



## Portfolio Manager's View

03 August 2021

Fund Management Department

# Regional

1. Market focus continued very much centered on China's tightening regulatory stance. We warned in last week's commentary. We are likely at the beginning rather than closer to the end of this heightened regulatory scrutiny by the Chinese government. Sectors deemed to powerful and/or in control of more data on the Chinese people than the government herself will continue to be at risk of negative action. The bad news is dominant passive outflows is leading this sell-out of Asian equity markets. The good news is that this broad indiscriminate sell-off will present opportunities to buy into others who have suffered from this collateral damage.
2. China's July Caixin Manufacturing Index was weaker than expected. In contrast, the sub-index of Export Orders was stronger. Global end demand has rebounded stronger than expected. Even as this pent-up demand is being satisfied, we expect the next phase of export growth for Asian manufacturers to be led by inventory restocking. The economic outlook for Asia supply chain looks resilient in to year 2022.

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3. Meanwhile, China's New Orders weakened, indicating a softening of domestic economic conditions as a result of PBOC's tightening monetary conditions since the beginning of this year. The good news is in this bad news. It is for this reason that the PBOC had earlier cut banks' reserve ration requirement by 50bp, boosting liquidity for the financial system. The worse the near-term economic data-points, the stronger the reversal of the tight monetary policy to a more accommodating stance. Avoid the China internet space but be positioned for the reflation plays.

# Malaysia

1. The KLCI closed at 1,500 @ 3.08.21, a decline of -3.8% M-o-M. Last week, Technology (+0.9%) was the best performing sectors. In contrast, Oil & Gas (-4.5%) and Banks (-3.2%) were the worst performing sectors. Year-to-date @ 30.7.2021, the KLCI has retreated by -8.1%. Year-to-date, *local* and *foreign* institutions have been large net sellers. Local retailers have remained the biggest net buyers. However, there are signs that the net selling by local funds is abating.
2. World Semiconductor Trade Statistics (WSTS) published its June 2021 monthly sales data. Total semiconductor sales increased by 26.1% YoY (vs 25.9% YOY for May-21) and 6.7% MoM (vs 4.2% MoM for May-21). Global semiconductor sales continue to trend upwards. Our technology holdings have outperformed the market as US10Y yields decline, technology companies report strong 2Q earnings and as the industry imbalance persists with demand likely to outstrip supply into 2022. Since 1996, there were 7 upcycles. In the last 25 years, the average duration of an upcycle was 31 months. The current cycle has lasted 16 months. The average increase in monthly sales from the start of an upcycle to peak was 23% (vs 25% in the current cycle). We believe the strong demand conditions for the semiconductor sector will continue for the rest of this year.

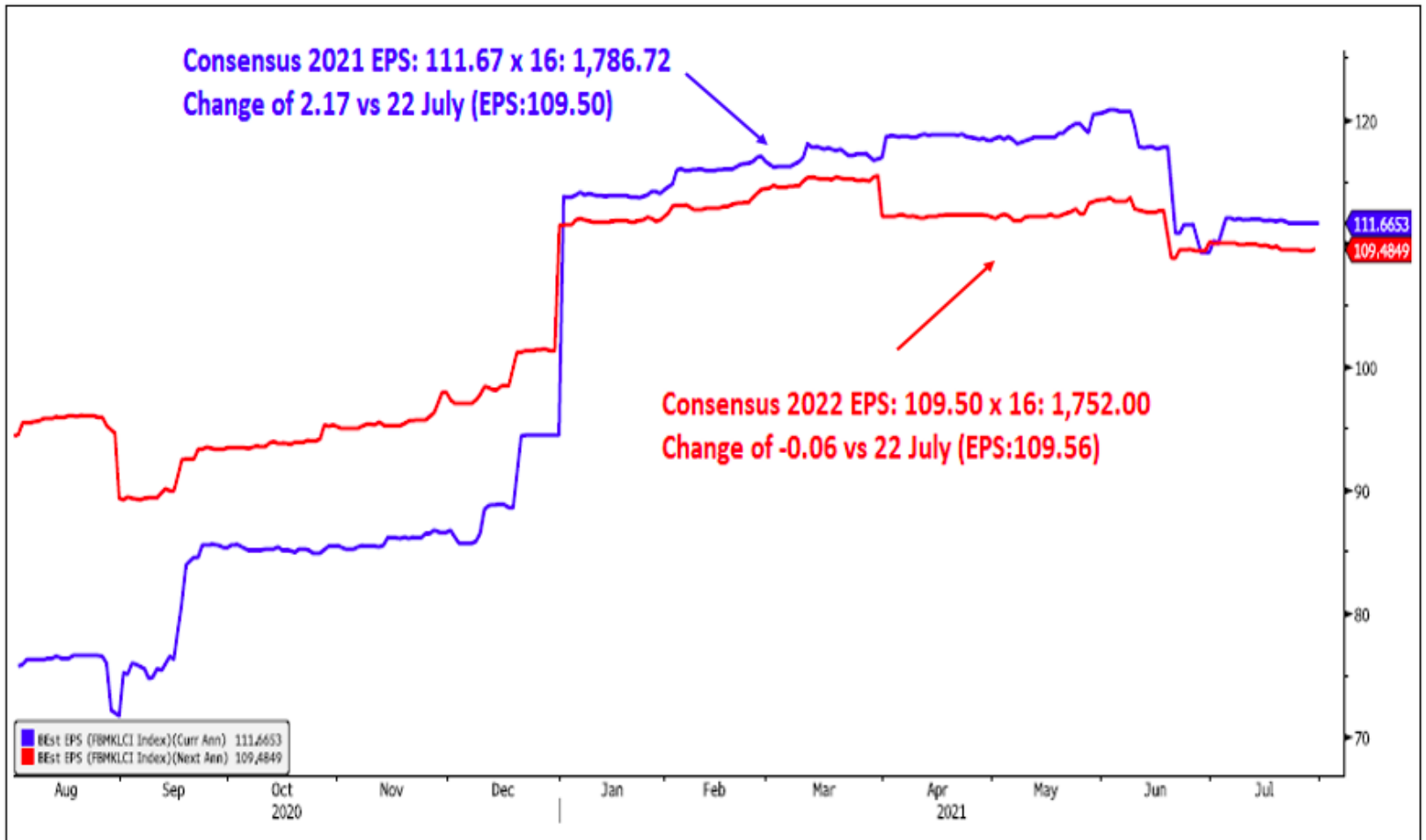
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3. As we are in the early stages of the 2Q21 results season, Malaysia technology stocks have announced strong double digit growth YoY. This comes as demand for semiconductor continue to be strong due to proliferation of 5G, internet of things (IOT) and chip content growth. Last week, the following semiconductor companies saw 2Q revenue growth as follows: Frontken 24% YoY/5% QoQ, Unisem 30% YoY/8% QoQ, and Mi Tech 89% YoY/>100% QoQ. It is worth noting that the sector has been resilient in spite of the lockdown and rising Covid-19 cases in Malaysia. We continue to have an overweight position in Malaysia's technology sector.
4. China, the world's largest steel producer and exporter, is reportedly looking to impose export taxes on its steel products. This follows the imposition of export rebate cuts in May. China is aiming to ensure ample steel supply in order to dampen the rise in local steel prices. Lower steel exports from China are generally a positive for Malaysia's steel sector.

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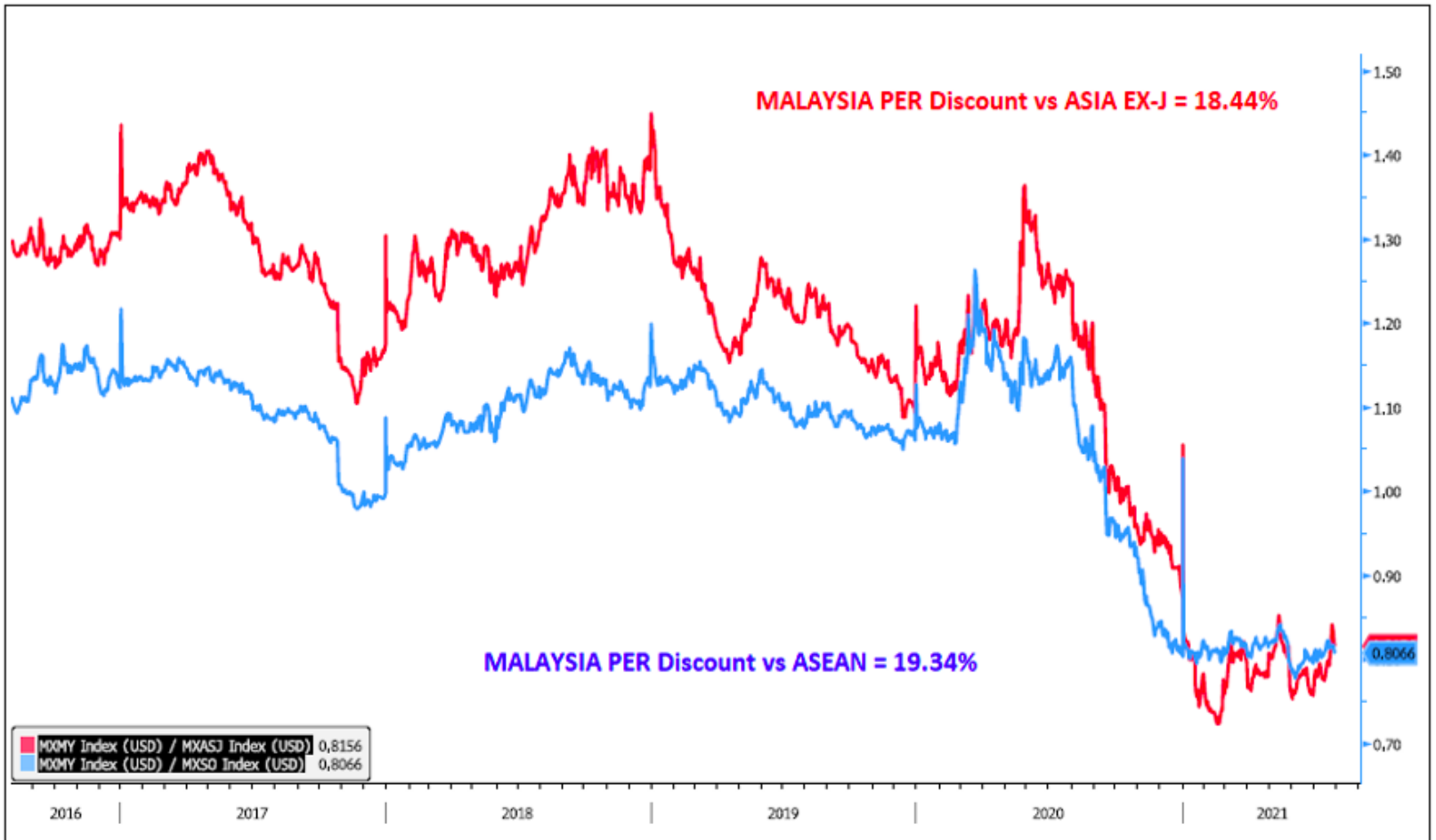
5. Mobile players have benefited from the government's PRIHATIN stimulus package. Under the package, Eligible individuals can claim either : 1) MYR180 of bill rebates (MYR15/month x 12) or 2) MYR300 of device rebate (one-off). This has resulted in higher subscriber numbers for Maxis . We expect this trend to benefit the other three mobile operators when they report their 2Q results.
  
6. The silver lining for the stock market is valuations. Based on KLCI at 1,500 @ 3.8.2021 and assuming a market eps integer of 111/109, the market is trading at a PER of 13.5x/13.8x for CY21/CY22 respectively. This is more than 1 standard deviation below its mean PER of 15-16x. 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. In addition, foreigners are extremely underweight in Malaysia. With vaccinations being rolled-out aggressively, Malaysia is on target to achieve a 80% vaccination rate (two doses) around end of October. We believe the risk to reward ratio for the KLCI is reasonable.

# Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS) @ 30.07.21



(Source: Bloomberg)

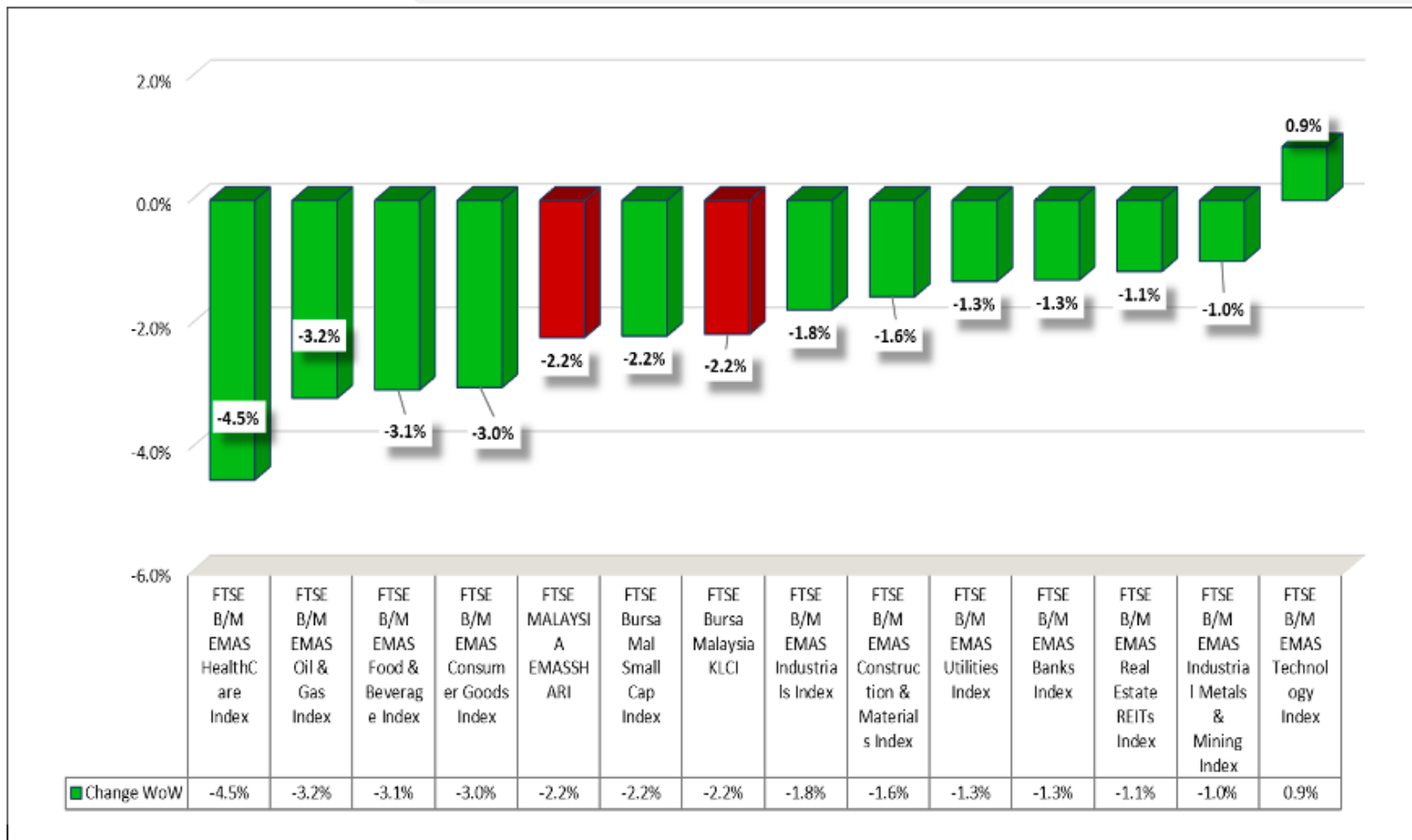
## Exhibit 2: MALAYSIA P/E is at a discount to the region @ 30.07.21



(Source: Bloomberg)

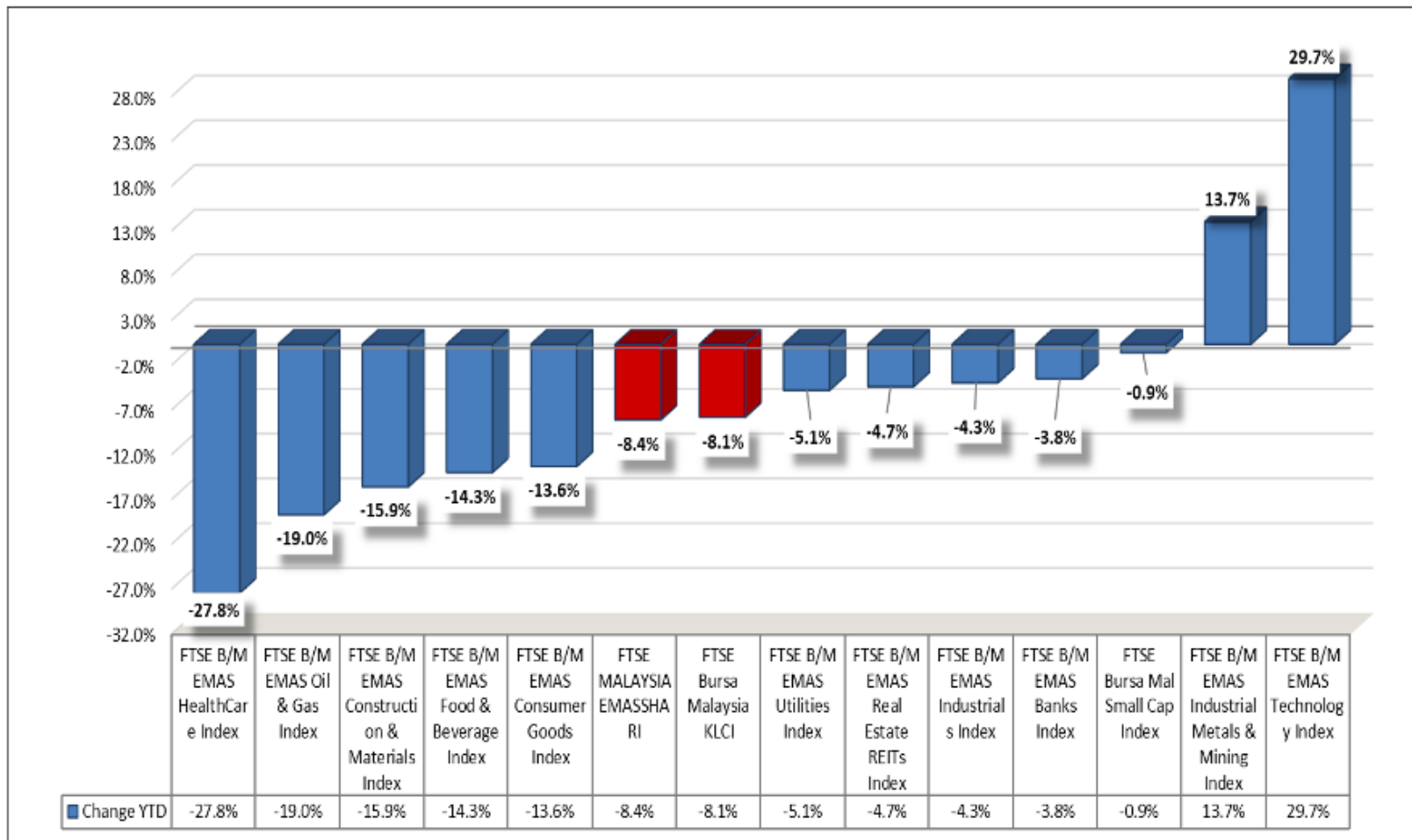


### Exhibit 3: Sector Performances (Week-on-Week) @ 30.07.21



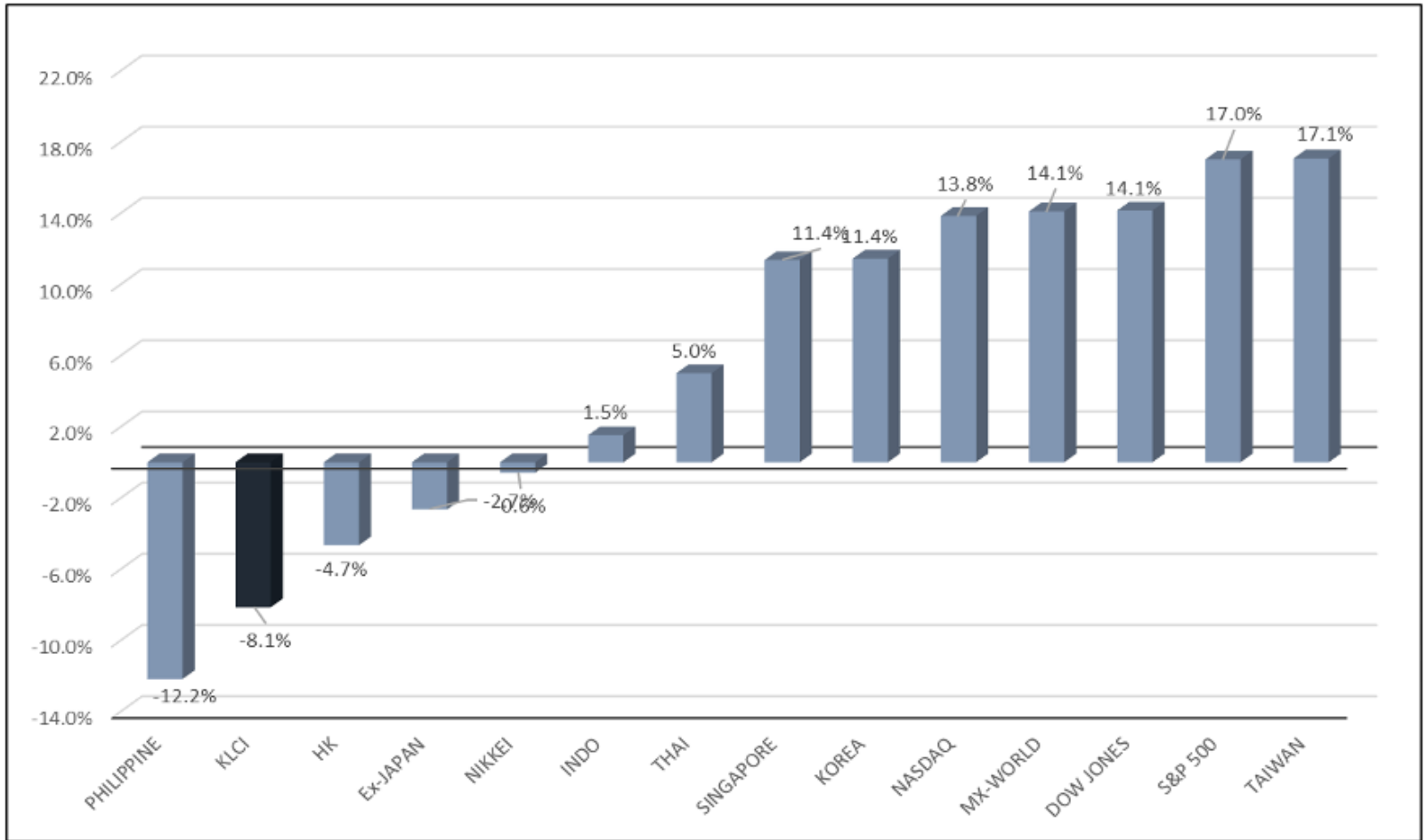
(Source: Bloomberg)

## Exhibit 4 : Sector Performances (Year-to-Date) @ 30.07.21



(Source: Bloomberg)

## Exhibit 5 : Performance of Indices (Year-to-Date) @ 30.07.21



(Source: Bloomberg)

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