Kenanga Investors

Date: 30 July 2020

Kenanga Funds Get Boost From Glove & Tech Stocks.

Special Focus, Smart Investor (July/August 2020 issue)

During the MCO period (17March to end-May), Kenanga Investors' Top 5 performing funds saw impressive returns of between 25% and 37%. The funds are Kenanga Growth Opportunities (+37%), Kenanga EquityEXTRA (+36%), Kenanga TacticalEXTRA (+33.5%), Kenanga Shariah Growth Opportunities (+30.6%), and Kenanga Premier Fund (+24.9%). In addition, all its Malaysian equities funds outperformed the FBM KLCI's rebound of 17% during the same period, according to chief investment officer Lee Sook Yee.

Across the top performing funds, the common performance contributors were its overweight positions in the technology and rubber glove sectors. Generally, the funds have 20-30% weightings in technology stocks and 10-20% weighting in glove manufacturers, she says. "Post the sharp market correction from late February to mid-March, the KL Technology index has rebounded 40.9% during the MCO period (17^{th} March – 31th May) as the medium term growth outlook of these stocks remains intact."

She points out the share price of the glove makers gained between 78% (Kossan Rubber Industries Bhd) to 410% (Supermax Corporation Bhd) during the same period as global outbreak of the Covid-19 pandemic led to a surge in demand for glove products.

Funds to benefit from economy's reopening

Lee expects all of its funds to benefit from the reopening of economic activities as corporate earnings set to recover, paving the way for recovery in share prices across all sectors. "In fact, equity markets have moved ahead to price in a speedy economic recovery and now entered an assessment phase of the reality. The outcome of that reassessment is likely to be a repricing of risk assets back down again, to more realistic levels to reflect the sharp contraction in economies and equities earnings for the year," she cautions. Depending on how lasting is the impact of Covid-19 on business fundamentals, Lee says some sectors whose earnings outlook remain largely intact will fare better than others who face a more profound damage in demand.

This includes sectors such as tourism, gaming, and retailing as border closure and social distancing means activity levels will take time to fully restore to its pre-Covid trajectory. "We remain overweight in technology, e-commerce, ICT, and gloves in the near term. Over a longer-term horizon, we will raise our exposure back up into consumer discretionary including retailing, auto, gaming and transportation as the economic damage of demand destruction are priced in. "We also like oil and gas as we believe the worst of the oil price crash is behind us thanks to the on-going supply discipline and the gradual recovery in demand as economies reopen," she adds.

KENANGA INVESTORS' TOP 5 PERFORMING FUNDS DURING THE MCO

Fund	17 Mar - 31 May 20 (Performance %)	17 Mar - 15 June 20 (Performance %)
Kenanga Growth Opportunities Fund	36.96	33.33
KenangaEquityEXTRA Fund (formerly known as Libra EquityEXTRA Fund)	35.95	34.27
KenangaTacticalEXTRA Fund (formerly known as Libra TacticalEXTRA Fund)	33.50	31.63
Kenanga Shariah Growth Opportunities Fund	30.63	27.58
Kenanga Premier Fund	24.94	24.27

Source: Lipper Fund Analytics and Kenanga Investors Bhd.

Bottom-up stock picking strategy

During the midst of the Covid-19 market downturn, Lee says Kenanga Investors tactically raised higher cash and rebalanced its portfolio to include more defensive holdings in utilities and REITS. However, she adds the move was not significant to materially alter allocations in key sectors that it likes. "We always advocate long term investing. Our funds adopt bottomup stock picking strategy which focuses on undervalued stocks whose fundamentals are deemed superior and sustainable. "This investment philosophy helps the funds to weather through short term volatilities and generates extra returns in the longer run."

HIGHER CASH RESERVES TO MITIGATE RISKS FROM COVID-19 SECOND WAVE

Kenanga Investors Bhd believes there may still be downside risk to consensus earnings forecast for certain sectors. Chief investment officer Lee Sook Yee says although reopening of economies will benefit equity markets in general, it reckons the positive sentiment and expectation have largely been factored in after the recent market rebound.

"With persistently high global daily new Covid-19 cases and strict standard operating procedures implemented, we do not expect a V shape surge, but rather a gradual recovery. In fact, there may still be downside risk to consensus earnings forecast for certain sectors. She states that in terms of valuation, it is no longer attractive with the FBMKLCI Index at 16.5 times forward price-to-earnings ratio (PER), FBM100 Index at 16.4 times forward PER, and FBM Small cap index at 13.1 times forward PER, all trading at or close to +2SD (standard deviations) above 5-year mean.

"Therefore, our funds have started to gradually take profit upon market strength, especially on the sectors that have re-rated upon easing of MCO but still face murky outlook in earnings recovery. "The higher cash reserve would cushion the downside should there be a second wave of Covid-19 and renewed MCO restrictions," she says. In addition, the firm remains selective on sectors whose earnings outlook are more discerning. "Should there be a renewed spike in Covid-19 cases, or a so-called second wave, the funds' overweight positions in glove stocks should provide some downside protection," Lee adds.

-END-

Kenanga

Kenanga Investors

Source:

Smart Investor (July/August issue 2020)

SPECIAL**FOCUS**

KENANGA INVESTORS BHD

KENANGA FUNDS GETS BOOST FROM GLOVE AND TECH STOCKS

We always advocate long term investing. Our funds adopt bottom-up stock picking strategy which focuses on undervalued stocks whose fundamentals are deemed superior and sustainable. This investment philosophy helps the funds to weather through short term volatilities and generates extra returns in the longer run.

During the MCO period (17March to end-May), Kenanga Investors'Top 5 performing funds saw impressive returns of between 25% and 37%.

The funds are Kenanga Growth Opportunities (+37%), Kenanga EquityEXTRA (+36%), KenangaTacticalEXTRA (+33.5%), Kenanga Shariah Growth Opportunities (+30.6%), and Kenanga Premier Fund (+24.9%).

In addition, all its Malaysian equities funds outperformed the FBM KLCI's rebound of 17% during the same period, according to chief investment officer Lee Sook Yee.

Across the top performing funds, the common performance contributors were its overweight positions in the technology and rubber glove sectors. Generally, the funds have 20-30% weightings in technology stocks and 10-20% weighting in glove manufacturers, she says.

"Post the sharp market correction from late February to mid-March, the KL Technology index has rebounded 40.9% during the MCO period (17th March – 31th May) as the medium term growth outlook of these stocks remains intact."

She points out the share price of the glove makers gained between 78% (Kossan Rubber Industries Bhd) to 410% (Supermax Corporation Bhd) during the same period as global outbreak of the Covid-19 pandemic led to a surge in demand for glove products.

Funds to benefit from economy's reopening

Lee expects all of its funds to benefit from the reopening of economic activities as corporate earnings set to recover, paving the way for recovery in share prices across all sectors.

"In fact, equity markets have moved ahead to price in a speedy economic recovery and now entered

HIGHER CASH RESERVES TO MITIGATE RISKS FROM COVID-19 SECOND WAVE

Kenanga Investors Bhd believes there may still be downside risk to consensus earnings forecast for certain sectors.

Chief investment officer Lee Sook Yee says although reopening of economies will benefit equity markets in general, it reckons the positive sentiment and expectation have largely been factored in after the recent market rebound.

"With persistently high global daily new Covid-19 cases and strict standard operating procedures implemented, we do not expect a V shape surge, but rather a gradual recovery. In fact, there may still be downside risk to consensus earnings forecast for certain sectors.

She states that in terms of valuation, it is no longer attractive with the FBMKLCI Index at 16.5 times forward price-to-earnings ratio (PER), FBM100 Index at 16.4 times forward PER, and FBM Small cap index at 13.1 times forward PER, all trading at or close to +2SD (standard deviations) above 5-year mean.

"Therefore, our funds have started to gradually take profit upon market strength, especially on the sectors that have re-rated upon easing of MCO but still face murky outlook in earnings recovery.

"The higher cash reserve would cushion the downside should there be a second wave of Covid-19 and renewed MCO restrictions," she says.

In addition, the firm remains selective on sectors whose earnings outlook are more discerning. "Should there be a renewed spike in Covid-19 cases, or a so-called second wave, the funds' overweight positions in glove stocks should provide some downside protection," Lee adds.

KENANGA INVESTORS' TOP 5 PERFORMING FUNDS DURING THE MCO

Fund	17 Mar - 31 May 20 (Performance %)	17 Mar - 15 June 20 (Performance %)
Kenanga Growth Opportunities Fund	36.96	33.33
KenangaEquityEXTRA Fund (formerly known as Libra EquityEXTRA Fund)	35.95	34.27
KenangaTacticalEXTRA Fund (formerly known as Libra TacticalEXTRA Fund)	33.50	31.63
Kenanga Shariah Growth Opportunities Fund	30.63	27.58
Kenanga Premier Fund	24.94	24.27

Source: Lipper Fund Analytics and Kenanga Investors Bhd.

an assessment phase of the reality. The outcome of that reassessment is likely to be a repricing of risk assets back down again, to more realistic levels to reflect the sharp contraction in economies and equities earnings for the year," she cautions.

Depending on how lasting is the impact of Covid-19 on business fundamentals, Lee says some sectors

Lee Sook Yee

whose earnings outlook remain largely intact will fare better than others who face a more profound damage in demand. This includes sectors such as tourism, gaming, and retailing as border closure and social distancing means activity levels will take time to fully restore to its pre-Covid trajectory.

"We remain overweight in technology, e-commerce, ICT, and gloves in the near term. Over a longer-term horizon, we will raise our exposure back up into consumer discretionary including retailing, auto, gaming and transportation as the economic damage of demand destruction are priced in.

"We also like oil and gas as we believe the worst of the oil price crash is behind us thanks to the on-going supply discipline and the gradual recovery in demand as economies reopen," she adds.

Bottom-up stock picking strategy

During the midst of the Covid-19 market downturn, Lee says Kenanga Investors tactically raised higher cash and rebalanced its portfolio to include more defensive holdings in utilities and REITS. However, she adds the move was not significant to materially alter allocations in key sectors that it likes.

"We always advocate long term investing. Our funds adopt bottom-up stock picking strategy which focuses on undervalued stocks whose fundamentals are deemed superior and sustainable.

"This investment philosophy helps the funds to weather through short term volatilities and generates extra returns in the longer run."