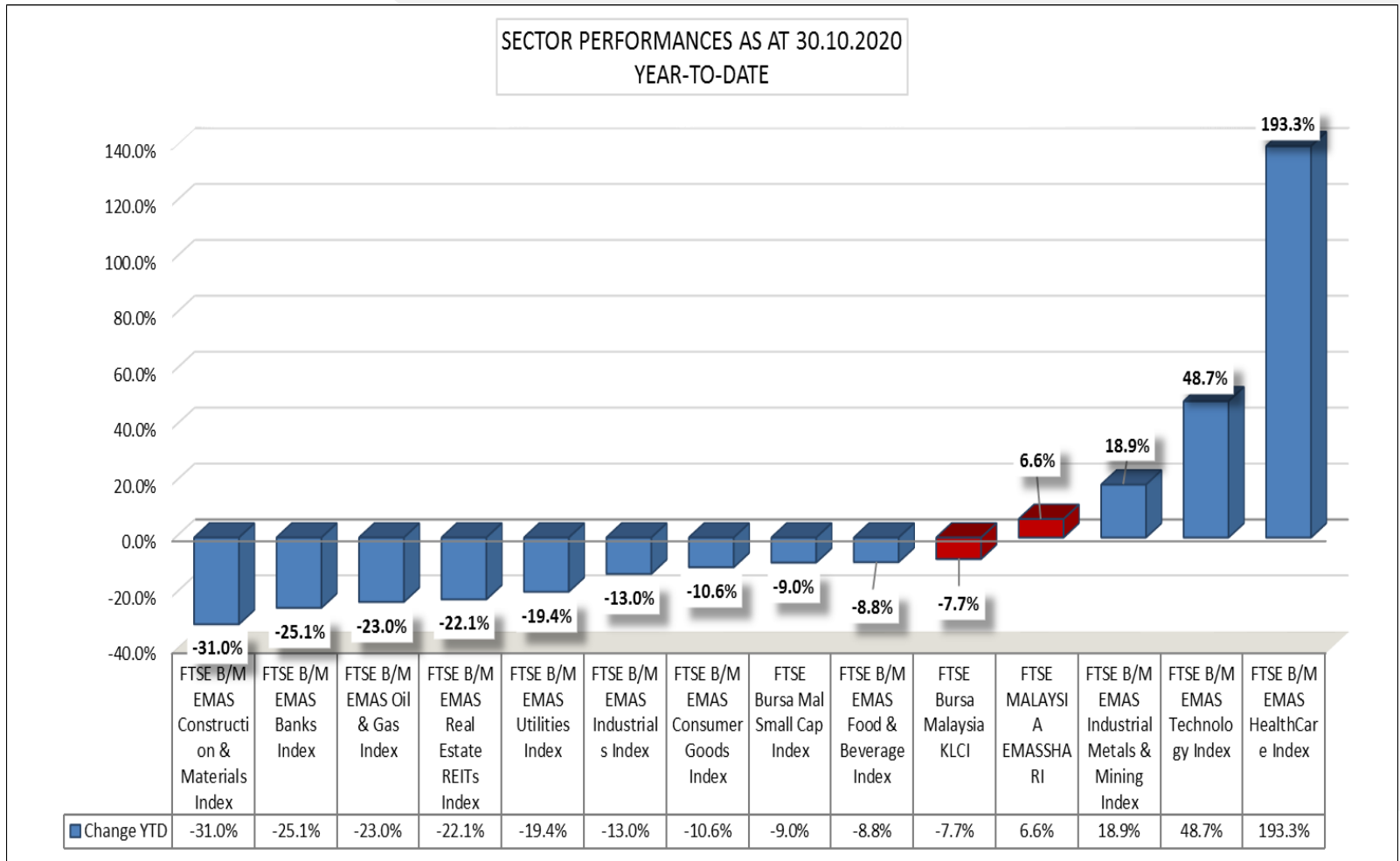
SECTOR PERFORMANCES AS AT 30.10.2020
WEEK-ON-WEEK



	FTSE B/M EMAS Utilities Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE Bursa Malaysia KLCI	FTSE MALAYSIA A EMASSHARE	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS HealthCare Index
Change WoW	-4.0%	-3.9%	-3.3%	-2.9%	-2.6%	-2.3%	-2.2%	-1.9%	-1.9%	-1.6%	-1.6%	-1.2%	-1.1%	0.2%

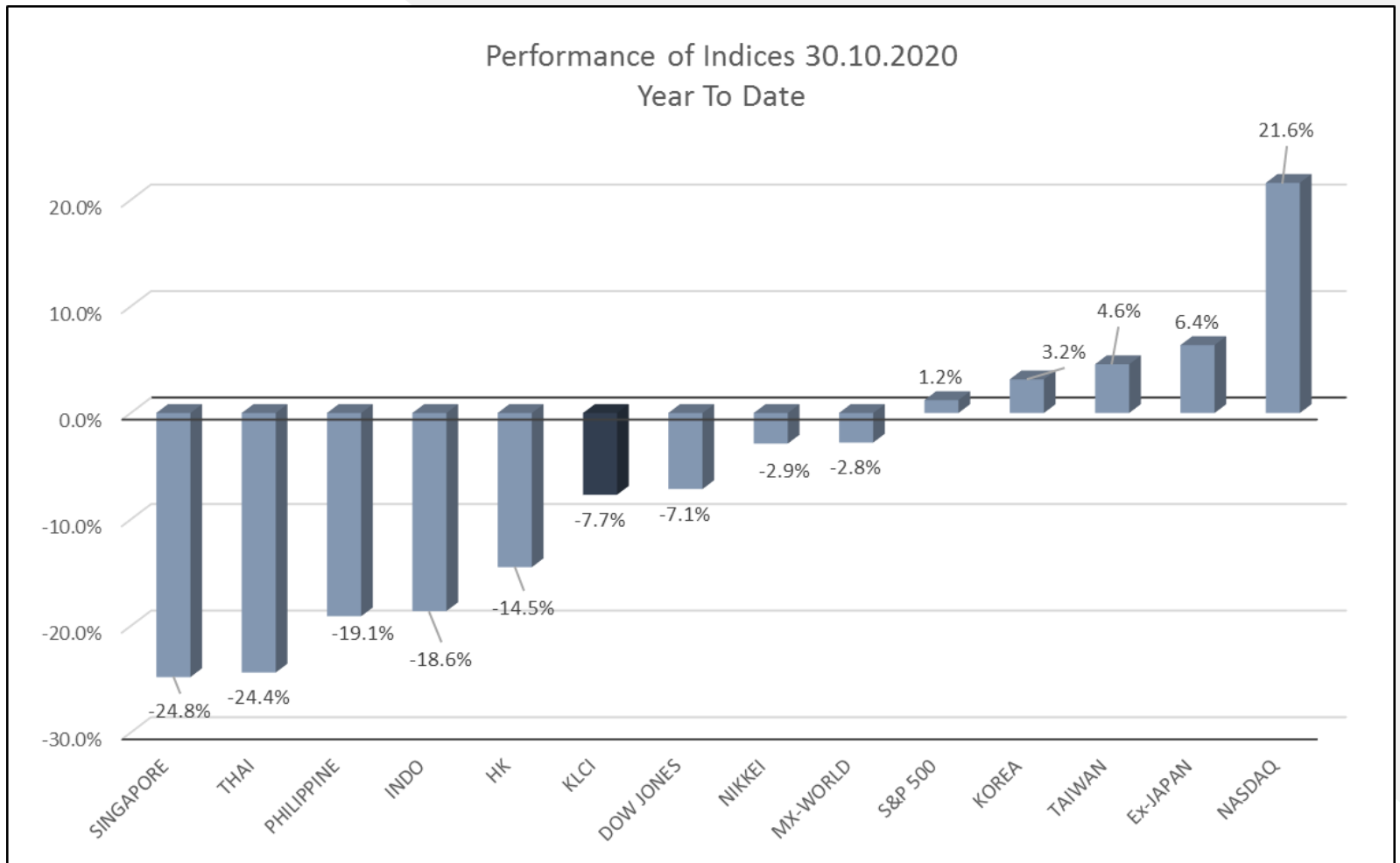
(Source: Bloomberg)

Exhibit 5: Sector performances (Year-to-Date)



(Source: Bloomberg)

Exhibit 6: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. We are writing this Tuesday Asian time when the outcome of the US Presidential Election is likely to be known over the next 24 hours. Whichever the outcome, Joe Biden or Donald Trump, let us not kid ourselves that this geopolitical and technology supremacy war between the US and China will continue to be fought. Over the years of President Trump's term, the equity markets have had enough time to adjust. There is a need to ignore the short-term and focus beyond to 2021.
2. As highlighted last week, beyond the US-China tension, whether Joe Biden or Donald Trump becomes the next US President, the fiscal support program will be northwards of a minimum US\$2.2 trillion. We will reiterate here again, the incoming fiscal support program will surely help the economy find a bottom somewhere in the next two quarters and reflate for the remainder of 2021. This reflation will come at a cost, the rise of US indebtedness and a possible weakness to the US Dollar.

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3. If Joe Biden wins the US Presidential Election, the read is that one of the current US Fed Governor Lael Brainard is likely to become the next Treasury Secretary. Undoubtedly dovish, Brainard has been one of those pushing for an easier monetary environment that will sustain an economic recovery even if it means overshooting the 2% inflation target. You can bet that dovish stance will get even more dovish on the other side of the fence. This will especially be so when she will be in charge of ensuring that the interest payments for the US Government's rising indebtedness remains manageable.
4. The equity markets have seen some profit-taking ahead of the US Presidential Election after an amazing run. Not a question of if but when US Fed Chair Jerome Powell signals its intent as the buyer of last resort, an implicit yield curve control is confirmed.
5. In this onslaught of liquidity, where should we as investors stand?

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