



AmInvestment Bank

Market report

31 May 2021

STRATEGY

Malaysia: New lockdown - short-term pain, long-term gain
1,695

End-2021 FBM KLCI Target (pts)
(Maintained)

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Rationale for report: Market update

Investment Highlights

A new nationwide lockdown from 1 June 2021

- In a surprise move, PM Tan Sri Muhyiddin Yassin announced last Friday evening that the nation will go back to a full lockdown for two weeks from 1 to 14 June 2021. All economic and social sectors will shut down during the period except for the “essential” ones. The departure from the previous view of not reintroducing a total lockdown to protect the economy and livelihood of the *rakyat* was apparently triggered by the record-breaking Covid-19 infections on a daily basis, which is also pushing the nation’s healthcare system to the brink.
- While the market’s knee-jerk reaction to the news may be negative (as seen in Singapore and Taiwan stock exchanges recently), **we advocate a contrarian view** as we believe:
 1. A lockdown is a more effective way to stamp out Covid-19, enabling the economy to emerge from the pandemic in a more sustainable manner;
 2. The world at large is in a much better position in its fight against Covid-19 today as compared with a year ago, thanks to the availability of vaccines; and
 3. The Malaysian economy (and hence the stock market) will be held up by selected sectors that are spared or only partially impacted by the lockdown.

Lockdown a short-term pain, long-term gain

- While a lockdown is damaging to the economy, we should consider its impact beyond the lockdown period itself (be it two weeks, four weeks, etc.). If the lockdown is effective in breaking the chain of the Covid-19 infections, the economy can reopen on a clean slate thereafter. From the standpoint of businesses, the loss of incomes during the lockdown will be temporary and it could be recouped if the lockdown is successful in containing the virus spread, enabling businesses to return to normalcy or close to normalcy. As such, we are in no hurry to slash our market and corporate earnings forecasts.
- On a grimmer scenario where a lockdown is resisted despite surging Covid-19 infections, the economy may languish due to declining productivity (the workforce is kept out of production due to Covid-19 quarantine/illness or worksite closure due to Covid-19 infections), dented consumer spending (as anxiety drives consumers into a self-lockdown or a “hermit” living) and excessive diversion of resources towards the quarantine/treatment of Covid-19 patients.

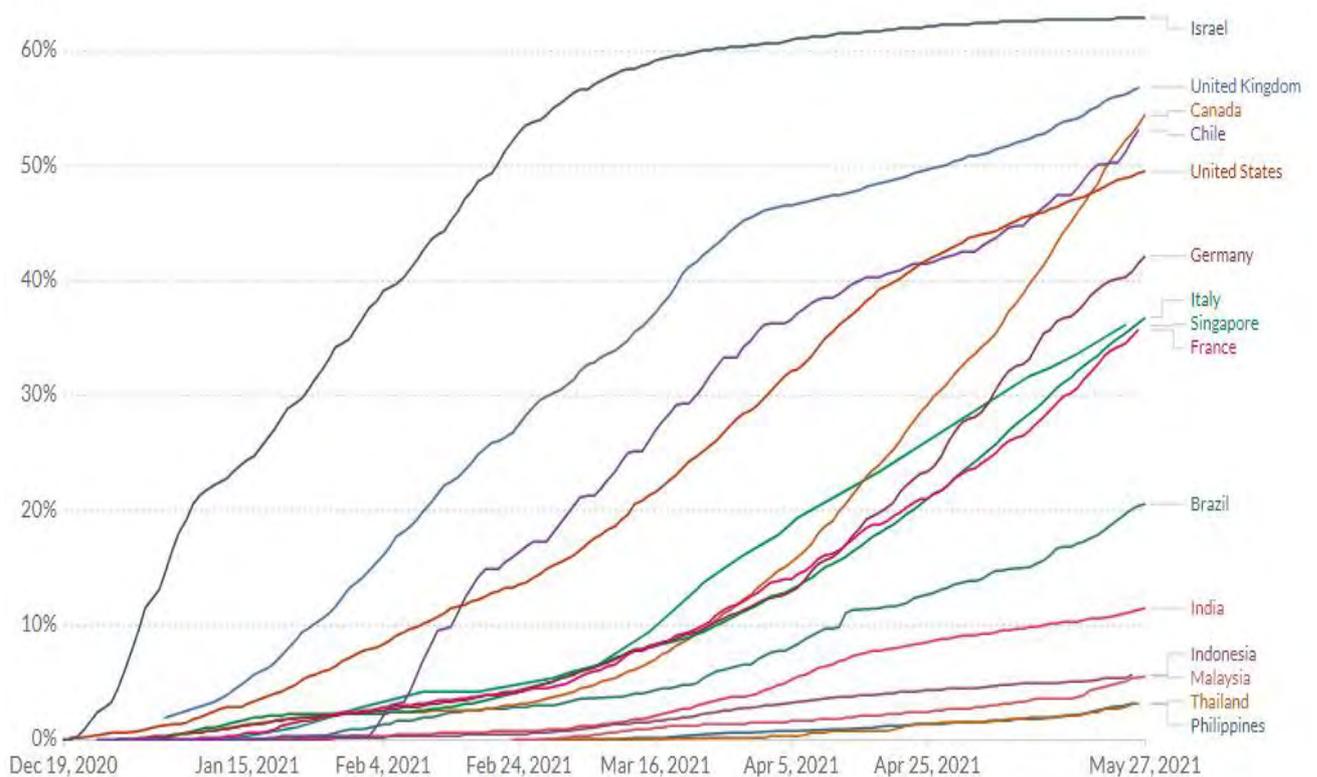
Vaccines a game-changer

- Thanks the availability of effective vaccines, as of today, we live in a much better world as compared with a year ago when the pandemic first started. We are no longer grappling in the dark but we are already seeing the light at the end of the tunnel. The world as a whole, ourselves included, has a strategy, i.e. vaccination of the population towards the herd immunity. Already, the strategy has borne fruit in a handful of developed nations.
- For Malaysia, the herd immunity target by Feb 2022 (which is nine months from now) has not changed, although the consensus view is that there is much room for the vaccination programme to improve, particularly, in terms of speed.
- Based on information compiled by crowd-sourced database Our World in Data, as at 26/27 May 2021, the percentage of population having received at least one dose of Covid-19 vaccine in Malaysia stood at only 5.6%. While it is understandable that wealthier developed nations are way ahead of us at 35–60%, we have to acknowledge that there is much room for us to play catch-up to our way more populous peers in the emerging markets, i.e. Brazil (20.6%), India (11.3%) and Indonesia (5.7%) (Exhibit 1).

Selected industries are spared or only partially affected by the lockdown

- Economic sectors that are considered “essential” and allowed to operate include **food production/processing/distribution** (that includes poultry farming, plantation, supermarket operators), **healthcare** (drug makers, pharmacies, private hospitals), **utilities** (power, water and wastewater), **financial services** (banks and exchanges), **communications** (telcos, media and postal service) and **logistics** (freight services and seaports).
- On the other hand, **manufacturers** which are considered essential and allowed to operate at 60% capacity include **glove makers** and those in **electrical and electronics** (we believe, this includes electronic manufacturing service providers, chip makers, chip testing machine makers) and **oil & gas** (petrochemical producers).
- **Construction** activities will be restricted to “critical repair and maintenance works”, important public infrastructure projects and building jobs with proper on-site worker accommodation or centralised labour quarters.
- As per MCO 1.0, for **shopping malls**, only supermarket operators, F&B outlets offering take-outs, pharmacies and convenient stores are allowed to operate.

EXHIBIT 1: PERCENTAGE OF POPULATION VACCINATED (AT LEAST ONE DOSE)



As at 26/27 May 2021

Source: ourworldindata.org

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