First Capital
A Janashakthi Group Company

EQUITY STRATEGY

"ASPI SURPASSES FAIR VALUE; REDUCE EQUITY EXPOSURE TO 65%"

Aug 2021

FIRST CAPITAL RESEARCH

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Recap: Jun 2021

ASPI expected fair value *upgraded* to 7,500-8,000 amidst economic uncertainty

Market returns to be strong in 2H2021 despite economic uncertainty

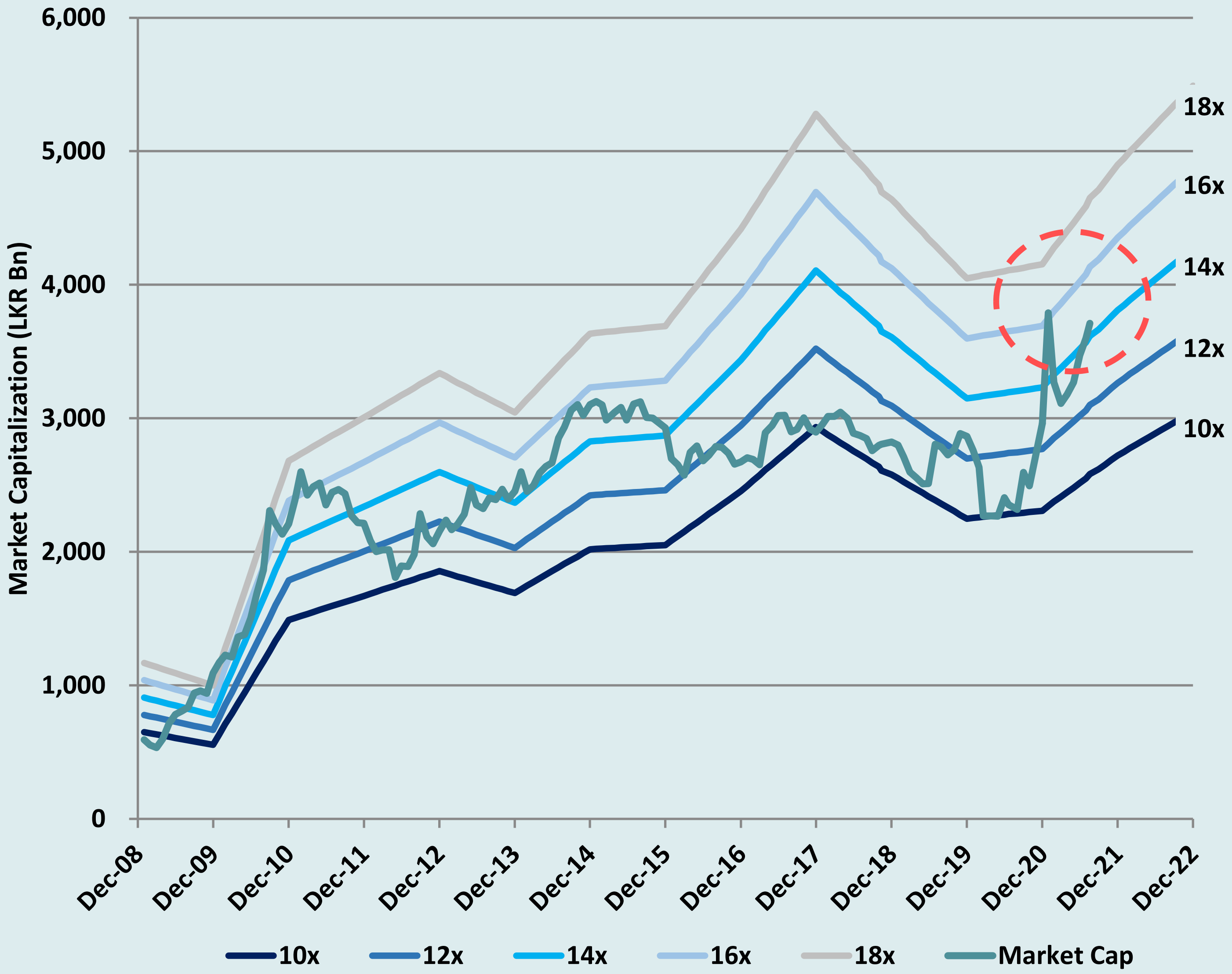
Low FI yields and surge in earnings to support equity investments

We believe the current pandemic situation may further slowdown the rise in interest rates ensuring the continuity of the low interest rate environment. In addition, the surge in earnings continues to be the major support for equity investments making overall valuations much cheaper. 1Q2021 earnings rose by an unprecedent 207%YoY building confidence among investors.

Market Return of +18% for 2021E amidst possible shocks in 2H2021

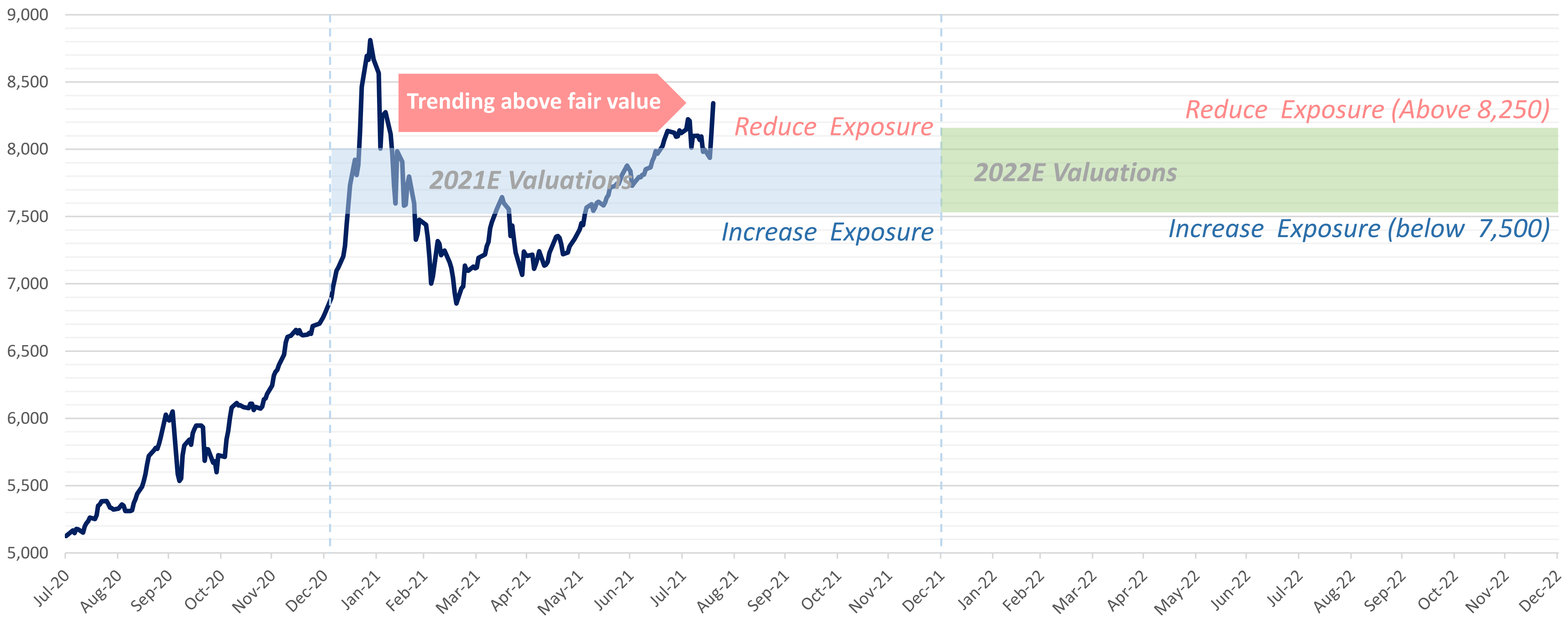
Despite the significant risk in the system due to the uncertain economic environment, the higher liquidity in the system and cheaper valuations due to healthy earnings, we are upgrading the ASPI fair value for 2021E to a range of 7,500-8,000 from our previous range of 7,000-7,500. It amounts to a market return of +18% for 2021E. We recommend to ***hold on to the equity allocation and begin exiting beyond 8,000***.

Market Valuations stretched for the 2nd time in 2021



Source: First Capital Research Estimates

ASPI surges above our range of 7,500-8,000



Source: CSE, First Capital Research

Reduce Equity Exposure to 65%....

...increase cash allocation to 35% from 10%

Reduce Equity Exposure by a further 25% to 65% (From 90%)

ASPI surged, passing the 8,000 mark for the 2nd time in 2021. We believe that the fair value for the ASPI stands at 7,500-8,000, considering the earnings that listed companies are generating and the risks in the system due to economic uncertainty. CBSL's rate hike may also input additional pressure on interest rates adversely impacting equity investments.

With the ASPI surging past our estimated range and taking into account the economic uncertainties that exist, we would like to recommend to reduce equity exposure to 65% from the current 90% raising cash allocation to 35% from 10%.

Market is expensive! What are your options as an Equity Investor?

Yes, the market is expensive. In our Equity Strategy - Jun 2021, First Capital Research illustrated that the market earnings have increased significantly. However, we also highlighted that considering the risks relating to economic uncertainty and potential rise in interest rates, we are downgrading the target PER to 12.0x-12.5x (previous 14.0x-14.5x). But due to significantly higher earnings, ASPI target range was upgraded to 7,500 – 8,000 while also specifically mentioning to ***hold on to the equity allocation and begin exiting beyond 8,000.***

Your actions as an Equity investor should depend on your risk appetite!

One option is; an equity investor could adopt to gradually start reducing equity exposure from ASPI level of 8,200 (200 above 8,000), because from 7,500-7,700 we saw a number of illiquid counters driving the market. But remember to reduce exposure to 65% and continue to reduce further, as the market climbs to higher levels which may provide the investor an opportunity to **BUY if the market goes through a correction**.

Second Option is; switch your portfolio into more defensive and high dividend yielding counters. If you are an investor who would want to continue your exposure, then the ideal way to protect your capital would be to move into value counters such as **Banking** and **Dollar Income companies** (Eg: TJL, HAYL, EXPO, HAYC, WIND, LVEF) while **high dividend yielding companies** mostly in Food, Beverage and Tobacco sector and Material sector are preferred (Eg: CTC, NEST, LLUB). **Life Insurance sector** could also be highlighted, as the sector benefits from rising interest rates.

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Thank You

“Successful Investment Is About Managing Risk…”