PP14767/09/2012(030761)

Thursday, July 16, 2015

3Q15 Malaysia Economic Outlook

"The Test will be 2Q15 GDP"

Malaysia Economic Forecast

	2012	2013	2014	2015F	2016F
BNM	5.6%	4.7%	6.0%	4.5%-5.5%	4.5%-5.5%
MoF				5.0%-5.5%	n.a
MIER				4.7%	n.a
Bloomberg Consensus				4.7%	5.0%
World Bank				4.7%	n.a
M&A Securities				5.0%	4.5%-5.5%

Source: Various, M&A Securities

Positive catalysts:

1) 2015 economic growth would still be good, albeit slower (2014: 6.0%; 2015F: 5.0%)
2) Bold plan to implement GST, fiscal position to improve subsequently
3) Solid domestic demand
4) Undervalued Ringgit; capital inflow to return with a vengeance
5) Not too vulnerable thanks to current account surplus
6) A fresh round of SRP; weak global commodity prices allow that

Negative catalysts:

1) Limited policy space
2) Sluggish commodity prices; fiscal position could suffer
3) GST implementation could stoke spending
4) Export growth could slow down while import could become costlier
5) Financial instability; eminent downside risk on Ringgit

Malaysia's 2Q15 GDP may get hit due consumers withdrawal to spend, no thanks to GST that kick-started in April 2015. Added with the uncertainty over the outlook of oil prices and hence, pump prices in Malaysia, consumers may prefer to save than to spend. Although 1Q15 GDP came in at a solid 5.8% y-o-y, many thanks to solid private consumption and private investment along with the turnaround in public consumption but the outlook for 2Q15 onwards could be challenging amid 1) dwindling export (April export growth: -9.0%), 2) depress global commodity price that would weigh on our export receipt for oil, natural gas, petroleum, rubber and crude palm oil. This could be precursor for fiscal strain which may inevitably impact government investment and spending. For now, it is better for the government to remain cautious in fiscal spending amid challenging external environment which could make a turn for the worse for all we know.

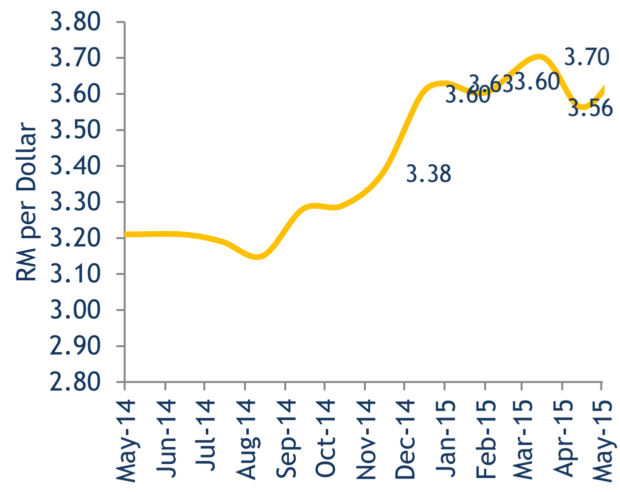
Moving forward, at the backdrop of the US upcoming interest rate adjustment, do we have monetary space to combat that? Not really. For one, Bank Negara Malaysia has set the upper limit of overnight policy rate (OPR) at 3.5%, meaning we have only 25 basis points before reaching there. Hence, given the US interest rate normalization level of 4%++ and its current level of 0%-0.25%, Malaysia may not have enough weapon to fight currency volatility. As a result, we think that Ringgit may get hit. Word

Research Team
research@mna.com.my
03-22821820 ext. 257, 229, 221, 249, 238

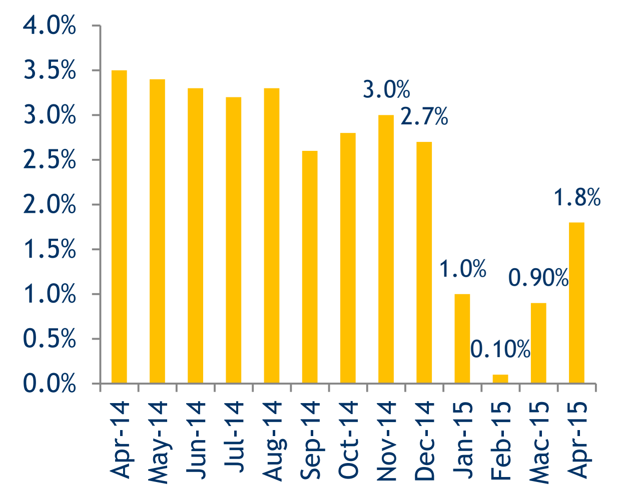
of caution, however, this will be a regional if not global phenomena and does not confine to Malaysia alone. Therefore, we have to price in the fact that Ringgit may drop to a lower level than now or below RM3.80 per Dollar in the foreseeable future. With that, we predict the commodity prices will also get bashed and there goes our export receipt and performance.

In a nutshell, Malaysia is entering into unchartered territory, crushed by volatile external environment. Malaysia is potentially facing a rocking boat as we are an open economy and global commodity producer country. In our view, the volatile sea could last quite some time.

Ringgit per Dollar (May 2014 - May 2015)

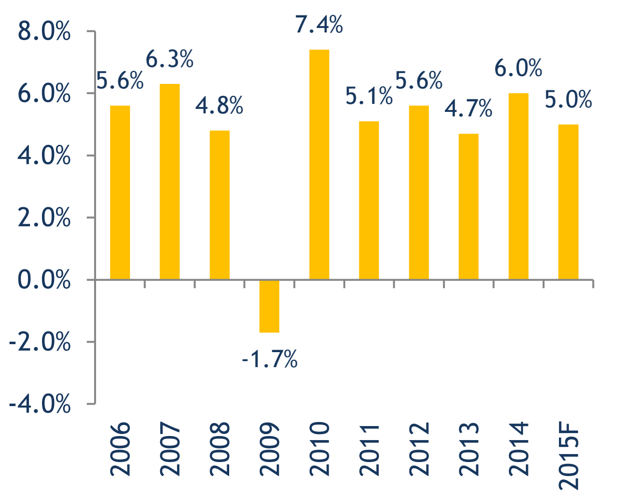


Malaysia CPI Trend (April 2014 - April 2015)

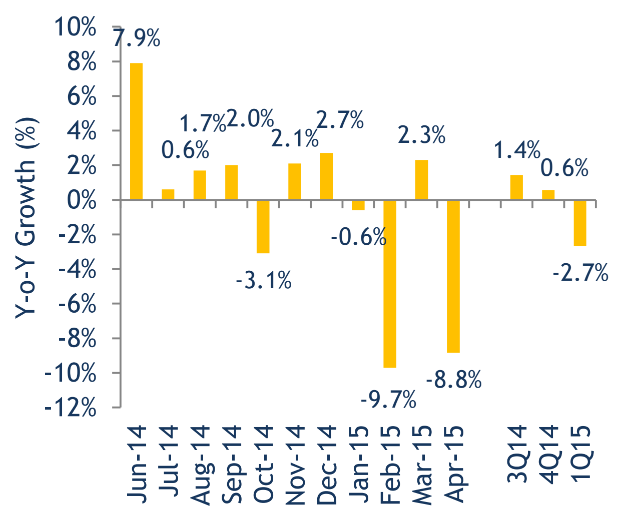


Source: Bloomberg, M&A Securities

Malaysia Annual GDP Growth (2006-2015F)



Malaysia Export Growth (June 2014 - April 2015)



Source: Bloomberg, M&A Securities

Research Team
research@mna.com.my
03-22821820 ext. 257, 229, 221, 249, 258

Market Access

M&A Securities

STOCK RECOMMENDATIONS

BUY *Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY *Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD *Share price is expected to be between -10% and +10% over the next 12 months.*
SELL *Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT *The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL *The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT *The sector is expected to underperform the FBM KLCI over the next 12 months.*

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.
This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.
Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.
This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.
M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities SdnBhd (15017-H)
(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45-47 & 43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 – 2282 1820 Fax: +603 – 2283 1893
Website: www.mnaonline.com.my