



## Portfolio Manager's View

27 April 2021

Fund Management Department

# Regional

1. We are positive on emerging markets. Nonetheless, there will be a period of short-term uncertainty due to the US Federal Reserve's policy direction. This is a good opportunity to invest if there is a period of market weakness.
2. Pay attention to this famous quote from US Federal Reserve Chair Jerome Powell. When asked about the timeline to reverse course on this exceptional emergency phase of monetary easing in response to the Covid-19 pandemic, he replied "We're not thinking about raising rates. We're ***not even thinking about thinking*** about raising rates". There are two parts to the US Fed's policy tools, managing interest rate and also the balance sheet. In a more recent conversation, Jerome Powell said that any reversal in monetary policy accommodation is likely to be similar to the 2013/14 playbook. that a tapering of asset purchases will come well before any interest rate increase. Last week, the Bank of Canada announced a reduction of its government buying program from 4 billion to 3 billion Canadian Dollars effective 26th April 2021, expecting its policy targets to be met in the second half of 2022 instead of 2023. My point here is Jerome Powell ***may have started thinking about thinking***.....how will market reacts to an earlier timeline of monetary tightening?

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3. The US Federal Reserve is really keeping us on our toes. James Bullard, the President of the Federal Reserve Bank of St Louis recently said that getting three-quarters of Americans vaccinated would signal that the pandemic is ending, ***a necessary condition to consider tapering bond purchases***. Have they floated a balloon to test the market? This new marker, if central to the US Fed's thinking, will move us much closer to monetary reversal than sustained inflation and full employment.
  
4. The US equity market has benefitted from the country's ability to jump ahead of everyone else in the vaccine roll-out. The good news is that developments on the Covid-19 front for the rest of the world will look better in the second half of 2021. The EU now expects a goal of vaccinating 70% of the population by the end of summer, as the delivery of doses will double from 170 million in the first quarter to 360 million by the end of June. It may not be the case with some emerging economies e.g India where new daily cases have spiked. But others are in various stages of their vaccine roll-outs and there is light at the end of the tunnel.

# Malaysia

1. The KLCI closed at 1,607 @ 27.4.21, declined by -1.2% M-o-M. Last week, Healthcare (+5.2%) was the best performing sector. Meanwhile, Industrial Metals & Mining (-2.2%) and Oil & Gas (-1.6%) were the worst performing sectors. Year-to-date @ 27.04.2021, the KLCI has retreated by -1.9%.
2. Last week Seagate reported its 3QFY21 results which came in above consensus. Revenue reached US\$ 2.73bil (vs consensus US\$ 2.68bil) and EPS came in at US\$ 1.48 (vs consensus US\$1.32). In Seagate analyst briefing, 16 terabyte (TB) and above hard disk drive (HDD) accounted for more than 60% of total HDD shipment in 3QFY21. Exhibit 1 and 2 indicates that mass capacity HDD continues to be the main growth driver for Seagate. This is positive flow through for Dufu Technology earnings, as higher TB HDD would mean more disk spacers required. We continue to be positive in the data center space as more and more users move towards clouds services due to work from home and stay at home trends.

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3. NXP semiconductor which produces auto parts for cars reported its 1QFY21 results in line with consensus. Revenues reached US\$ 2.57bil (vs consensus US\$ 2.56bil) and EPS came in at US\$2.3 (vs consensus US\$2.21). Automotive sales saw +3% QoQ and +24% YoY growth on continued auto production recovery and content growth. However inventories days are still low at 81 days vs last year 113 days. This is due to demand is greater than supply. We expect the recovery in automotive segment to be positive for KESM.
4. On 27 April, Unisem and Frontken reported its 1Q21 results in line with consensus estimates. Unisem reported higher revenues +2% QoQ (4Q20 RM 366.4mil vs 1Q21 RM 373.9mil), +37% YoY(1Q20 RM 273.3mil vs 1Q21 RM 373.9mil). However, net profit was down -16% QoQ (4Q20 RM 53.9mil vs 1Q21 RM 45.4mil), but >+100% YoY (1Q20 RM -2.8mil vs 1Q21 RM 45.4mil). Weaker QoQ net profit was due to increase in hiring costs and new equipment to cater for strong orders in the coming quarters. Similarly, Frontken reported higher revenues +2% QoQ (4Q20 RM 101.0mil vs 1Q21 RM 103.5mil), + 22% YoY (1Q20 RM 84.8mil vs 1Q21 RM 103.5mil). However, net profit was down -2% QoQ (4Q20 RM 23.3mil vs 1Q21 RM 22.9mil), but +35% YoY (1Q20 RM 17mil vs 1Q21 RM 22.9mil). Weaker QoQ net profit was due to higher tax incurred by its

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Taiwan subsidiary because of a lower dividend payment to Frontken. If we strip out the one-off tax payment, net profit should have been +9% higher QoQ. It is worth noting that despite lower number of working days in 1Q21 compared to 1Q20, both Unisem and Frontken reported record high march quarter earnings YoY. We maintain our positive view on technology stocks as we believe the positive outlook remains for the next 1-2 quarters at least. We continue to Overweight the technology sector across our portfolios.

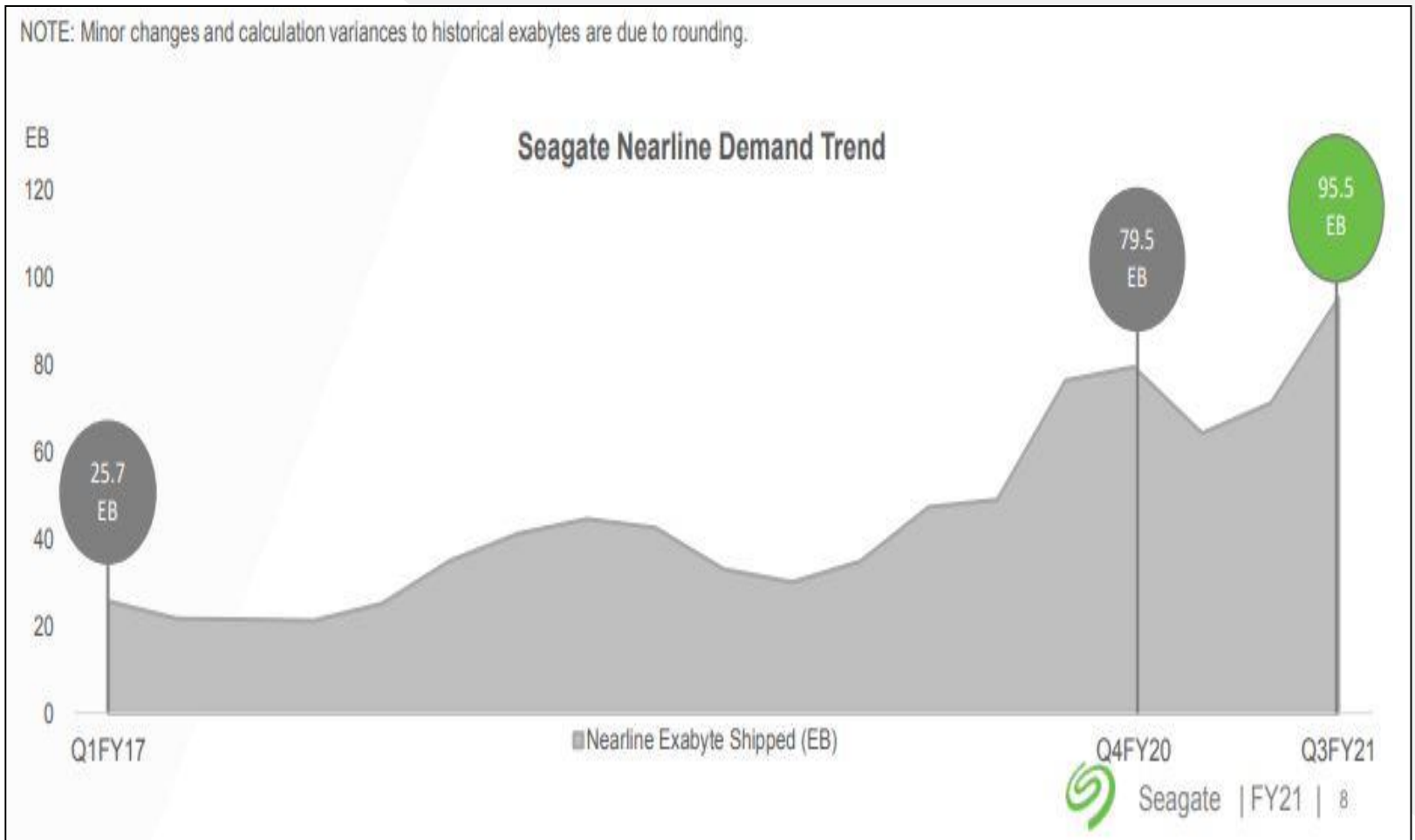
5. The average daily turnover by value (ADTV) has declined by 26% M-o-M from RM 5.0 bil in March to RM 3.7 bil in April. The decrease in Bursa's daily turnover suggests that retail activity, which is the biggest contributor to Bursa's turnover, has also declined. Since retail buying has shored up the market in recent months, the drop in retail activity may be negative for the market. On a brighter note, foreign selling appears to have abated in March and April. To recap, foreign investors have net sold RM 47.4 billion of equities in the last 3 years (2018-2020) with foreign investor ownership at a record low (estimated 20.3% in Mar-21).

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6. At 1,607 @ 27.04.21, Malaysia market is trading at a PER of 13.6x for CY21. The market's valuation for 2021 is at a 18% discount to its 12M mean PER of ~16x. The market's valuation is flattered by the low PERs of the glove companies. Excluding the latter, the KLCI is trading nearer to 18.0x (source: AISB). Separately, Malaysia is trading at a 21% discount to Asia ex-Japan's 2021 PER of 16.5x (see Exhibit 5). This is the steepest discount in the last 5 years. The latter reflects the consistent outflow of foreign funds from Malaysia in recent years. As most foreigners are significantly Underweight Malaysia, we do not foresee foreign selling to be a major negative going forward.

# Exhibit 1: Seagate Nearline Demand Trend

NOTE: Minor changes and calculation variances to historical exabytes are due to rounding.

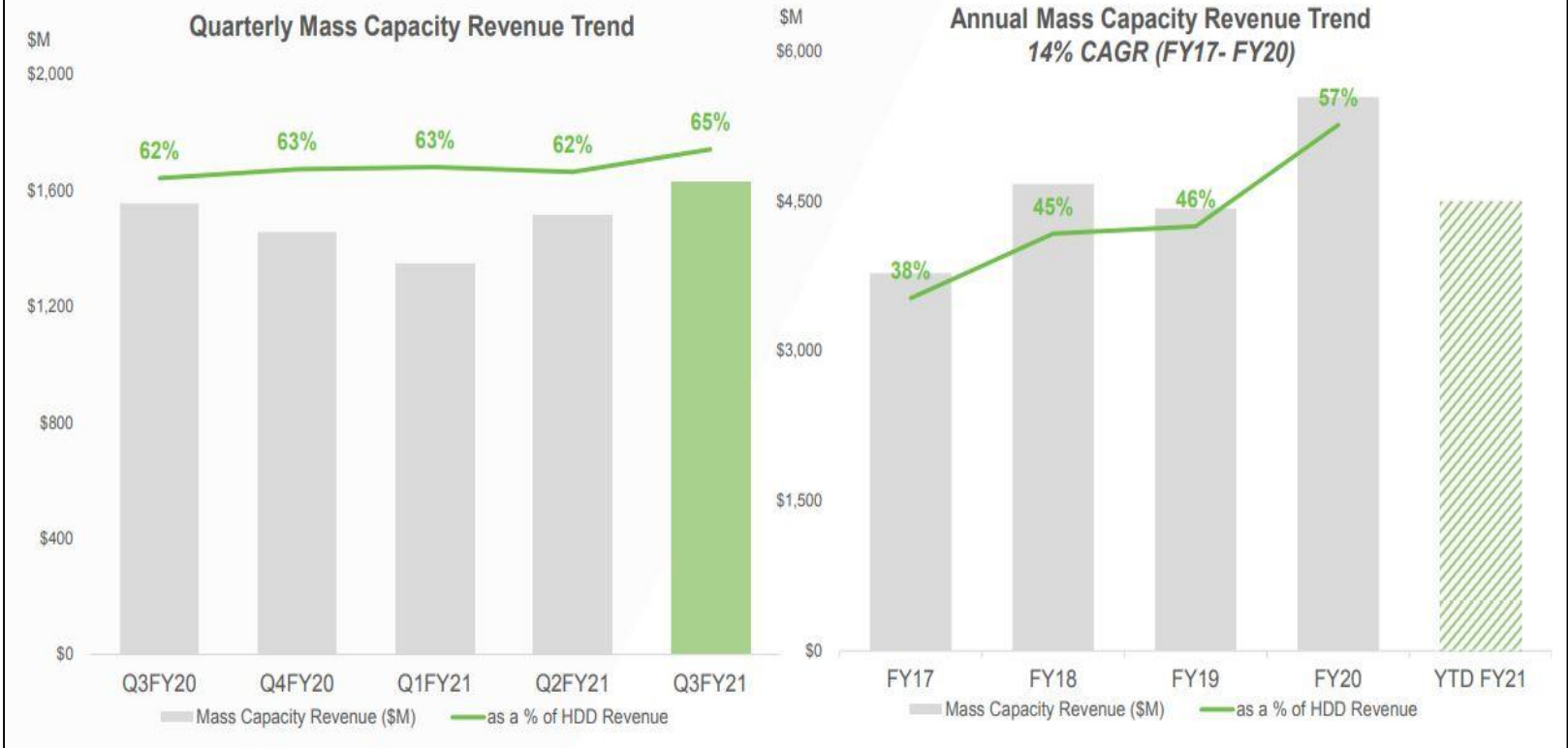


(Source: Seagate)



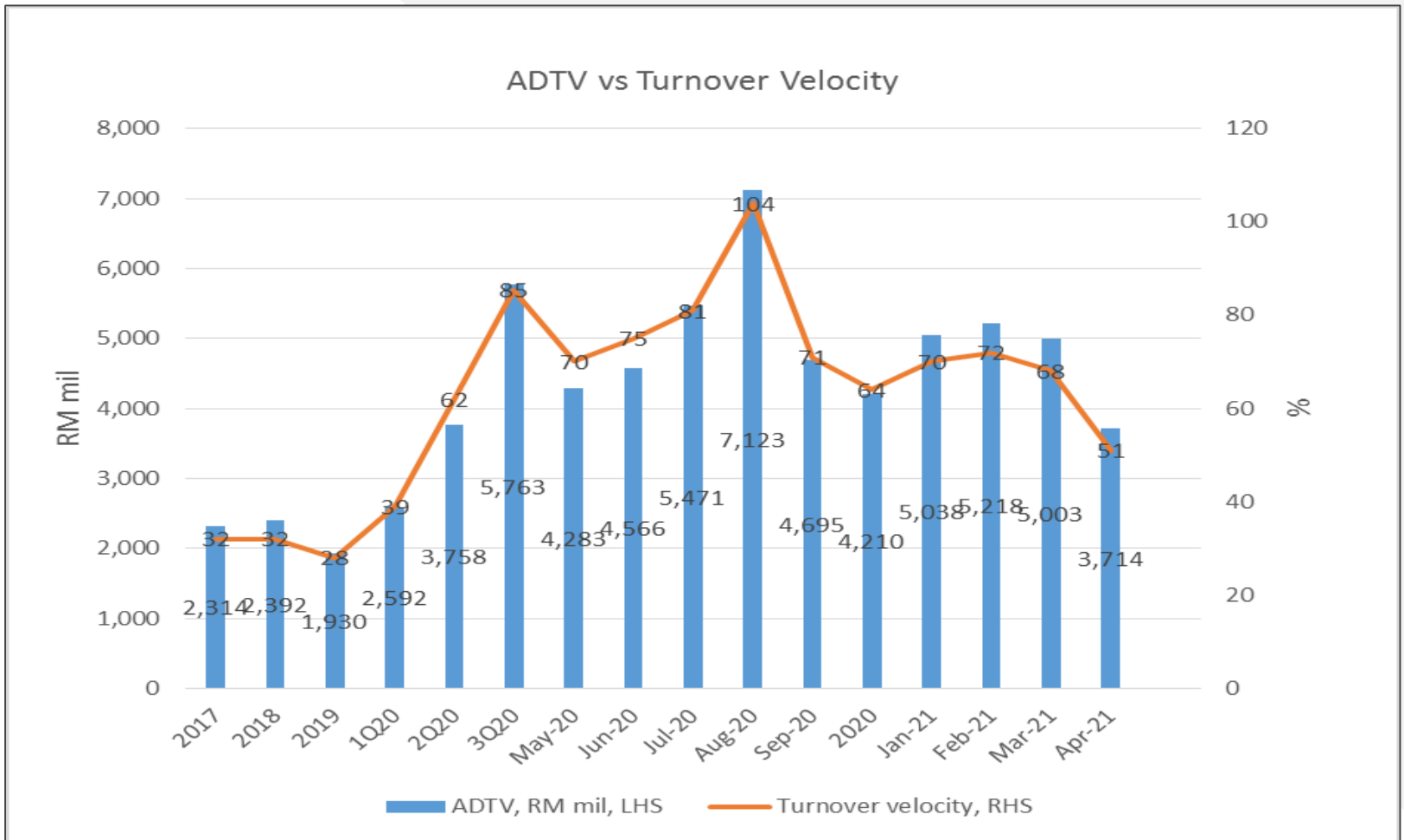
## Exhibit 2: Seagate Mass Capacity Contribution

### Mass Capacity Trends



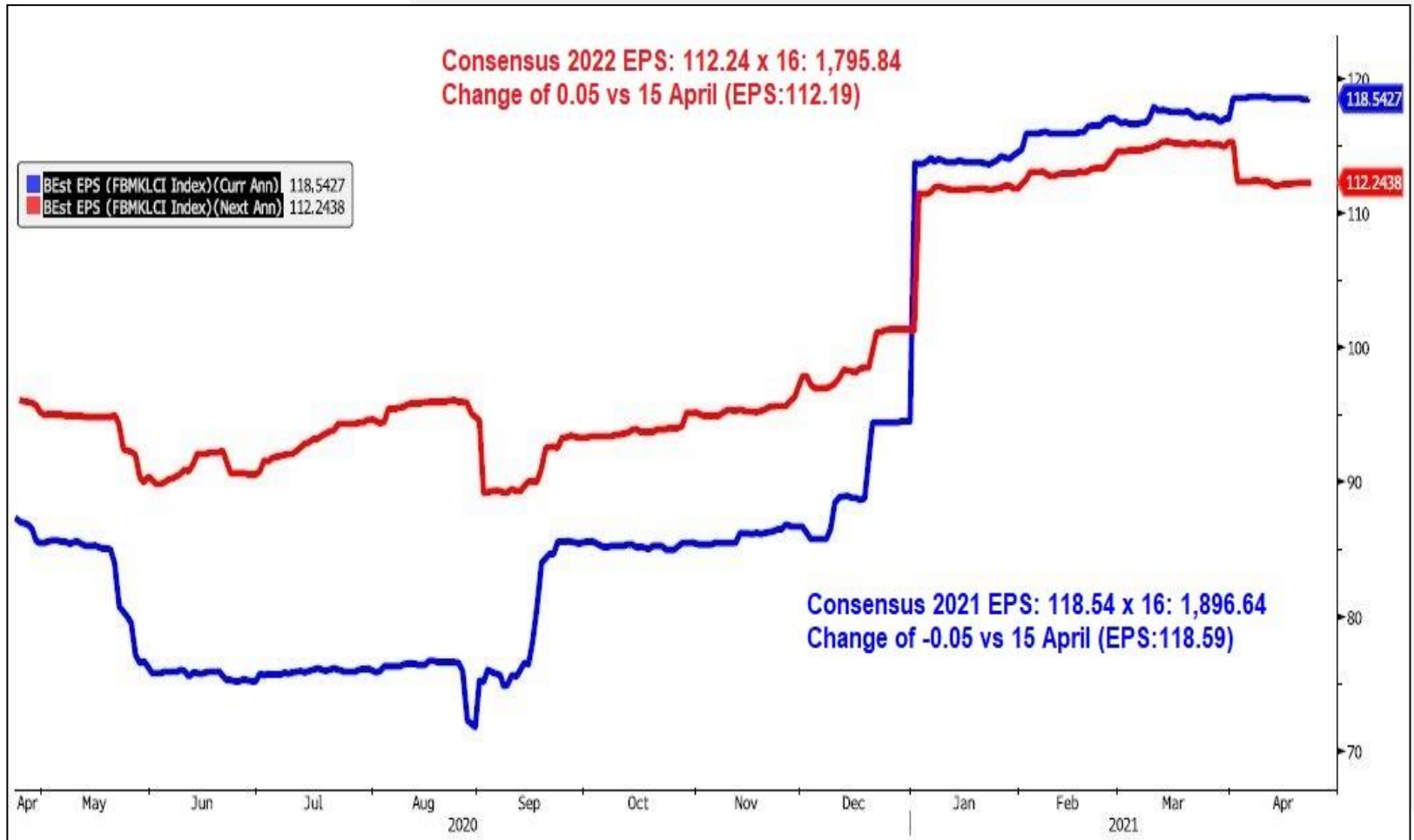
(Source: Seagate)

### Exhibit 3: Average Daily Turnover by Value vs Turnover Velocity



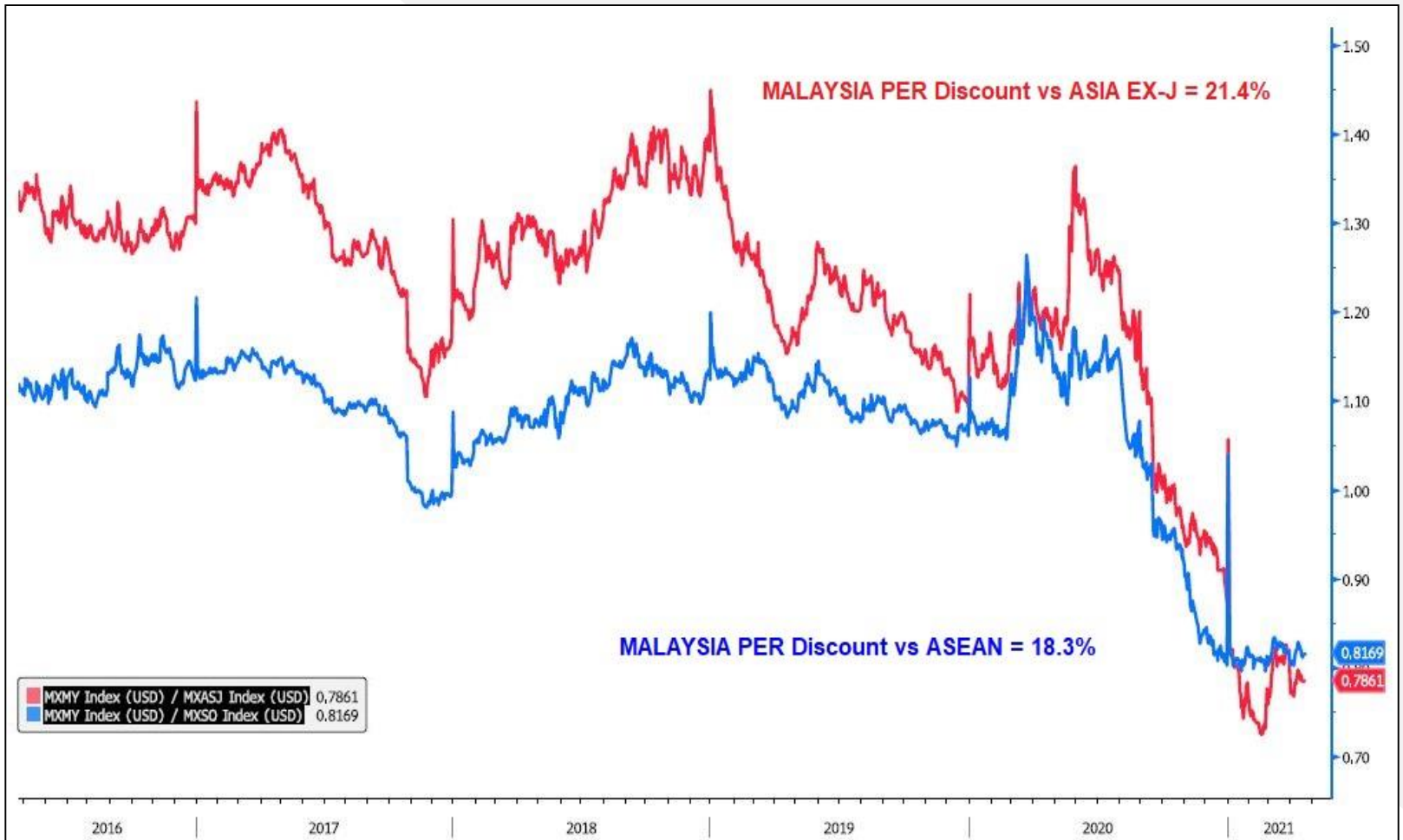
(Source: Bloomberg)

## Exhibit 4: FBMKLCI Consensus Earnings Per Share (EPS) @ 22.04.21



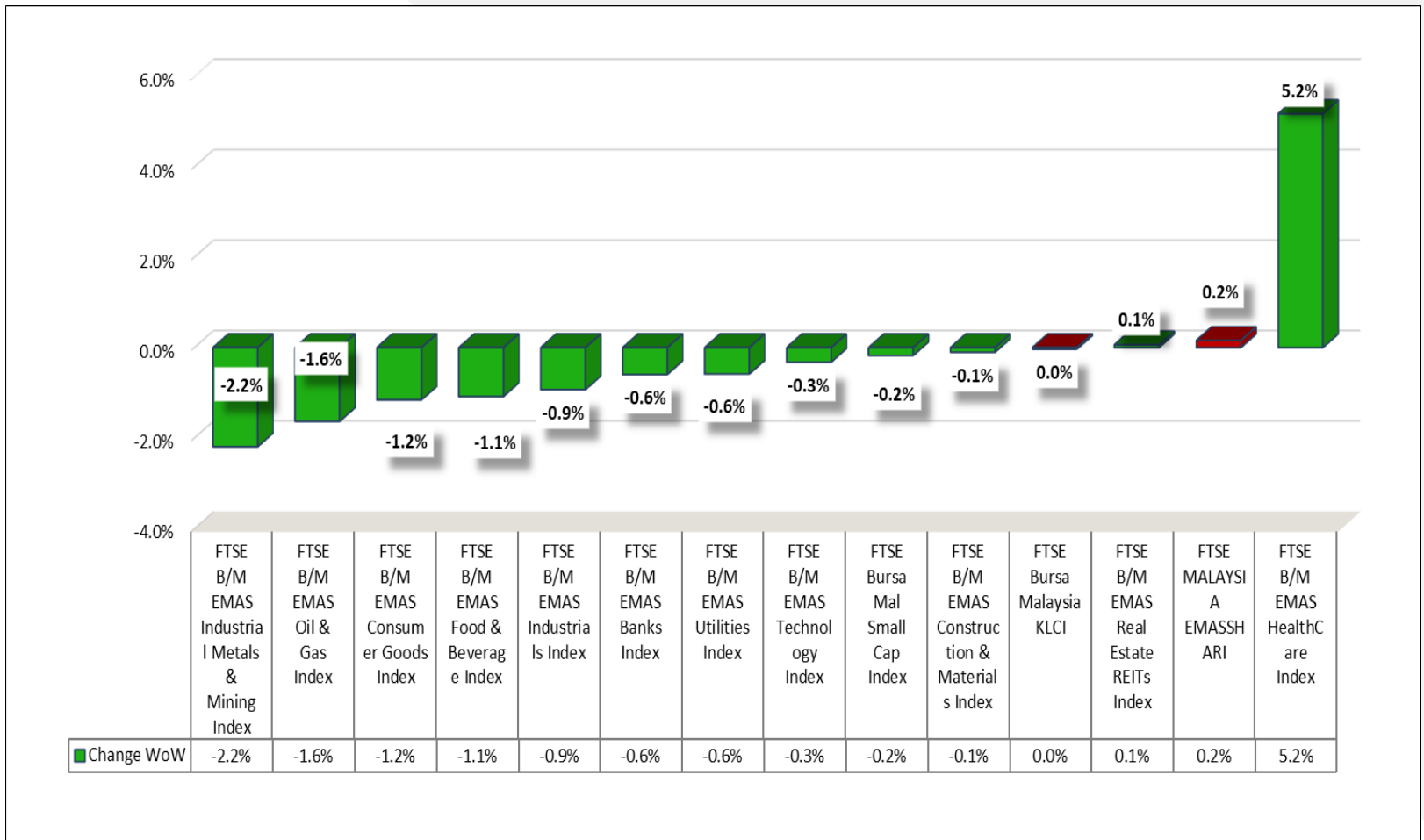
(Source: Bloomberg)

## Exhibit 5: MALAYSIA P/E is at a discount to the region @ 22.04.21



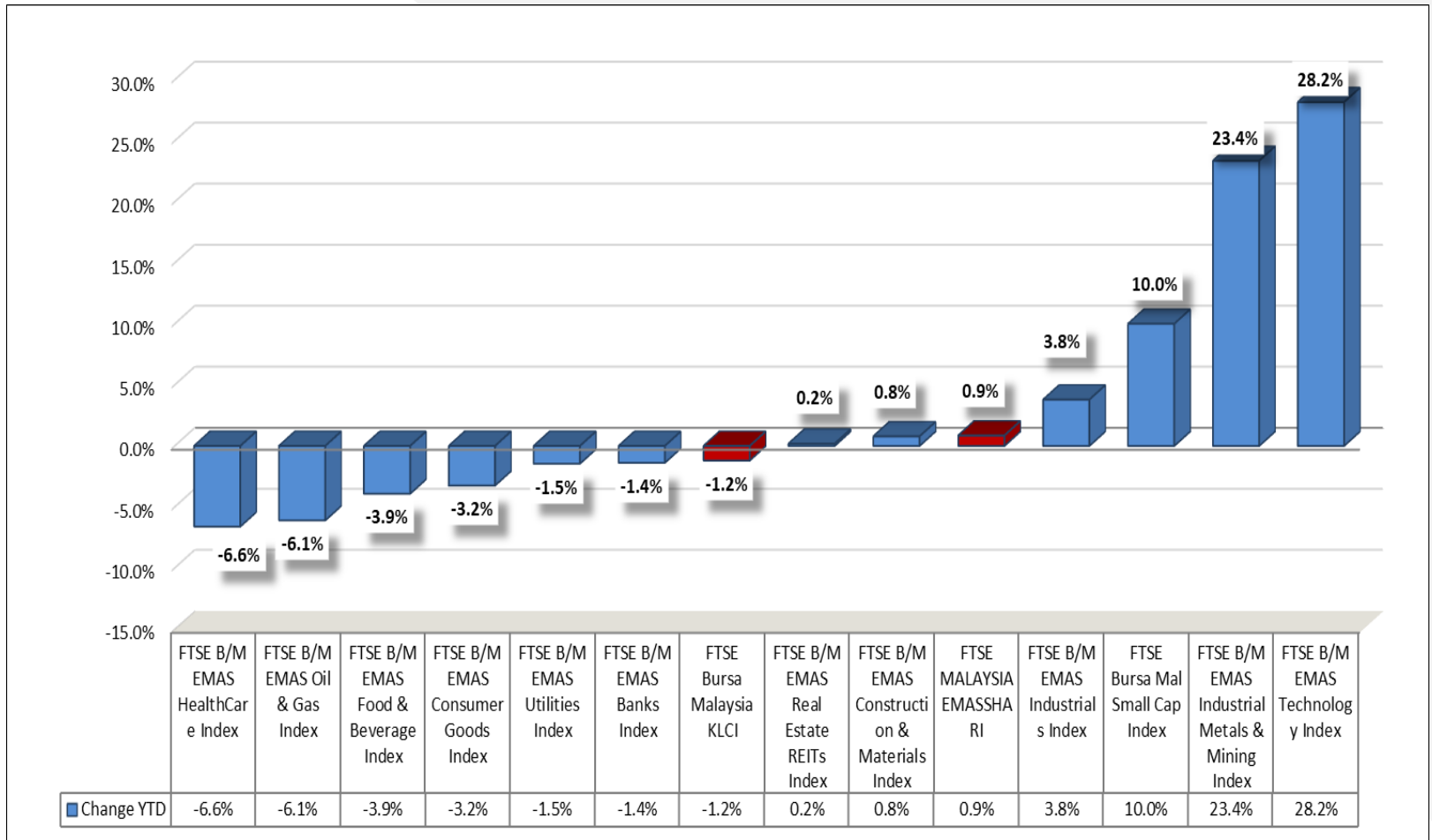
(Source: Bloomberg)

## Exhibit 6: Sector Performances (Week-on-Week) @ 22.04.21



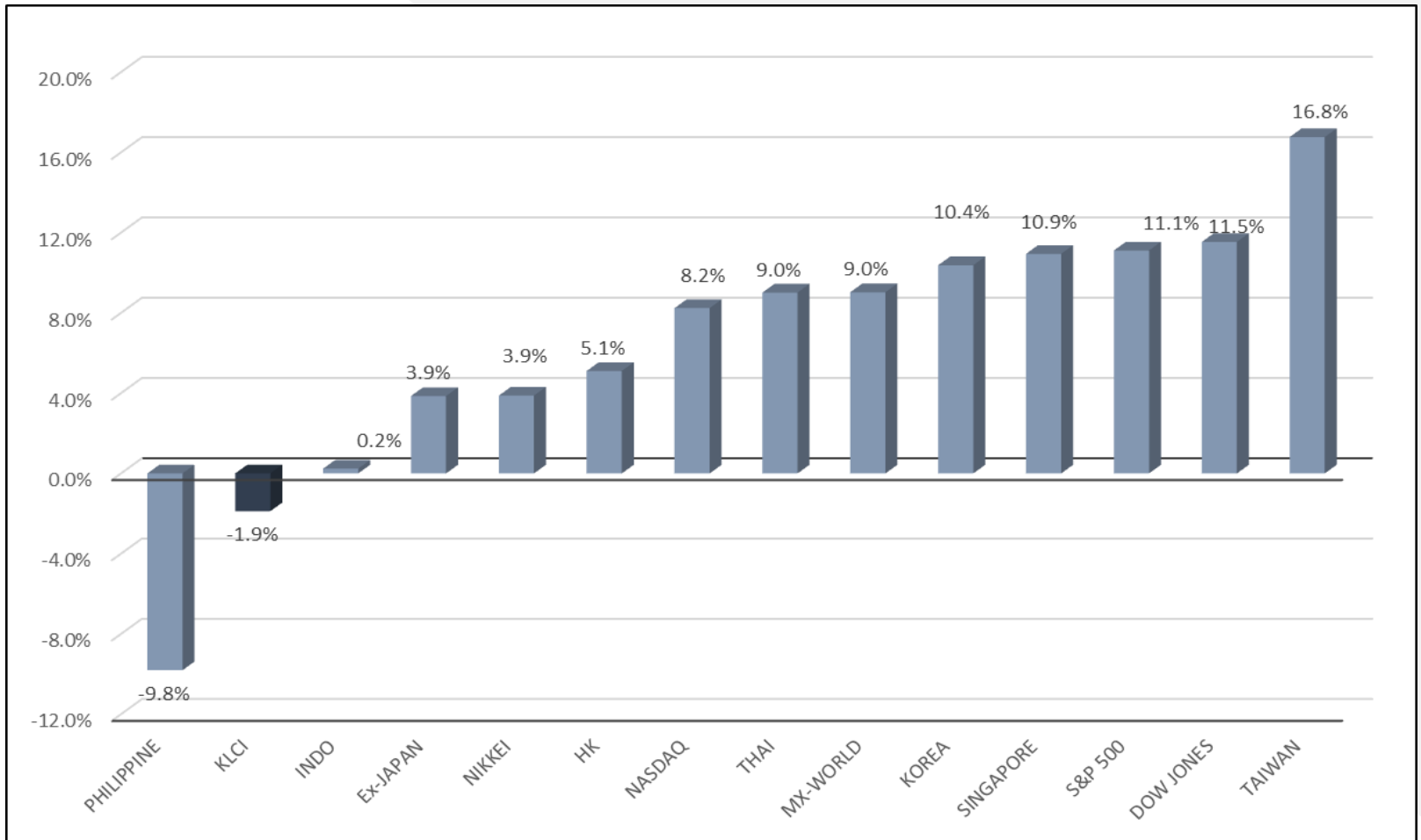
(Source: Bloomberg)

## Exhibit 7 : Sector Performances (Year-to-Date) @ 22.04.21



(Source: Bloomberg)

## Exhibit 8 : Performance of Indices (Year-to-Date) @ 22.04.21



(Source: Bloomberg)

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