PP14767/09/2012(030761)

Monday, November 16, 2015

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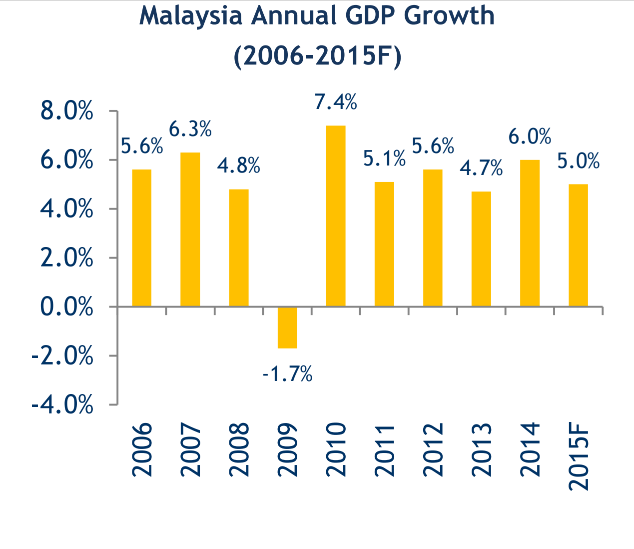
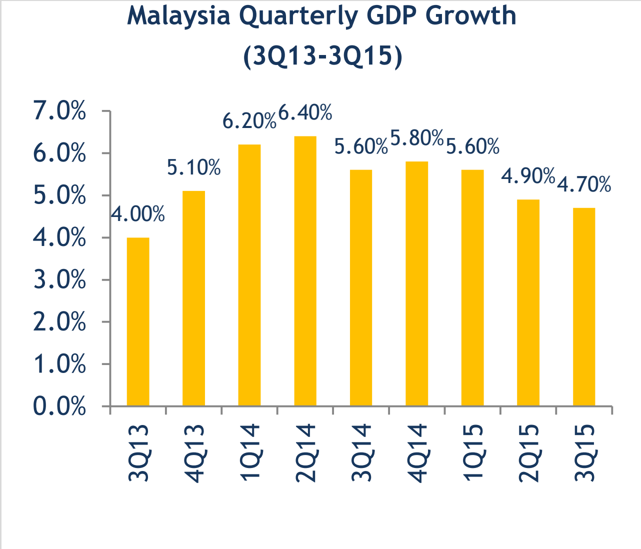
"Marginally Scathe from the Storm; 3Q15 GDP Touch 4.7%"





Source: BNM, M&A Securities

Table 1: Malaysia Quarterly GDP Performance

	Growth (%)		
	3Q15	2Q14	3Q14
Real GDP (y-o-y)	4.7%	4.9%	5.6%
***Real GDP (q-o-q)**	0.7%	1.1%	0.8%

Source: BNM
**seasonally adjusted*

Overall of 3Q15 GDP analysis and Economic Outlook

Malaysia belted 3Q15 GDP of 4.7% y-o-y (2Q15: 4.9%; 1Q15: 5.6%; 3Q14: 5.6%), spot on with consensus expectation, bringing YTD GDP until the third quarter to average at 5.06%, the median forecast of BNM's expectation as well as broadly in line with ours (M&A 2015 GDP forecast: 5.0%). Despite the raging storms coming from spending pullback by the consumers - hurt by the GST implementation, protracted weakness in oil and crude oil prices, backsliding of ringgit as well as the clipping of household loans growth, Malaysia was able to deliver steady performance in 3Q15, thanks to the series of reforms undertaken by the government, which largely shielded the country from debilitating external environment. Essentially, Malaysia was able to maintain its solid footing thanks to its strong fundamentals compared to regional economies which suffered from economic softness including the like of Singapore (3Q15 GDP: 1.4% y-o-y), Thailand (3Q15 GDP: 2.9% y-o-y), and Indonesia (3Q15 GDP: 4.7% y-o-y). This is also better than advanced economies performance including the US (3Q15 GDP: 2.0% y-o-y), Eurozone (3Q15 GDP: 1.7% y-o-y) and also Japan (3Q15 GDP: -0.2% y-o-y).

All told, Malaysia hammered q-o-q GDP of 0.7%, a deceleration against 2Q15 q-o-q growth of 1.1%. 3Q15 GDP growth was supported essentially by domestic demand which grew by 4.4% y-o-y, benefitting from steady contribution from private investment (3Q15 GDP: 5.5%; 2Q15 GDP: 3.9%), albeit a marked deceleration against 3Q14 of 7.0%. This is not a cause of concern given the

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bigger base of private investment in 2015 against 2014. Net export also lends a hand after it performance turned to a positive of 3.3%, a strong reversal against 2Q15 and 1Q15 contraction of 10.5% and 10.2% respectively. Export made a turnaround due to restocking activity by advance economies ahead of the fourth quarter holiday season, gaining from protracted weakness in ringgit which averaged at RM4.05 per Dollar in 3Q15 against 3Q14 average of RM3.19 per Dollar.

Going forward, judging from Malaysia's solid fundamentals including improving fiscal revenue mix and balance source of growth, we posit that Malaysia will be able to withstand the raging external storm and deliver enviable performance. With the ringgit hugely undervalued along with export that is poise for magical turnaround in addition to the expectation of steady private consumption as wages and productivity will still grow in positive region, we opine that the country's downside risks to growth is quite limited at this juncture. Added with the full blown execution and implementation of ETP that will essentially support private investment, one of the country's anchors to growth, BNM's full year 2015 GDP forecast of 4.5%-5.5% as well as ours of 5.0% is within reach.

Wealth creation-wise, although there could be some heighten volatility in capital markets including the equity and bond market, emanating from the uncertainty of advanced economies policy direction, we opine that investors would have factored-in the risks by now. On the same breath, we expect the volatility may recede in due course especially when the ringgit is unbelievably undervalued and the excess fats in local equity market has been trimmed quite decently. Frankly, Malaysia has been able to diversify its source of growth, meaning decoupling to some extend from over reliance in commodity revenue and therefore, should be able to withstand the uncertainty in external environment. Although we expect the volatility in capital market to last perhaps until 1Q16 but by then it may have reach the bottom and the only risk is to the upside. Therefore, the elevation of wealth creation, re-acceleration in private consumption and the resumption of capital raising exercise next year will be the strong catalyst for Malaysia to deliver enviable economic performance in 2015 and 2016 respectively.

Table 2: GDP by Economic Activity (at constant 2010 prices)

	Share 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual Change (%)				
Services	53.5	6.5	6.6	6.4	5.0	4.4
Manufacturing	23.0	5.3	5.4	5.6	4.2	4.8
Agriculture	9.2	3.4	-3.7	-4.7	4.6	2.4
Mining	9.0	1.4	9.5	9.6	6.0	5.3
Construction	4.3	9.7	8.8	9.7	5.6	9.9
Real GDP	**100.0[1]**	**5.6**	**5.7**	**5.6**	**4.9**	**4.7**
Real GDP (q-o-q seasonally adjusted)	**-**	**0.8**	**1.8**	**1.2**	**1.1**	**0.7**

[1]Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of statistics, Malaysia

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Table 3: GDP by Expenditure Components (at constant 2010 prices)

	Share 2014 (%)	2014		2015		
		3Q	4Q	1Q	2Q	3Q
		Annual Change (%)				
Aggregate Domestic Demand (excluding stocks)	91.5	5.0	5.7	7.9	4.6	4.0
Private Sector	68.5	6.8	8.3	9.6	5.7	4.4
Consumption	*51.8*	*6.8*	*7.6*	*8.8*	*6.4*	*4.1*
Investment	*16.6*	*7.0*	*11.1*	*11.7*	*3.9*	*5.5*
Public Sector	23.0	-0.9	0.6	2.5	0.9	2.8
Consumption	*13.6*	*5.2*	*2.5*	*4.1*	*6.8*	*3.5*
Investment	*9.5*	*-8.5*	*-1.9*	*0.5*	*-8.0*	*1.8*
Net Exports	9.3	7.4	-4.0	-10.2	-10.5	33.3
Exports of Goods and Services	*76.1*	*2.6*	*1.9*	*-0.6*	*-3.7*	*3.2*
Imports of Goods and Services	*66.8*	*2.0*	*2.6*	*1.0*	*-2.8*	*3.2*
GDP	**100.0**	**5.6**	**5.7**	**5.6**	**4.9**	**4.7**
GDP (q-o-q growth, seasonally adjusted)	**-**	**0.8**	**1.8**	**1.2**	**1.1**	**0.7**

Source: Department of statistics, Malaysia

Malaysia Economic Forecast (2012-2015F)

	2012	2013	2014F	2015F
BNM	5.6%	4.7%	6.0%	4.5%-5.5%
MoF				4.5%-5.5%
MIER				5.0%-5.5%
M&A Securities				5.0%

Source: Various, M&A Securities

Supply Side Analysis 3Q15

Overall, anchor to growth in supply side was underpinned by manufacturing sector that jumped in growth by 4.8% y-o-y (2Q15: 4.2%; 3Q14: 5.3%), benefitting from the turnaround in export on protracted weakness in ringgit and restocking activity ahead of the holiday season in advanced economies. Growth was also supported by construction sector as it grew to 9.9% y-o-y, a strong performance from 5.6% made in 2Q15 and 9.7% 3Q14, gaining from solid construction related projects like MRT and LRT, to mentioned a few. There was a markedly lower performance belted by services service whose growth reached a lower of 4.4% y-o-y against 5.0% in 2Q15 and 6.5% in 3Q15, in line with lower household loans growth that averaged at 8.3% in 3Q15 vs. 9.2% in 2Q15 and 11.3% in 3Q14.

The central bank clipping of household spending binge via the clampdown of household loans approval has caused the sector performance to decelerate by 60 basis points. As for agriculture, the lower growth to 2.4% y-o-y in 3Q15 vs. 4.2% in 2Q15 was due to the protracted weakness in crude palm oil export to China as demand had slowed down in line with the deceleration of its economy. Nonetheless, major indicator to growth namely manufacturing and services sector, which represent 60% of the economy, is still healthy and hence, pose no cause for alarm.

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Demand Side Analysis 3Q15

Notably, it was the domestic demand that helped the economy to grow in 3Q15 after it grew by 4.0% y-o-y, despite a deceleration from 4.4% made in 2Q15 and 5.0% in 3Q14. Net export lend a hand this time around after it made a U-turn to grow at 3.3% y-o-y against the painful contraction of 10.5% in 2Q15 and 10.2% in 2Q15. The protracted weakness in ringgit has been instrumental in helping to elevate the attractiveness of our term of trade and hence, boosting our cost factor. Private investment was the main savior in domestic demand after it jumped by a solid 5.5% y-o-y for the quarter before growing by 3.9% in 2Q15.

The solid private investment performance was generally in line with businesses loans growth that vaulted by a solid 12.0% in 3Q15 vs. 8.5% in 2Q15 and 7.5% in 1Q15 respectively. It was also supported by the solid execution of ETP related project namely the MRT, LRT and broadband capacity expansion (read: HSBB 2.0). Finally, private consumption took a hit from uncertain economy, expensive import cost and GST related issue after it grew lower to 4.1% y-o-y in 3Q15 against 6.4% in 2Q15 and 6.8% in 3Q14, essentially below the historical average of about 6%. Nonetheless, we don't think the deceleration may continue and hence, poise for an acceleration, once 1) oil and CPO price starts its leg up 2) ringgit make a turnaround near its fair value and 3) re-acceleration in wealth creation once the capital markets get sizzling again.

Monetary Outlook 2015

We don't think that Malaysia is in any danger of falling in deflationary trap despite policy stall at the moment or even if the US starts adjusting their policy rate. Hence, there is no urgent need to cut OPR given 1) steady economic growth thus far – pointedly within the central bank expectation and 2) elevated household debt – which further cut could instigate borrowing binge. As we are ruling out also for an increase in policy rate as inflation so far is due to the cost factor, therefore, we expect BNM to maintain the OPR at the current level until perhaps 1Q16. There is no increasing or alarming elevation of downside risks to growth so far and hence, we expect the status quo to remain in the immediate term.

BNM MPC Meeting Schedule (2015)

Schedule of Monetary Policy Committee Meetings for 2015	
MPC Meeting No.	**Dates**
1st	27 and 28 January 2015 (Tuesday and Wednesday)
2nd	4 and 5 March 2015 (Wednesday and Thursday)
3rd	6 and 7 May 2015 (Wednesday and Thursday)
4th	8 and 9 July 2015 (Wednesday and Thursday)
5th	2 and 3 September 2015 (Wednesday and Thursday)
6th	4 and 5 November 2015 (Wednesday and Thursday)

Source: BNM, M&A Securities

US Federal Reserve FOMC Meeting Schedule (2015)

US Federal Reserve FOMC Policy Meetings for 2015	
FOMC Meeting No.	**Dates**
4th	16-17th June (Tuesday and Wednesday)
5th	28-29th July (Tuesday and Wednesday)
6th	16-17th September (Tuesday and Wednesday)
7th	27-28th October (Tuesday and Wednesday)
8th	15-16th December (Tuesday and Wednesday)

Source: FOMC, M&A Securities

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Inflation Outlook 2015

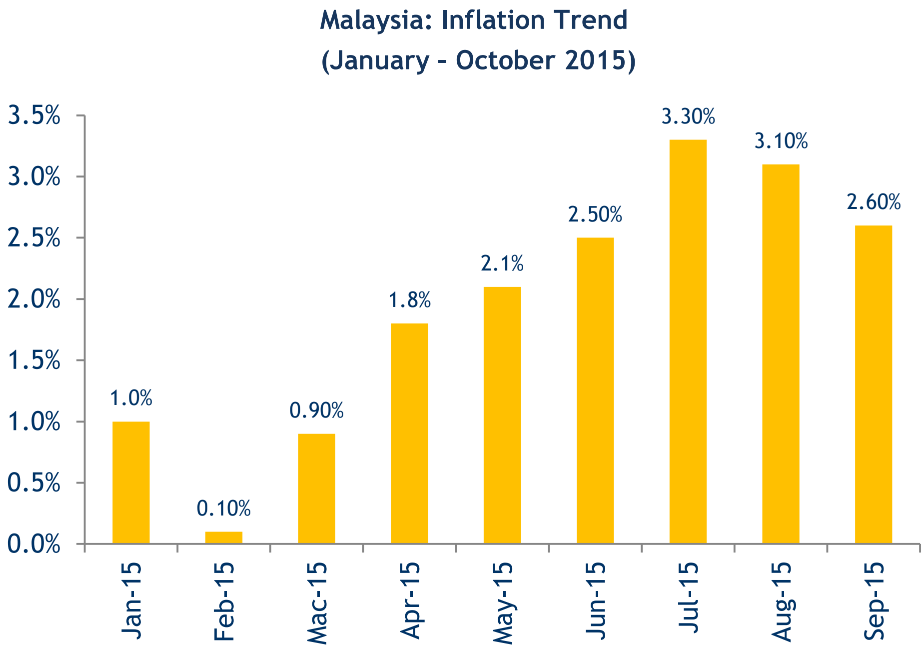
YTD inflation has so far touched 1.9% until September, broadly within ours and BNM expectation of 2%-3% for the full year. We posit that inflation may not be a threat at the moment due to the prolong softness in global commodity prices and also due to the pullback in spending due to GST related issues. Hence, inflation may not make a sharp turnaround above the long term average about 3% in the near future given the factors mentioned above. All told, our 2015 inflation expectation of 2%-3% stays for now.

Ringgit Outlook

We expect ringgit to continue to suffer from sentiment issue and not fundamental issue which could dent its performance for the remaining of the year. The fact that the US Federal Reserve is poised to adjust the Federal Funds rate (FFR) in December (read: >70% probability) is telling. Note that the selling pressure in global currency market may accelerate once the FFR is snapped upwardly and this will not be exclusive only to Malaysia. We expect the storm in FFR adjustment to continue perhaps until 1Q16 or at least it is clear when the US will reach its FFR normalization level.

What to Expect Going Forward in 2015

Benefiting from fiscal reform previously (read: ETP, subsidy rationalization, GST implementation), Malaysia is in steady position to weather the raging storm in international market. Health wise, the potential to growth is there, blessed by solid private investment and private consumption. The turnaround in export will be the dark horse for the nation in our view. All told, we expect 2015 GDP to reach a respectable rate of 5% in 2015 (2014 GDP: 6.0%), a no easy feat given the onslaught of brewing headwinds in the global economy.



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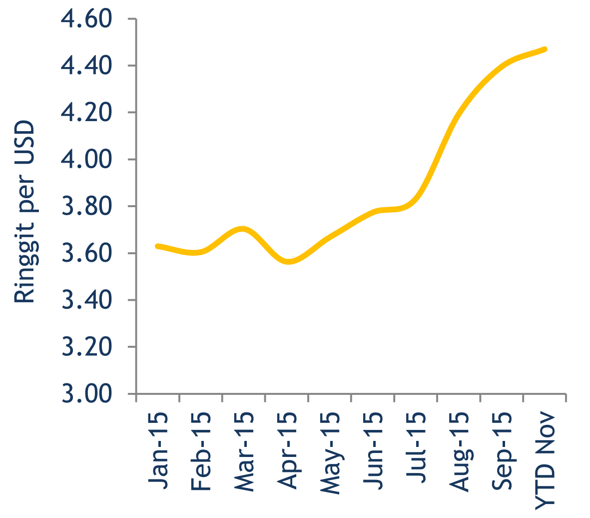
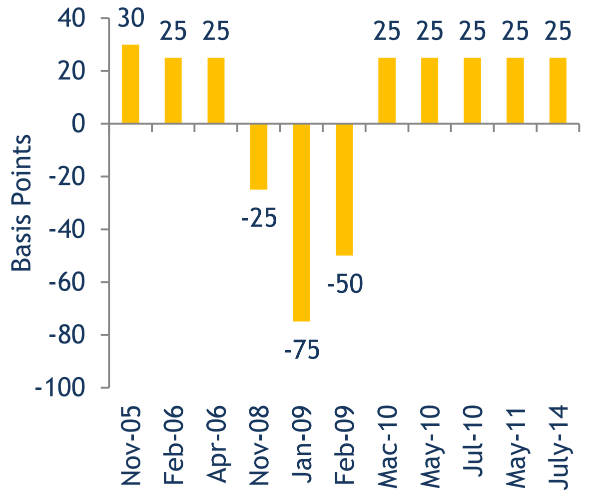
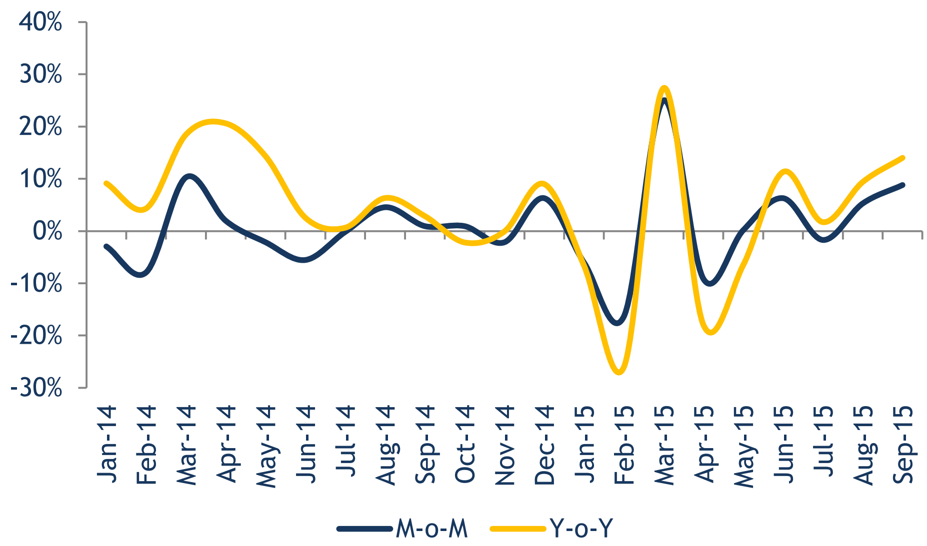
Ringgit per Dollar
(January - YTD November 2015)



BNM Quantum of Policy Adjustment
(November 2005-July 2014)



Malaysia Export
(January 2014 - September 2015)



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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.*

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