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## Kenanga Investors Berhad – Malaysia and ASEAN Equities

YouTube (11 February 2020)



View video: <https://www.youtube.com/watch?v=9kr7TVbGmGA&feature=youtu.be>

### 1. Could you share three key traits that you look for in equities when making investment decisions?

We actually look at many factors when making an investment decision. If you ask me three key traits, I think the first one will be the earnings growth of the company. When we determine earnings growth of the company, we also look at few other things like for example product potential of the company, the addressable market, the growth of the industry where we operate in, as well as barrier of entry to determine the business model of the company. Secondly, we look at the integrity and track record and capability of key management, it is very crucial and may include stuff like, are they able to create shareholder value, are they able to make optimal capital allocation decisions, are they also taking into consideration the protection of minority interest and lastly we look at valuations. I think although a company can have a fantastic business model but if all are being priced-in in the share price, you may actually end up by company at the top end of the valuation range and subsequently run the immediate risk of losing money. So, when it comes to valuations, we look at different valuation methods and we consider all the factors that we mentioned just now to make sure at the point of entry the stock still offers us a good upside, a reasonable upside before we make the decision to invest.

**2. Given the exciting trends that are happening in the tech space such as AI or IOT, could you share with us main risk to these trends?**

Of course one of the main risk is the reescalation of trade war between US and China because you know how integrated supply chain of technology is worldwide and even how diversified the end customer markets are. So for example attack hardware can be sold in US or Europe but they can be produced in different countries, I mean the components of the end products can be produced in different Asian countries. So if there's tariff imposed, the adoption of this new trend and the demand of it will be impacted and that also impacts the technology companies that involved. So that's one key risk. The second risk of course arguably is valuations. If you look at the valuations of tech companies across the world last year, admittedly they have gone up a lot. I am not saying that valuations cannot continue because the earnings growth are also very high for these companies but if there's any execution risk / execution issue involving some of these companies, they would probably create quite a major impact on share prices.

**3. In your opinion, what is the sector that you're most positive on for the rest of the year?**

We are still positive in the technology sector even the secular growth drivers behind. For example, the accelerating rollout of 5G that would drive the supply chain, we have the IOT and AI driving the hardware upgrades as well as the 3D sensing cameras driving the camera modules upgrade. All these should actually transit into strong demand for component makers for technology counters across the world. In Malaysia additionally we also like oil and gas sector. I think I believe that the oil and gas activities this year will pick up and given by the PETRONAS activity guide book, that would actually drive assets and services across the value chain. We are selective on palm oil, I think given the robust CPO price is really due to falling yields and low application of fertilisers in the past as well as very slow replanting. And on top of that we have B30 biodiesel mandates in Indonesia. That would continue to drive demand for palm oil. Thirdly, we think there are opportunities in construction building material and given the expected rollout of infrastructure projects in Malaysia this year. On top of these key terms, we think there are tactical opportunities in some of the big cap laggards or GLC companies. That could actually undergo some reforms and restructuring. Some examples of reform and restructuring include divestment of non-core assets or non-portable subsidiaries as well as M&A to consolidate market share.

**4. What is the major risk that investors should be aware of in regards to the sector previously mentioned?**

For the technology sector, the key risk is reescalation of trade war and the high valuations as previously mentioned. For the commodity sector, the key risk is the slowdown which would actually dampen the demand for commodities. And on top of that, commodity sector investors are increasingly focused on ESG implications so that actually could potentially drive structural de-rating of the sector. So these are the key risks.

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