



Portfolio Managers' View

As at 10 November 2020

Fund Management Department

Malaysia

1. The KLCI closed at 1,575 @ 10.11.20. The stock market has declined by -0.5% since the end of the previous month. Healthcare (-2.2% WoW) and Banks (-1.3% WoW) were the worst performing sectors in the last one week. YTD-2020, the KLCI has declined by 5.5%.
2. Global news were very supportive for equities this week. Joe Biden will soon be the 46th US President-after capturing 290 electoral college votes vs Donald Trump's 214. We view this development positively. (1) Biden's win without the Democrats controlling the Senate (a legislative "deadlock") suggests that it will be difficult for incoming President to implement some of his proposed market negative policies such as tax hikes and anti-trust legislation to investigate anti-competitive practices (2) the two parties are likely to agree on further fiscal stimulus although it will not be as large as what the Democrats have proposed and (3) the US-China trade tension will continue but Biden's victory has reduced the risk of escalation. This outlook presents a favourable backdrop for risk assets.

Markets received a further boost this week when Pfizer and BioNtech announced a coronavirus vaccine which was more than 90% effective in preventing Covid-19 in their tests. This lifted sentiments and triggered a rotation into "value plays" including companies which were negatively impacted by the pandemic and which may potentially benefit from a recovery when the vaccine becomes available.

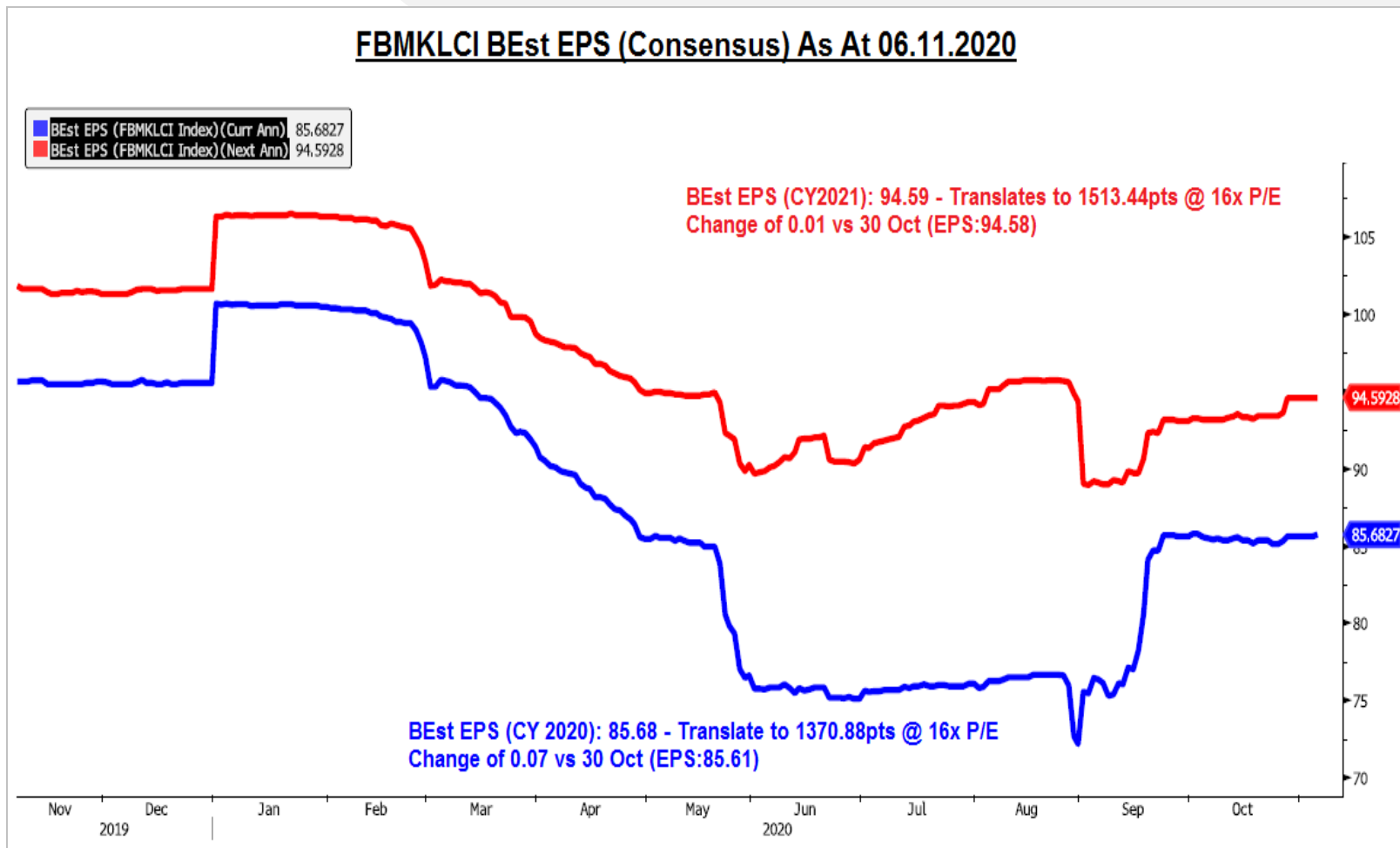
-continued

3. The Finance Minister announced Budget 2020/2021 on 6 Nov 2020. We view the announcement as neutral for the market. Numerous measures were announced to assist the lower income groups to overcome the adverse economic effects arising from the pandemic. Also, there was good news for tobacco companies such as BAT in the form of new enforcement measures to combat the illicit trade. In addition, there was RM 15bil allocated to 5 projects i.e. Pan Borneo highway, Gemas-JB double tracking rail project, Klang Valley Double Tracking project, JB_Sing Rapid Transit project and Klang Valley MRT3. On the negative side, the top 4 glove companies will make a special contribution of RM 400mil to combat the pandemic. In the longer-term, we are concerned with the government's growing debt level (including contingent liabilities) which stood at RM 1.3 trillion as at Sep-2020 (vs RM 1.09 trillion in 2018). A worrying trend is the share of emoluments + pensions & gratuities + debt servicing which will grow from 58.7% (of total operating expenditure) in 2018 to 63.9% in 2020. Due to these overheads and growing debt servicing cost, the country's debt level is likely to grow further in the coming years in order to sustain our current level of development expenditure.

-continued

4. Opposition party Pakatan Harapan has stated that they would not approve the Budget 2021 unless changes were made to the proposed Budget. Parliament will vote to approve the Budget on 25 Nov 2020. Assuming a scenario in which the Prime Minister fails to win majority support of the MPs, this may be construed as a no-confidence vote on the PM. The on-going political uncertainty remains an overhang for the market.
5. Consensus 2021 market eps has been cut by 11.2% from 106.5 sen @ end-Jan to 94.6 sen @ 6.11.20 (see Exhibit 1). At 1,575 @ 10.11.20, the market is trading at a PER of 18.4x/16.6x for CY20/CY21. The market's valuation for 2021 is in-line with its 12M mean PER of ~16x. With the continued pressure on earnings (excluding the glove and technology companies), political uncertainty and the negative drag on growth globally from rising Covid-19 infections, we maintain a bottom-up strategy of selecting companies which we believe have specific re-rating catalysts.

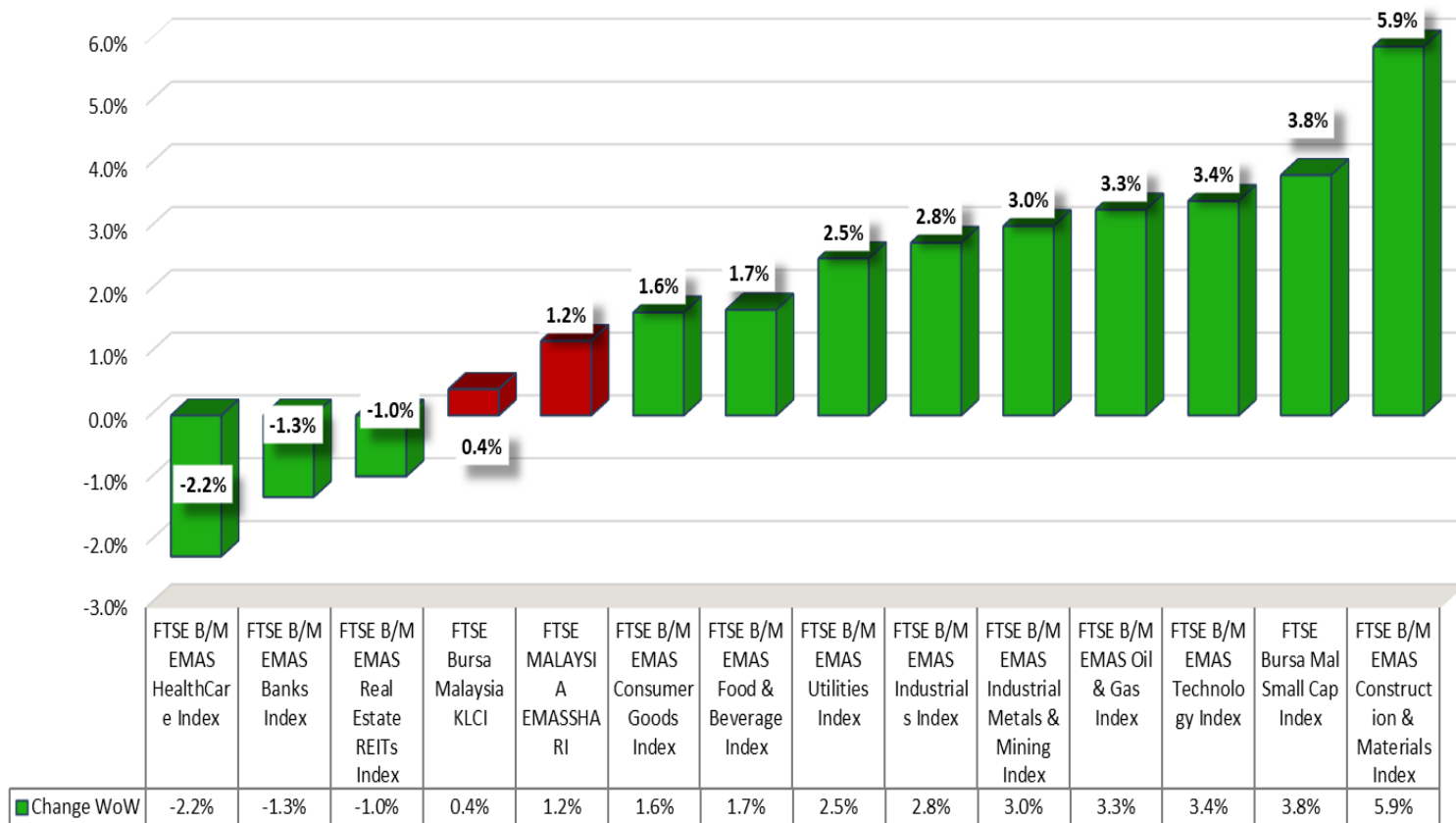
Exhibit 1: FBMKLCI Consensus Earnings Per Share



(Source: Bloomberg)

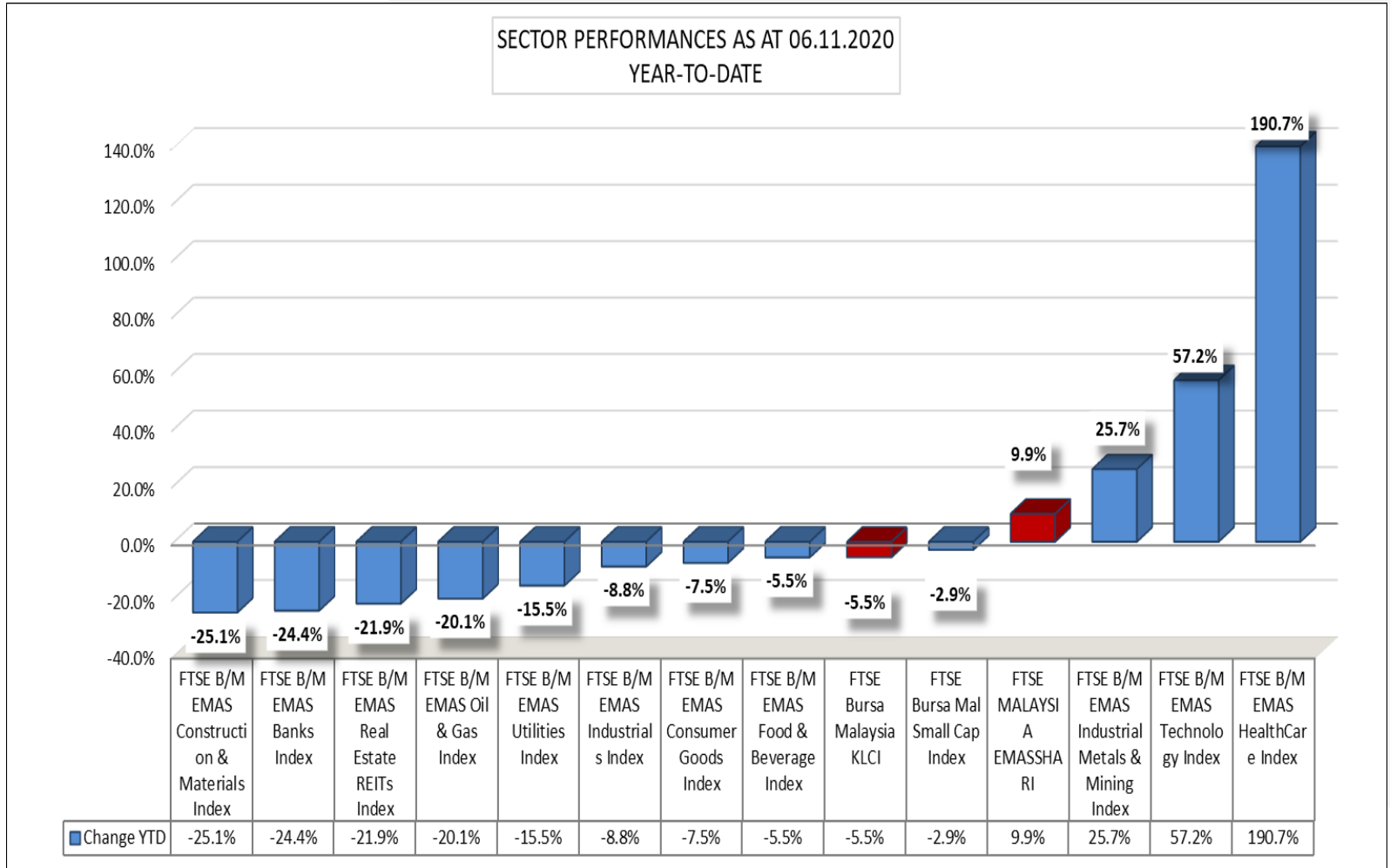
Exhibit 2 : Sector performances (Week-on-Week)

SECTOR PERFORMANCES AS AT 06.11.2020
WEEK-ON-WEEK



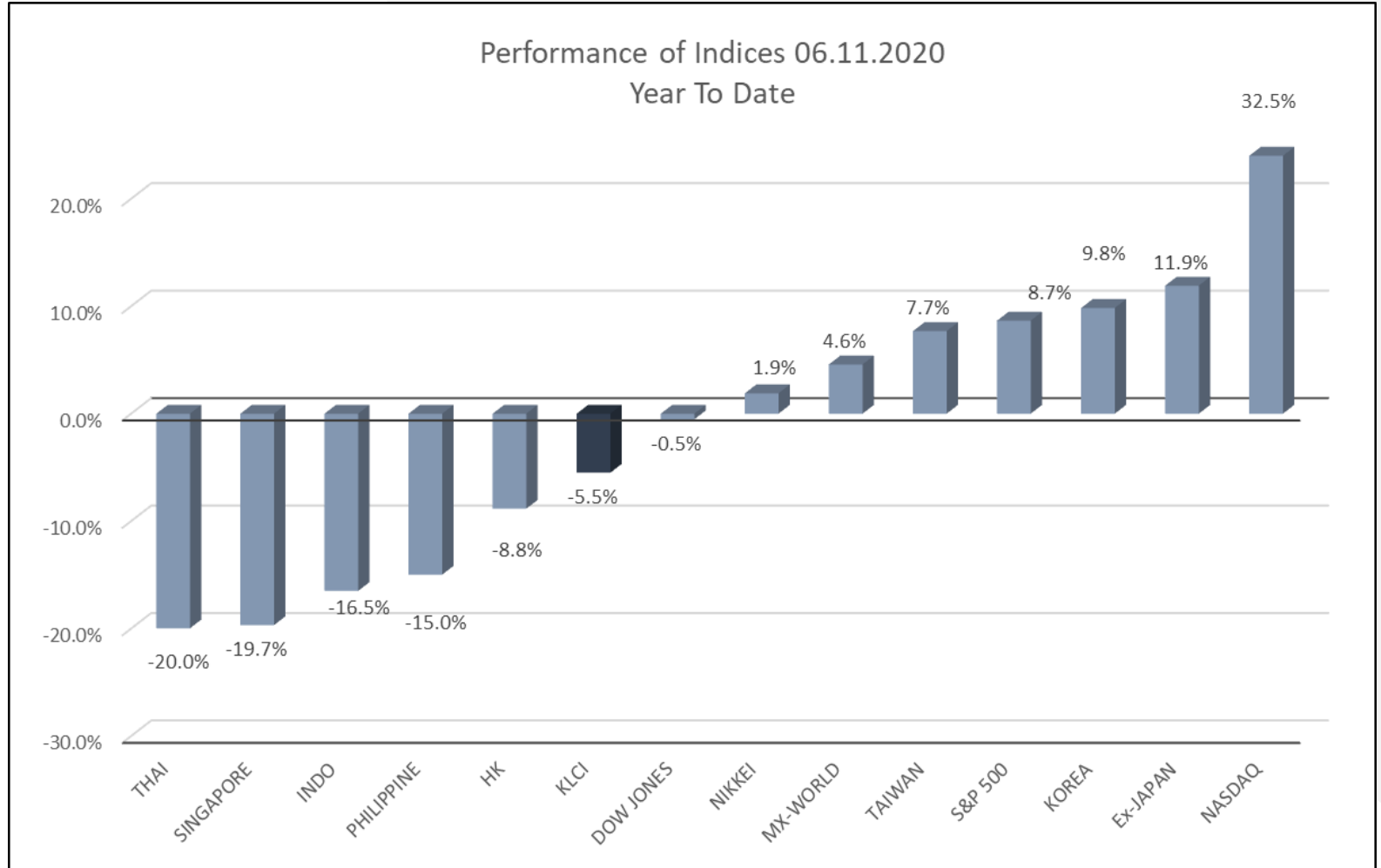
(Source: Bloomberg)

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



(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. The 46th US President is almost confirmed as Democrat Joe Biden, amidst noises of disruption from the outgoing Donald Trump. The set-back is Senate remained in the hands of the Republicans. Joe Biden's expansive fiscal push may face some resistance but if the Covid-19 situation takes a turn for the worse come winter, it is political suicide for the Republicans to go against it. Irregardless, the US Fed will have to act as the back-stop.
2. Just on Monday, equity markets were boosted by the announcement that Pfizer's vaccine late-stage trial data showed a 90% effectiveness in preventing infection. The sharp rally on Wall Street filtered though to the Asian equity markets. It has been a long time since the broader represented S&P500 outperformed the Nasdaq although in recent weeks there has been a broadening in the equity market performances. Not surprisingly, we witnessed the same rotation from Growth and Technology space into Value and Cyclical also in Asian equity markets.

-continued

3. How sustainable is this broad rally? With the recent bouts of second Covid-19 outbreaks, it is almost a consensus globally that even as we move into targetted lockdowns, no-one can afford the draconian measures we witnessed in the first outbreak that brought the whole economy to her knees. It has helped that even as cases of Covid-19 jumped, fatality rate has remained subdued and healthcare systems are well managed. A successful vaccine will accelerate hopes of a quicker economic opening up. This portends well for equity markets performance.

Disclaimer

This document is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Fundamental ratings include various financial data from the income statement, balance sheet, and cash flow statement items such as sales, profit, all important ratios, cash flows, working capital, cash conversion cycle and etc. over the past quarters and years. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not indicative of future performance. This document is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this document. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this document. The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Apex Investment Services Berhad ("AISB") and consequently no representation is made as to the accuracy or completeness of this document by AISB and it should not be relied upon as such. Accordingly, AISB and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this document. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice. This document may contain forward-looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. AISB expressly disclaims any obligation to update or revise any such forward-looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. AISB and its officers, directors and employees, including persons involved in the preparation or issuance of this document, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this document, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this document. One or more directors, officers and/or employees of AISB may be a director of the issuers of the securities mentioned in this document to the extent permitted by law. This document is prepared for the use of AISB clients, consultants or Representatives and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of AISB. AISB and its Representatives accepts no liability whatsoever for the actions of third parties in this respect. This document is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This document is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this document.

This document has not been reviewed by the Securities Commission Malaysia ("SC"), Federation of Investment Managers Malaysia ("FIMM") and Employees Provident Fund ("EPF"). The SC, FIMM and EPF are not liable for this document and are not in any way associated with this document. The SC, FIMM and EPF are not responsible for the contents herein and do not make any representation on the accuracy or completeness of this document, either in whole or in part.