



Portfolio Manager's View

22 June 2021

Fund Management Department

Regional

1. Asia is by no means out of the woods with the resurgence of Covid-19 new cases. The silver lining, we highlighted, is the greater urgency to push through mass vaccination, Malaysia a case in point. The worst is more likely behind us than ahead of us. That cannot be said for the western part of the world. UK has now pushed back easing measures after new Covid-19 cases surged from 33,000+ at the beginning of June to near 120,000 currently. This is alarming in the context of 59% of the population being fully immunised and 80% of the population having received one dose of the vaccine. More concerning is that the majority of the Covid-19 new cases are sequenced and genotyped to the more contagious Delta variant. The Delta variant has not landed on the other side of the Atlantic in an impactful way yet; clearly US Fed Chair Jerome Powell has his mind on Delta when he said that this new strain of virus pose a significant threat to the sustainability of the US economic recovery. It is easy for market watchers to comment on what the US Fed should do; try doing so and having to reverse course when Delta lands in New York. India's latest report would have you believe that there are at least 22 mutations of this Delta variant. In contrast to Asia, as is the case with the western hemisphere in particular the US, the only way to look at this situation is if one is coming from a position of strength, the only way is down, ask Taiwan and Singapore.

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2. The US Fed has repeatedly spoke of following the 2013 Taper Tantrum Playbook, which is to taper asset purchases way before the reversal of the interest rate cycle. It is interesting to see the adverse market reaction to a change in the US Fed's dot plot before any concrete plan, much less even an announcement on asset purchase taper. We are of the same view as the US Fed that inflationary pressure will prove transitory into 2022 and Jerome Powell does not feel confident enough to beat out Delta at the moment. Lets also remember that in December 2018, US Fed has just raised the Fed Fund Rate by 25bp to 2.5% with the dot plot projecting 50bp hikes for 2019 and another 50bp hikes for 2020. Six months later in July 2019, the US Fed ended up cutting the Fed Fund Rate by 100bp through 2019. Recent history told us that this dot plot is highly unreliable.
3. But when is this dot plot useful? Inflation data-points are backwards looking, anchoring (not run-away) inflationary expectations is what the US Fed wants to address. In Jerome Powell's latest testimony, to the US Congress, he took great pains again to stress that the US Fed will not raise rates preemptively. This is the most important and influential voting member of the dot plot. The dot plot is serving its purpose of informing the market that the US Fed stands ready to act if inflation gets out of hand without actually acting.

Malaysia

1. The KLCI closed at 1,574 @ 22.06.21, a decline of 0.5% M-o-M. Last week, Technology (+2.1%) and Oil & Gas (+1.6%) were the best performing sectors. Meanwhile, Industrial Metal & Mining (-5.7%) and Food & Beverages (-2.6%) were the worst performing sectors. Year-to-date @ 17.06.2021, the KLCI has retreated by -3.5%.
2. A recent US sell-side report showed that 1Q21 total semiconductor inventory level at 43 days which is well below the peak cycle inventory of 49 days. It is worth noting that in 1Q21 there was lesser working days due to the Chinese New Year Festival. We expect inventory levels to decline further in view of the strong semiconductor sales in 2Q21 (our bulletin on 15 June 2021 highlighted that World Semiconductor Sales continue to record double digit YoY growth in April). The data suggests that we have yet to reach the peak of the semiconductor cycle. We have generally maintained our technology holdings as we believe that: a) supply chain inventory is low and needs to be rebuilt b) technology, work and lifestyle changes are driving demand across a wide spectrum of semiconductor segments c) earnings delivery will serve as a positive share price catalyst in the coming quarters d) technology stocks in Malaysia have a strong performance record in the last 7-8 years.

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3. Science, Technology and Innovation Minister Khairy Jamaluddin mentioned that the country is expected to hit 10% national vaccination rate or 3.2 million people by mid-July. On 21 June 2021, Malaysia administered 236K doses of Covid-19 vaccine which is the highest to-date. So far, a total of 6.05 mil doses of Covid-19 vaccines have been dispensed. We believe the country is on track to hit its target of 300K doses a day in August. The government has received 8.59 mil doses so far from 3 suppliers. In addition, having taken delivery of more vaccines recently, the government is on-track to receive an additional 16 mil doses by Jul-21 (the government has ordered a total of 73.5 mil doses). The above suggests that the government's target of 80% vaccination rate by Oct-21 is achievable assuming no slippage in daily vaccination targets. In our view, the increased momentum in vaccination rates will help drive the number of daily cases lower and improve investor sentiment in the market.
4. Based on KLCI at 1,574 @ 22.06.2021 and assuming a market eps integer of 117/112, the market is trading at a PER of 13.5x/14.1x for CY21/CY22 respectively. This is lower than the market's mean PER of 16x. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.0x and 15.7x in CY21/CY22 respectively vs the 5 year average ex-gloves PER of 19.4x. We believe the risk to reward for the KLCI is reasonable.

Exhibit 1: Malaysia Vaccination Programme

How many vaccine doses are to be delivered to Malaysia?

	Total doses expected (mil)	Doses received so far (mil)**	Doses to be delivered (mil)
Pfizer	44.8	4.08	2.23 (June) 25.68 (3Q21)
Sinovac	12.4	3.69	12 (by July 2021)
AstraZeneca	6.4	0.83	0.61 (June) 0.41 (July) 1.2 (August – September)
CanSino	3.5	—	First shipment to come in July
Covax*	6.4	0.83	

* AstraZeneca, Johnson & Johnson – Requested and approved by National Pharmaceutical Regulatory Agency;
Novovax – Requested

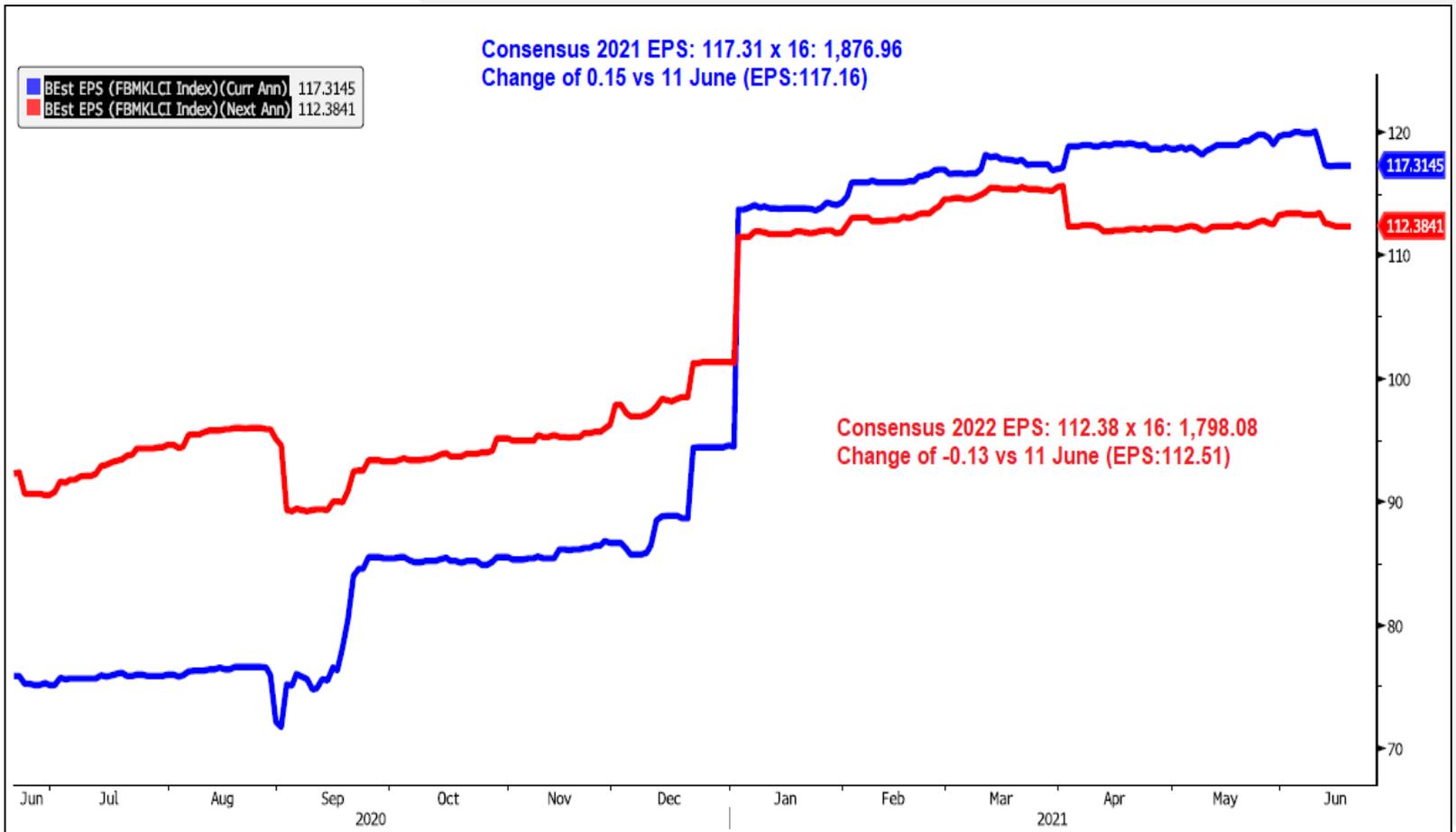
** as of June 21, 2021

Sources: Ministry of Health, Covid-19 Immunisation Task Force

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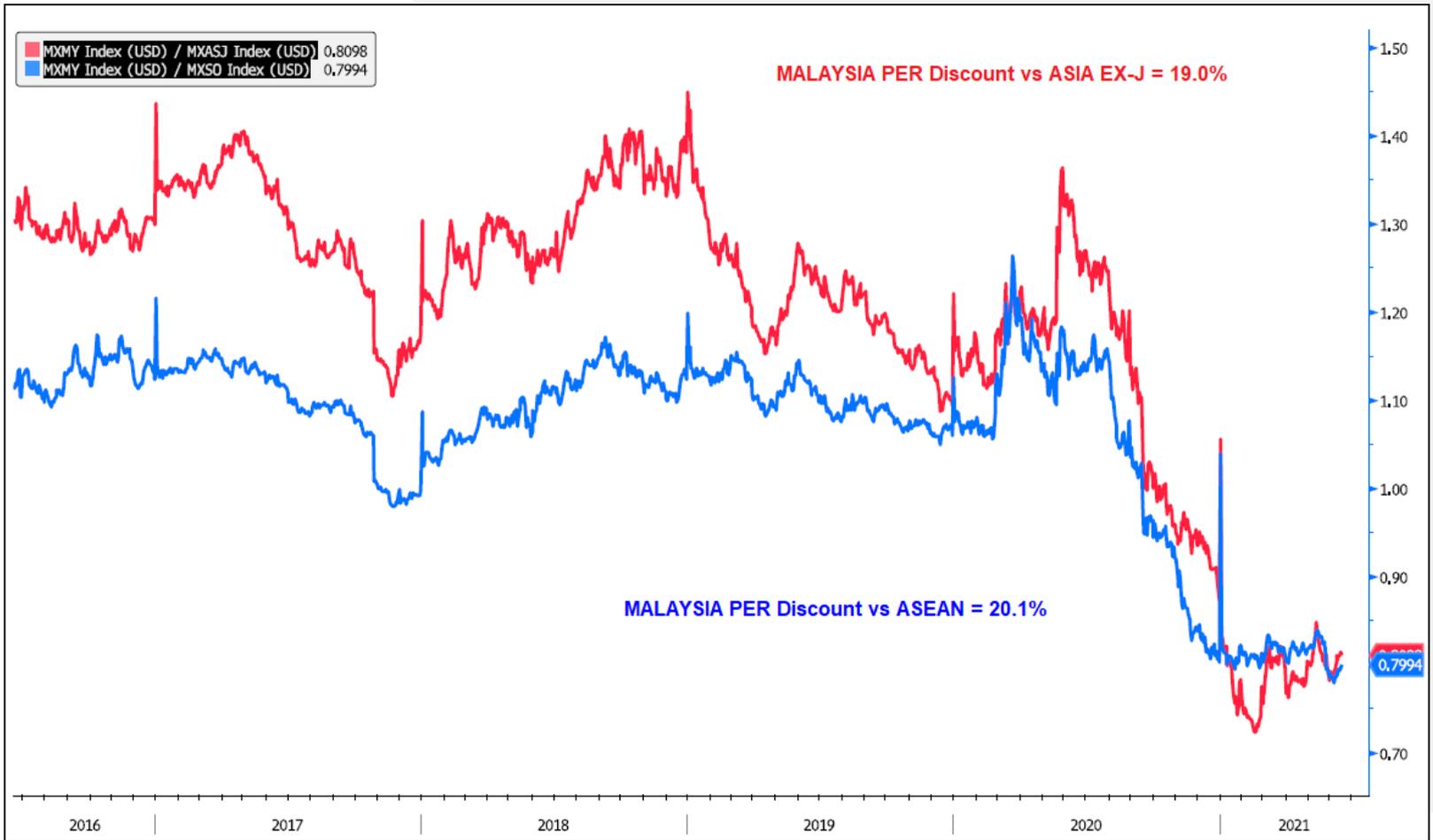
(Source: TheEdge Malaysia)

Exhibit 2: FBMKLCI Consensus Earnings Per Share (EPS) @ 17.06.21



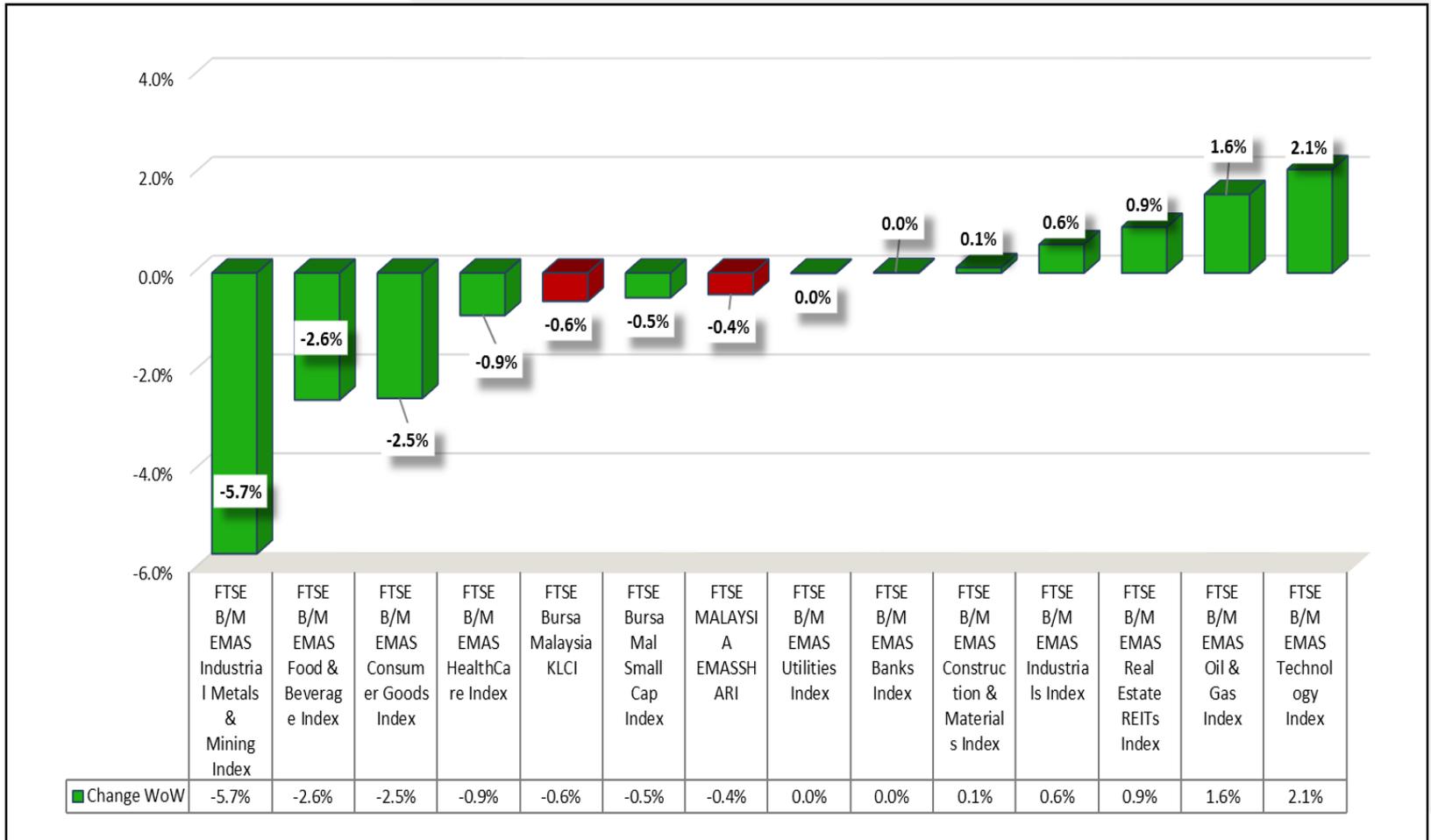
(Source: Bloomberg)

Exhibit 3: MALAYSIA P/E is at a discount to the region @ 17.06.21



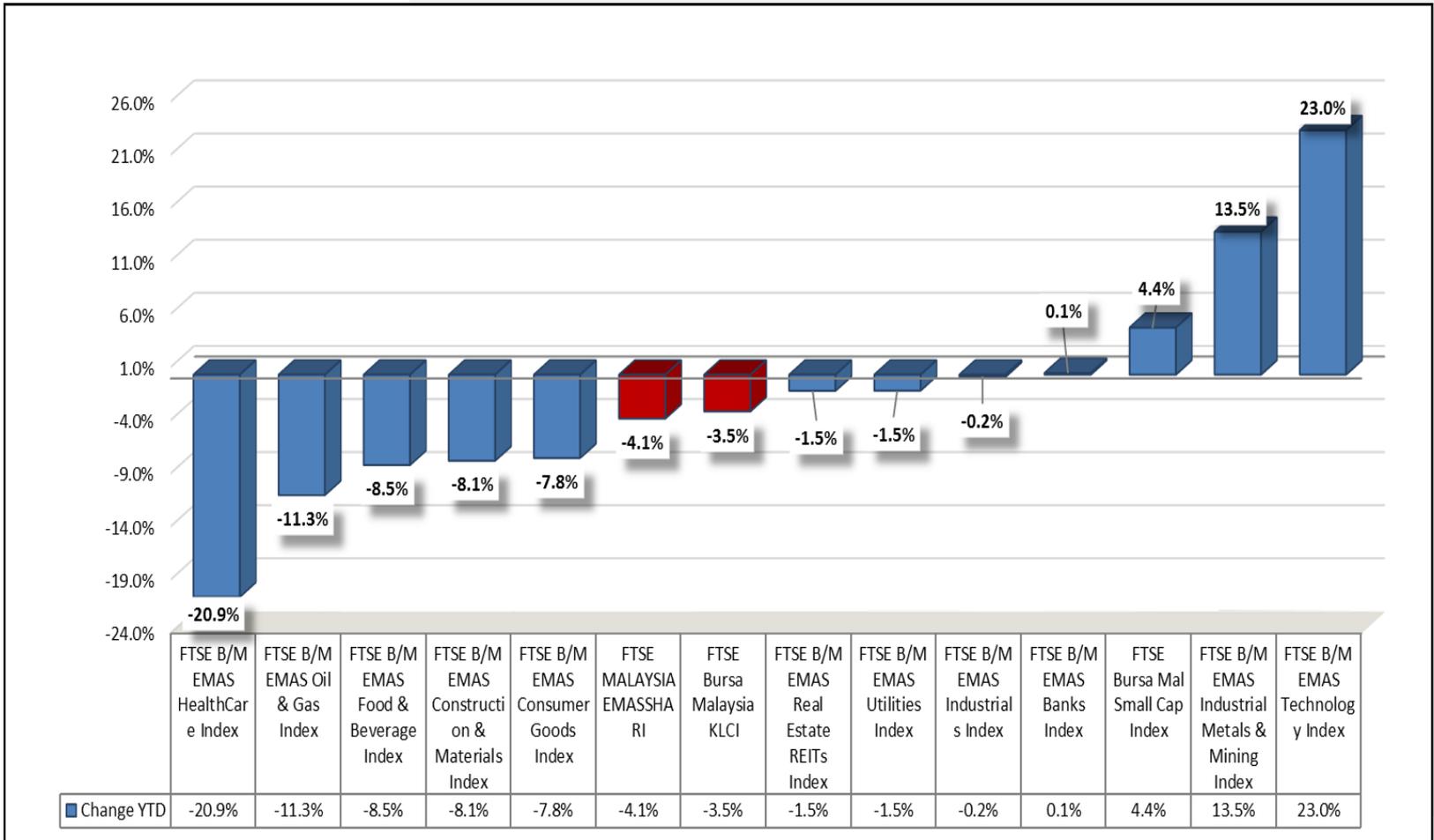
(Source: Bloomberg)

Exhibit 4: Sector Performances (Week-on-Week) @ 17.06.21



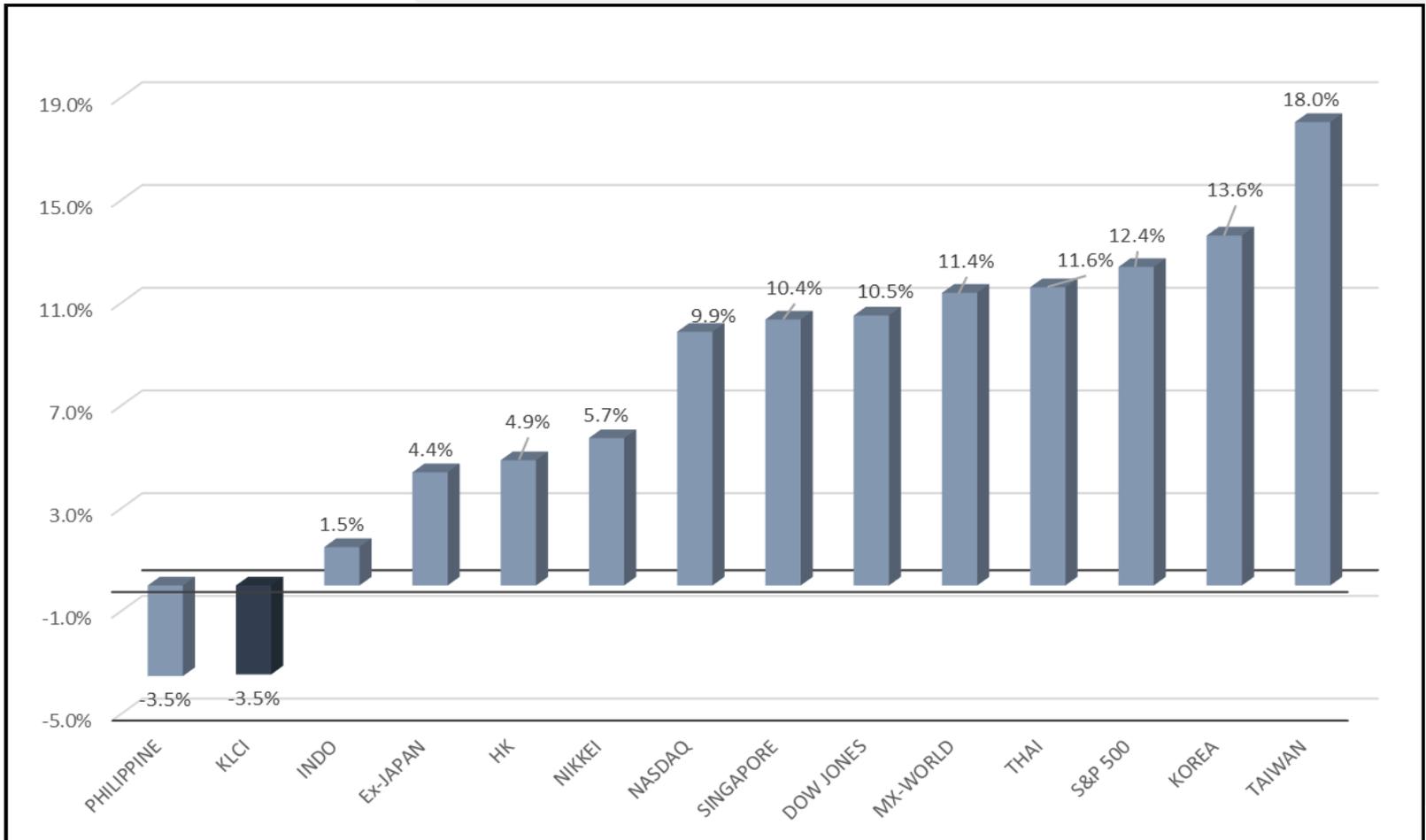
(Source: Bloomberg)

Exhibit 5 : Sector Performances (Year-to-Date) @ 17.06.21



(Source: Bloomberg)

Exhibit 6 : Performance of Indices (Year-to-Date) @ 17.06.21



(Source: Bloomberg)

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