



Portfolio Managers' View

As at 18 November 2020

Fund Management Department

# Malaysia

1. The KLCI closed at 1,605 @ 18.11.20. The stock market has increased by 4.4% since the end of the previous month. Healthcare (-6.6% WoW) was the worst performing sector in the last one week due to new vaccine discoveries. YTD-2020, the KLCI has increased marginally by 0.1%.
2. Markets received a further boost this week when another drug maker Moderna Inc announced a coronavirus vaccine which was 94.5% effective in preventing Covid-19 in their research. Together with the vaccine discovery announced by Pfizer and BioNTech on Nov-9, investors buying interest globally has rotated from momentum stocks into “cyclical and value plays”. We expect the buying of cyclicals to continue into 2021 as investors focus on the recovery of the global economy. The latter will be supported by hopes of more vaccine discoveries and as these vaccine discoveries are made available to people around the world. The Dow Jones Industrial Average rose 1.6% and S&P 500 rose 1.2% to close at a record high levels on 16.11.2020.
3. Budget 2021 which was announced on Nov 6, will allow eligible EPF members to withdraw their savings from Account 1. EPF estimated that approximately RM 45bil will be withdrawn from this scheme. According to its CEO, EPF would need to sell its assets and rebalance its portfolio to raise funds for the withdrawal.

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There is a possibility that EPF may need to liquidate some of its holdings on Bursa to meet the potential withdrawals. (Exhibit 1: shows the list of Top 30 Holdings for EPF as at Sep 2020).

4. Month-to-date as of 13.11.2020, foreigners net selling has slowed to RM 131.1mil of equities. The net selling trend has continued for 42 consecutive weeks. The YTD-20 foreign net sell @13.11.2020 was RM 23.1 bil. This was significantly higher than the net sell of RM 11.1 bil for the whole of 2019. The 11M outflow has surpassed the highest ever annual foreign outflow of RM 19.7bil in 2015.
5. Over the last one month, the Ringgit (MYR) has strengthened by 1.2% from RM 4.15 to RM 4.10 vs the USD. YTD-2020, the MYR is still down marginally by 0.8% (see Exhibit 2: Asia Currencies vs the USD for YTD-2020). A stronger MYR is incrementally negative for Malaysia's technology and export sectors. However, the Ringgit's appreciation in this quarter is less than the Ringgit's 3.5% appreciation in 3Q (from RM 4.30 in Jun-20 to RM 4.15 in Sep-20). We expect the impact of foreign currency losses on 4Q earnings for Malaysian tech and export companies to be less than 3Q .

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6. Consensus 2021 market eps has been cut by 11.2% from 106.5 sen @ end-Jan to 94.8 sen @ 13.11.20 (see Exhibit 3). At 1,605 @ 18.11.20, the market is trading at a PER of 18.6x/16.9x for CY20/CY21. The market's valuation for 2021 is above 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 in our view, have re-rating catalysts.

## Exhibit 1: EPF Top 30 Holdings Sep 2020

<b>EPF top 30 Holdings as of 30 Sep 2020</b>	<b>%</b>
Malaysia Building Society	65%
RHB Bank	43%
Malaysia Resources Corp	36%
Bermaz Auto	19%
Axiata Group	18%
Tenaga Nasional	17%
Telekom Malaysia	17%
CIMB Group	17%
IJM Corp	16%
Public Bank	16%
Sime Darby Plantation	16%
Sunway Real Estate Investment	16%
Yinson Holding	15%
Kuala Lumpur Kepong	15%
AEON Co	15%
Digi.Com	15%
Malaysia Airport Holdings	15%
Gamuda	14%
Malayan Banking	14%
Panasonic Manufacturing Malaysia	14%
IJM Plantation	14%
Globetronics Technology	14%
Axis Real Estate Investment	14%
Alliance Bank Malaysia	14%
BIMB Holdings	13%
Petronas Gas	13%
UMW Holdings	13%
IOI Corporation	13%
Capitaland Malaysia Mall Trust	13%
Malakoff Corporation	13%

(Source: EPF)

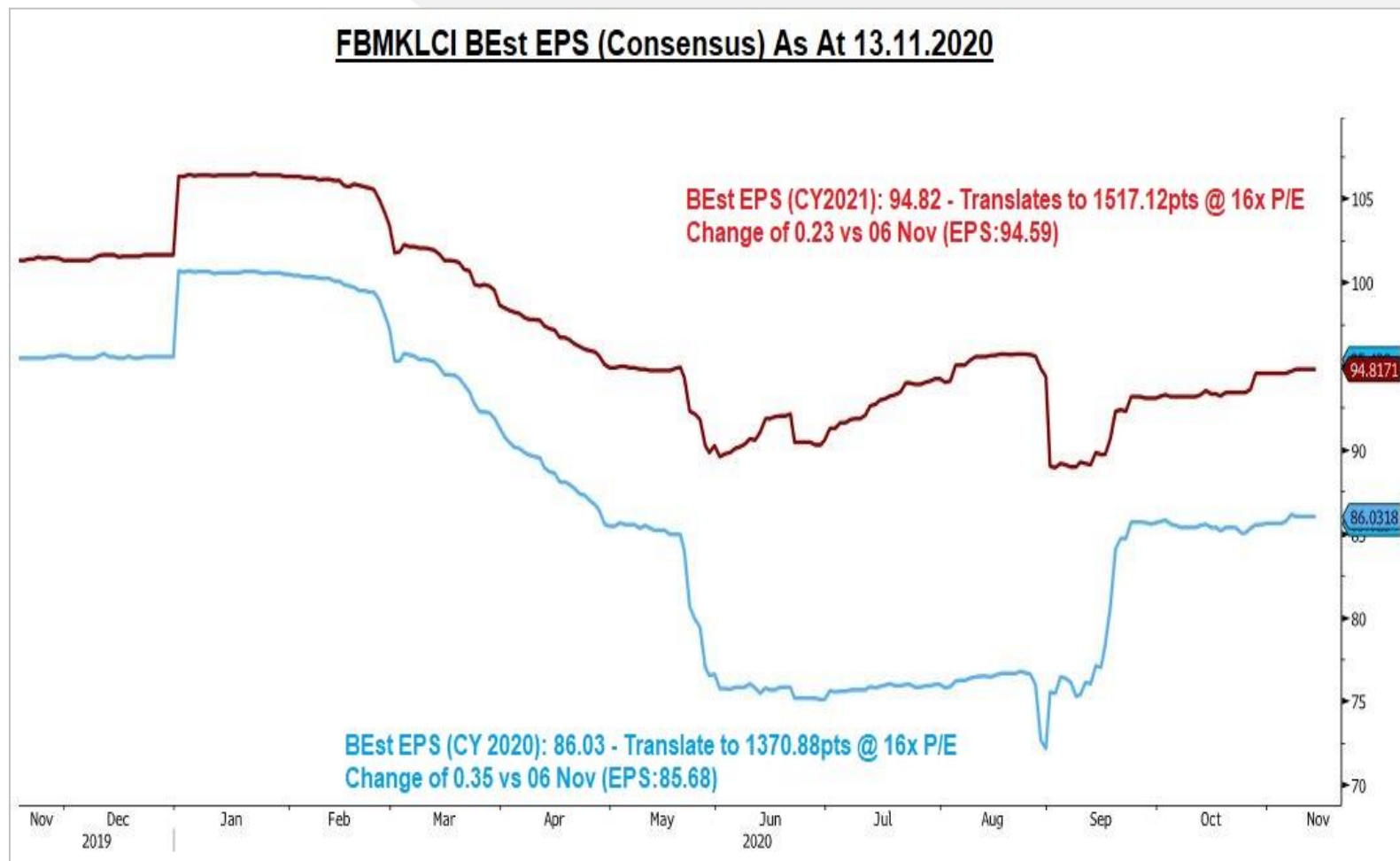
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## Exhibit 2 : Asia Currency vs the USD YTD-2020



(Source: Bloomberg)

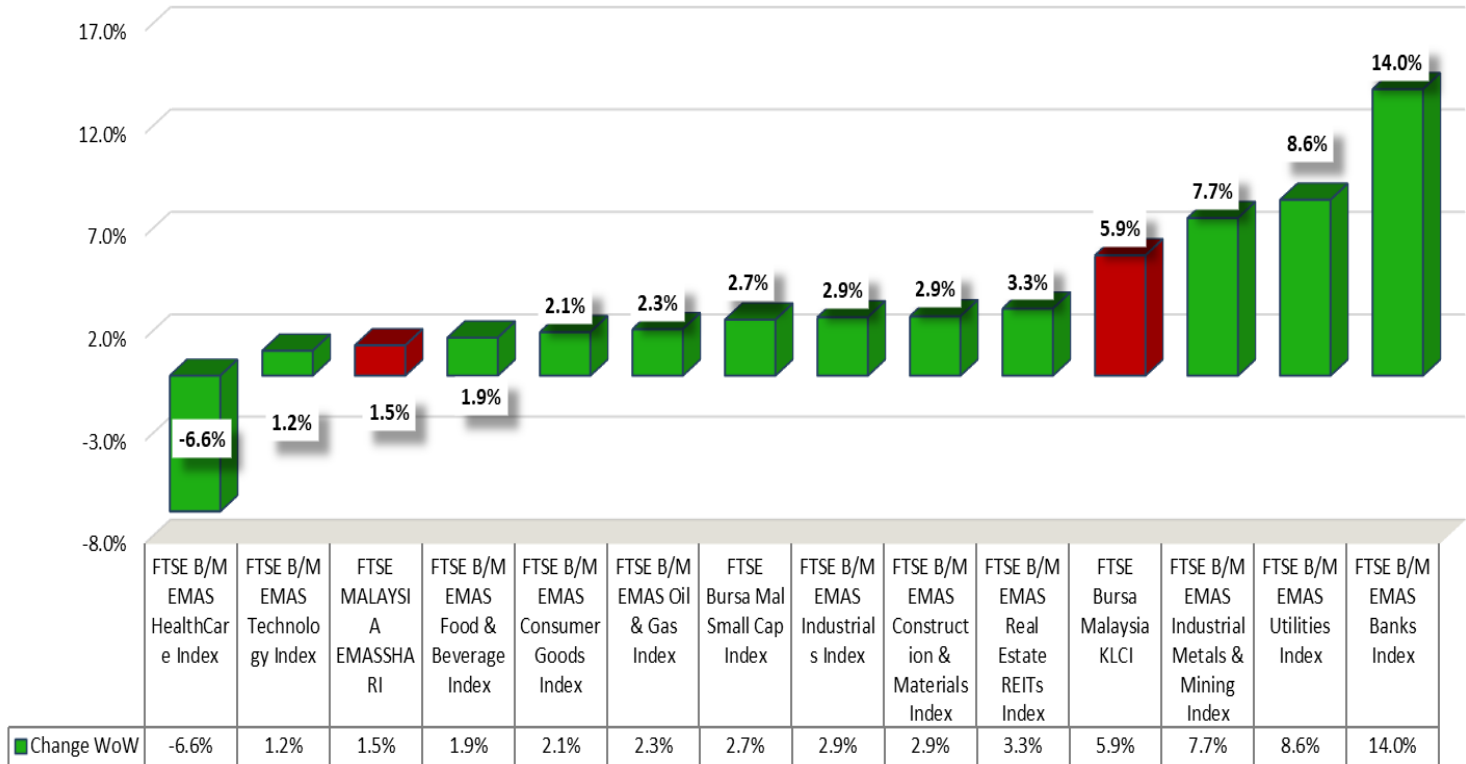
### Exhibit 3: FBMKLCI Consensus Earnings Per Share (EPS).



(Source: Bloomberg)

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

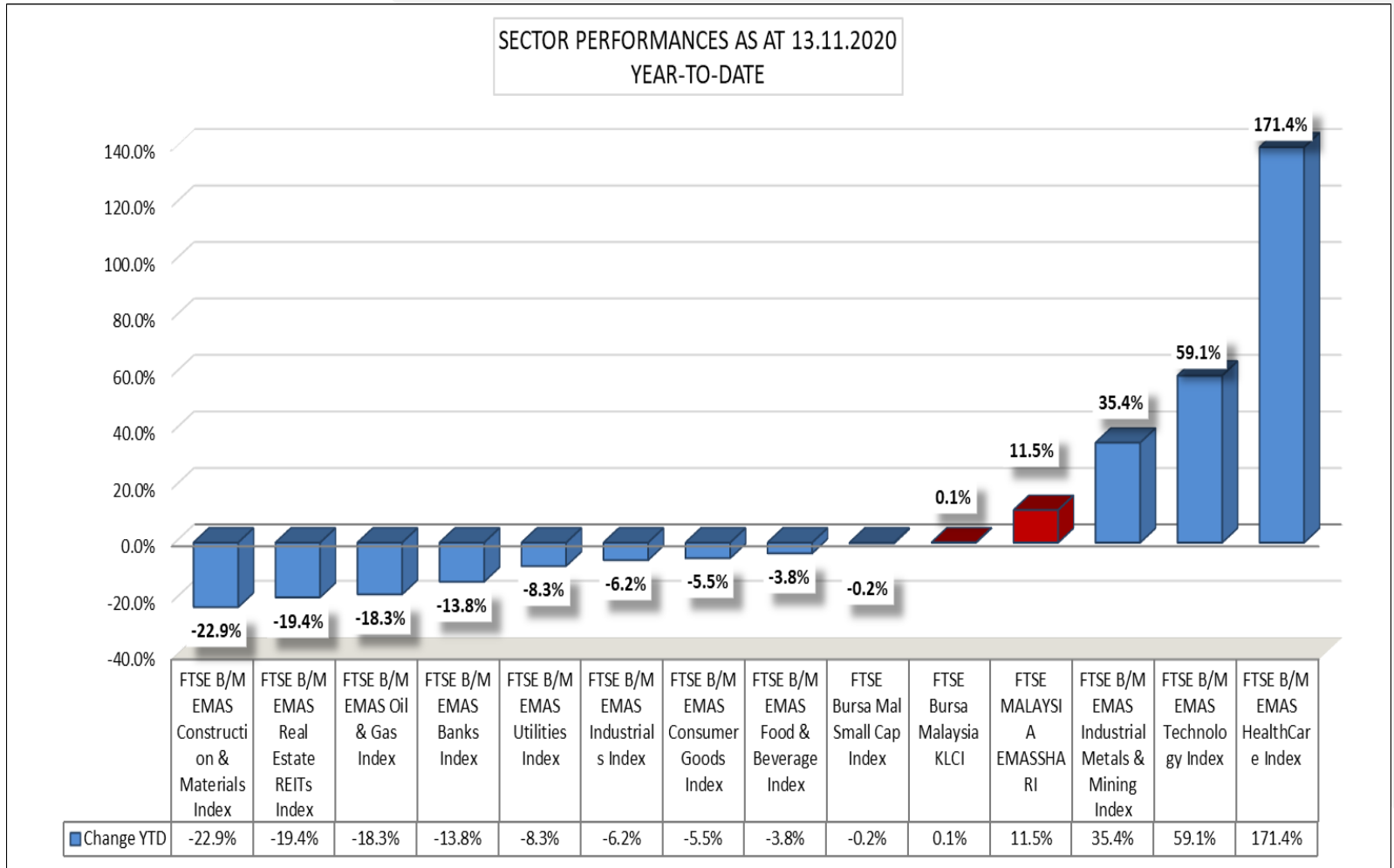
SECTOR PERFORMANCES AS AT 13.11.2020  
WEEK-ON-WEEK



(Source: Bloomberg)

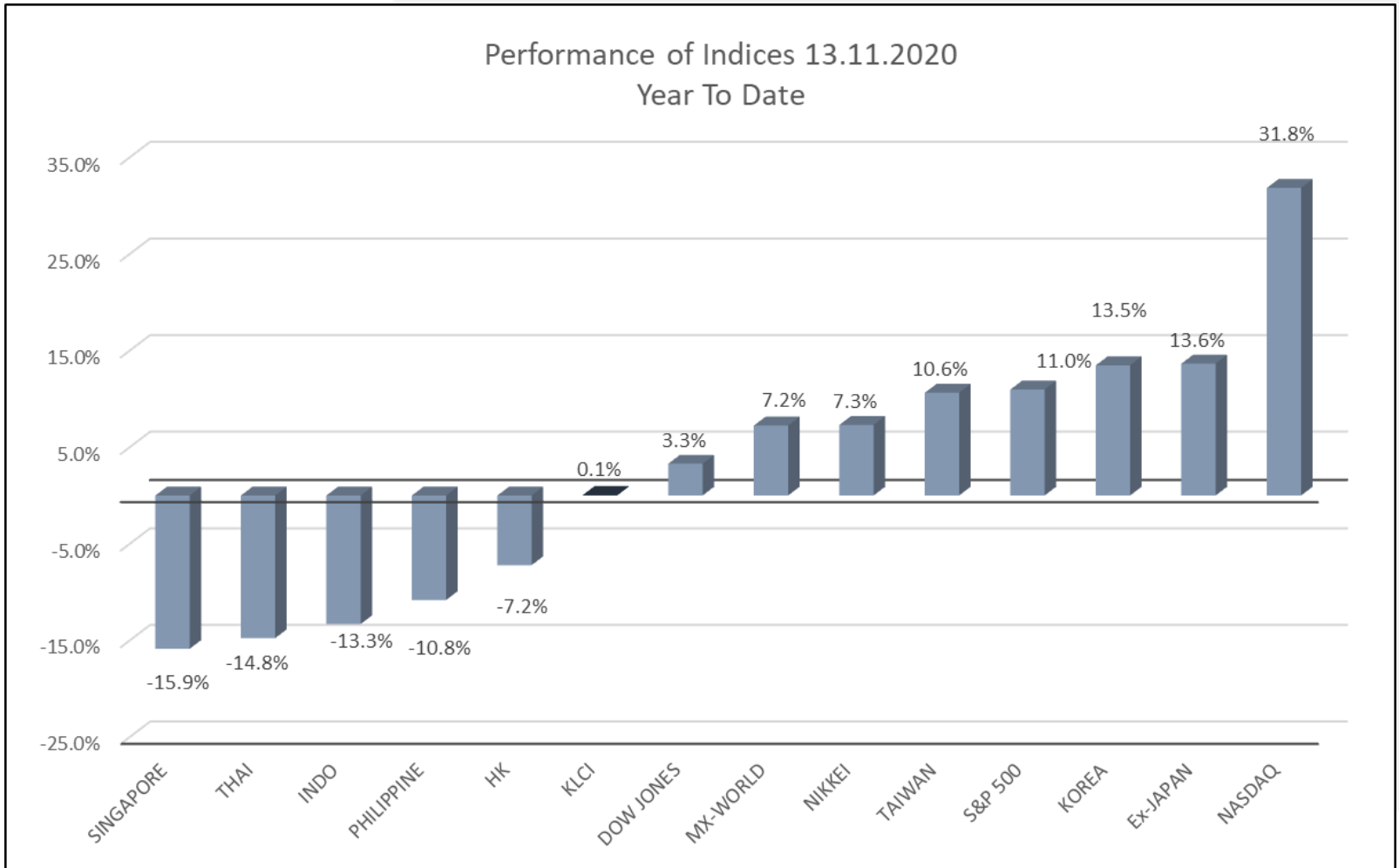


## Exhibit 5: Sector performances (Year-to-Date)



(Source: Bloomberg)

## Exhibit 6: Performance of Indices Year to Date



(Source: Bloomberg)

# Regional

1. The focus may well still be on who is the 46th President of the USA. By mid of December, electors at the various state capitals will cast their votes and deliver the outcome to Vice President Mike Pence on 23rd December. Although the formal endorsement at the Joint Session of Congress will not come till early January next year, democracy is truly dead if Donald Trump refuses to relinquish before the year end.
2. It is noteworthy that Henry Kissinger has forewarned incoming US President Joe Biden of a US-China catastrophe on the scale of World War One. Joe Biden may not be more lenient towards China but a more predictable approach may remove the uncertainty, eccentricity, and volatility of equity markets that investors have become accustomed to. So accustomed that it is such a given that anything better is taken as positive by investors.

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3. Senate in the hands of the Republicans is a setback to those expecting a clean sweep and a huge fiscal push. Despite the encouraging news on the Covid-19 vaccine front, the impact is likely towards the latter half of 2021 than immediate although it is a huge lift in terms of sentiment. However, near-term Covid-19 resurgence across the world, as US Fed Chair Jerome Powell has said, risk derailing the economic recovery momentum and there are already signs of a deceleration. It is a political suicide for Republicans not to step up in a time of crisis. It is equally so for a US Fed that will have to act as an even larger back-stop.
  
4. What has been lost in this focus on the US Presidential Elections is the RCEP signed this week, possibly the largest trade deal involving Asia-Oceania region ex-India. Critics will claim that there are already individual FTAs in place but I think this is very symbolic. Despite the frequent criticisms that come from Japan and Australia of China, they are two important members of this RCEP. Why? As President Xi of China embarks China on this transition from exports towards a domestic consumption economy, politicians (not corporates that are already focused on profitability) need to ask themselves which side of the fence they want to sit on. You do not want to be Humpty Dumpty.....

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