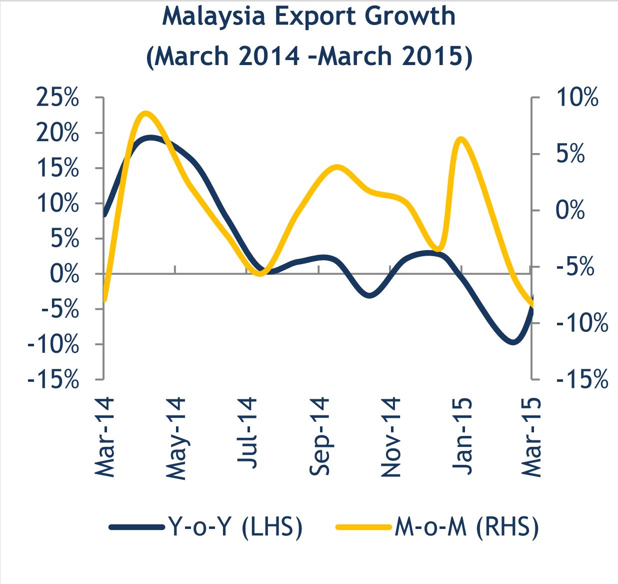
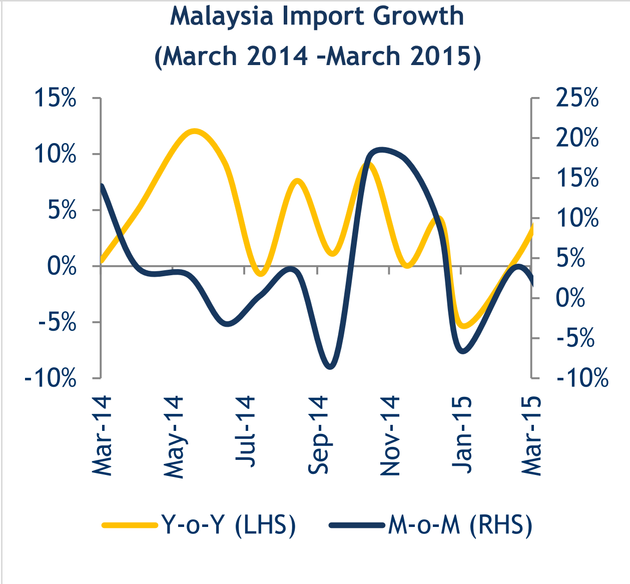
PP14767/09/2012(030761)

Thursday, May 07, 2015

"Malaysia Export Reverse its Course; Positive Growth in March"





Source: DOS, M&A Securities

Table 1: Trade Info (Growth)

March 2015	Y-o-y	M-o-m
Export	2.3%	6.7%*
Import	+5.8%	-0.9%*
Trade Surplus Growth	-17.9%	71.7%
Trade surplus (value)	March 2015: RM7.8 billion (February 2015: RM4.5 billion)	

Source: DOS, M&A Securities
**seasonally adjusted*

Overall View - March 2015 Trade

Malaysia issued its March trade numbers today and by all accounts, it is a good reversing trend for Malaysia's export despite the fact that growth for the month has been minute but a relief nonetheless. The country's export for the said month jumped by 2.3% y-o-y and 6.7% m-o-m (seasonally adjusted), arresting the last two months of decline (January export: -0.6% y-o-y; February export: -9.7%), pushing Malaysia 1Q15 average export to reach a humble contraction of 2.6% against 1Q14 export average of 10.9%. In essence, Malaysia's export in 1Q15 suffered a dive of 13.5% pps against last year, risking the country 1Q15 GDP performance as a result. The sharp contraction of Malaysia's main commodity export prices namely petroleum products, crude oil, rubber, crude palm oil in addition to some extent on natural gas have hurt our export performance despite the fact that the government has tried its best to arrest the slide via higher output.

Notwithstanding that, the back sliding or race to the bottom of global commodity prices have been too steep, prolonged and sharped for any gains in output to help. As a result, Malaysia suffered a beating in its export. The full bleeding extent of contraction in export would surface in the country's next week's 14th May 1Q15 GDP release. In addition, the rising of competitiveness of Ringgit has failed to ignite demand as Malaysia's major export destination such as Japan, Eurozone and China

Rosnani Rasul
Rosnani_r@mna.com.my
03-22840580

have all suffered anemic economic growth. This is just beyond anybody's control. That said, Malaysia's import for March managed to gain by 5.8% y-o-y, not bad of a performance considering January's figure of -5.3% and February of 0.4%, resulting in the country's 1Q15 import to touch a meager 0.3% against 1Q14 average of 5.7%, making the argument of slower 1Q15 GDP growth more apparent. This could be due to Ringgit weakness as many importers would have trouble of restocking inventories given the sapping domestic demand, hurt by rising cost of living and uncertainty cause by GST implementation. Note that Ringgit touched its year low of RM3.70 per Dollar in March from the January and February level of RM3.62 and RM3.60 per Dollar respectively.

Trade surplus wise, Malaysia made a good stride in trade surplus y-o-y after it touched RM7.8 billion in March, a drop of 17.9% y-o-y but a gain of 71.7% m-o-m, elevating 1Q15 trade surplus to reach RM21.3 billion from RM26.2 billion in 1Q14. It is still a respectable achievement in our view as the country managed to hold its head-above-the-water despite the onslaught of sharp downswing in export. Moving forward, we expect the rough sea to calm in subsequent quarters as we think that commodity prices may have reached the bottom and hence, poise to vault. The fact that the US Federal Reserve is still uncertain when to adjust its policy rates is indeed good news for global commodity prices. Evidently, WTI and Brent have made good strides of late with both prices managed to stay up north. As such, in the absence of unexpected sharp downturn of China economy and also negative surprises from US FOMC policy decision, global commodity prices are poised to recovery slowly.

Export and import Analysis March 2015

For export, China remained our largest trading partners after it made up about 11.2% of our export (February: 14.4%; January: 14.7%). The decreasing trend is worrying, nonetheless, although it could probably be due to seasonal factor as Chinese New Year has just ended. This is followed by Singapore 14.0% (February: 12.6%; January: 12.3%), Japan 11.9% (February: 10.4%; January: 9.9%), the EU 9.8% (February: 10.4%; January: 10.1%) and the US 9.2% (February: 8.4%; January: 8.5%). Export goods wise, for y-o-y analysis, electronics and electrical goods along with timber and timber-based products became our savior as both groups recorded a commendable growth of 14.6% and 2.3% y-o-y which piggy back our export into positive territory this month. The drag to our y-o-y export for March came from the following:

- Refined petroleum: -39.7% y-o-y (value: -26%; volume: -18.4%)
- Crude petroleum: -28.6% (value: -42%; volume: +23%)
- Palm oil and palm-based: -10.9% (value: -16%; volume: +0.3%)
- Natural rubber: -33% (value: -24%; volume: -12.3%)
- LNG: 0.6% (value: -14%; volume: +15.5%)

As for import, intermediate goods import sustained its positive performance after registering the month of March growth of 6.7% y-o-y (17.3% m-o-m). Consumption good import also grew by 0.4% y-o-y vs. 12.3% m-o-m. As for capital goods, it gained by 15.6% y-o-y compared to 38.8% on m-o-m basis. The share of intermediate, capital and consumption goods for March was at 62%:37%:1%, not alarming in our view given the tepid share of consumption goods which suggest that imported inflation is under control. The fact that capital goods share has risen to 37% in March against 12% in

Rosnani Rasul
Research_r@mna.com.my
03-22840580

February gave a good dose of hope that Malaysia's economy may accelerate in full force in March against a tepid February momentum.

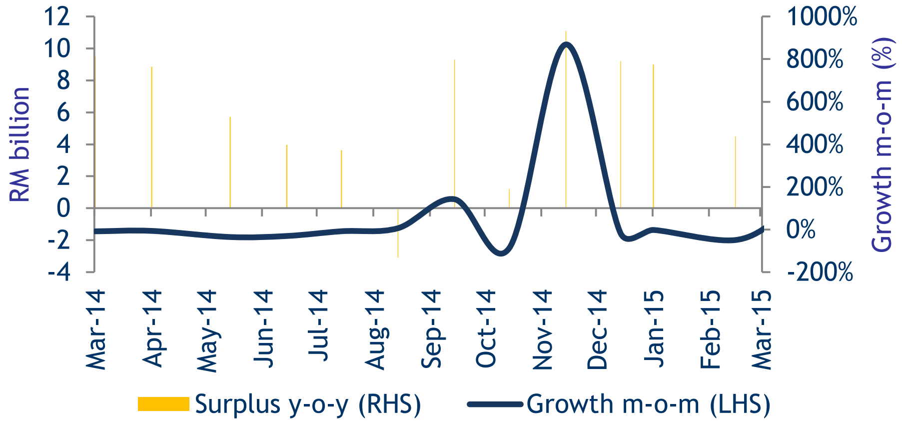
Trade Outlook

As penned in the previous paragraph, we think that hedgers, arbitrageurs and investors will gamely pick up the fire sale price of global commodity prices. As far as memory can be stretched, it is rare for global commodity prices to take sharp downturn like this. Hence, speculative activity will elevate and gain strength, pushing the prospect of better outlook of commodities prices. This should bode well to countries that have strong export contribution that also have current account surplus. One way or another, global commodity prices will go heavenward and with the world's economy growth is expected to normalize at 3% plus this year, the prognosis is improving for Malaysia's export outlook.

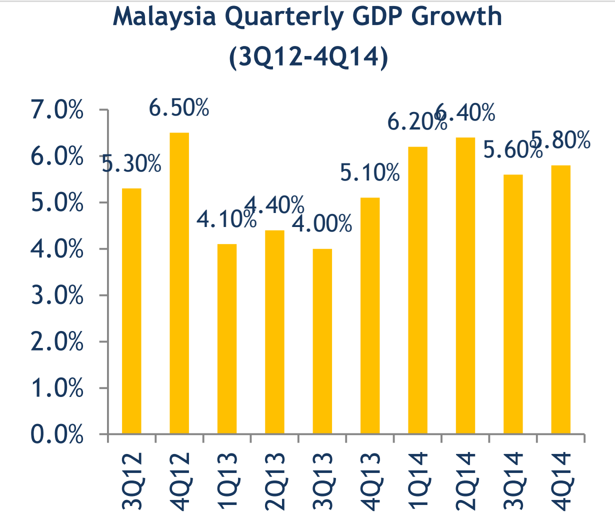
Malaysia Economic Forecast (2012-2015F)

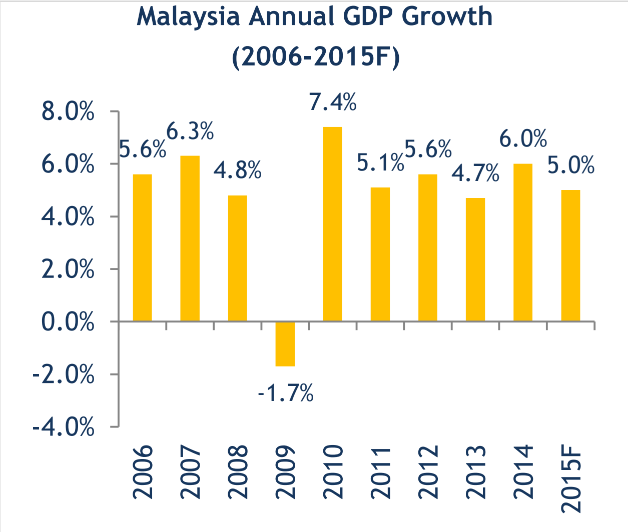
	2012	2013	2014	2015F
BNM	5.6%	4.7%	6.0%	4.5%-5.5%
MoF				4.5%-5.5%
MIER				5.0%-5.5%
M&A Securities				5.0%

Source: Various, M&A Securities



Source: Bloomberg, DOS, M&A Securities

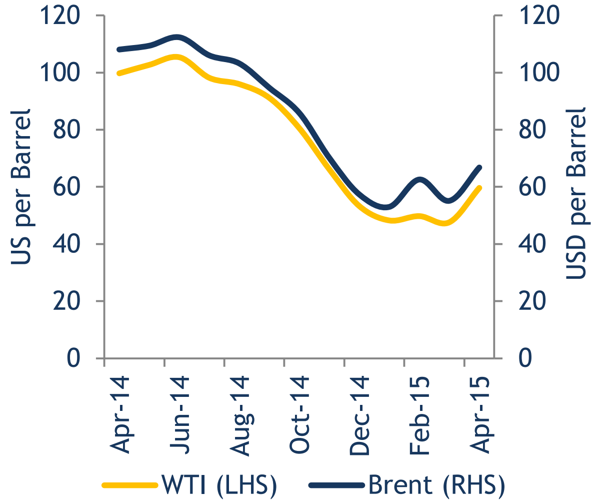




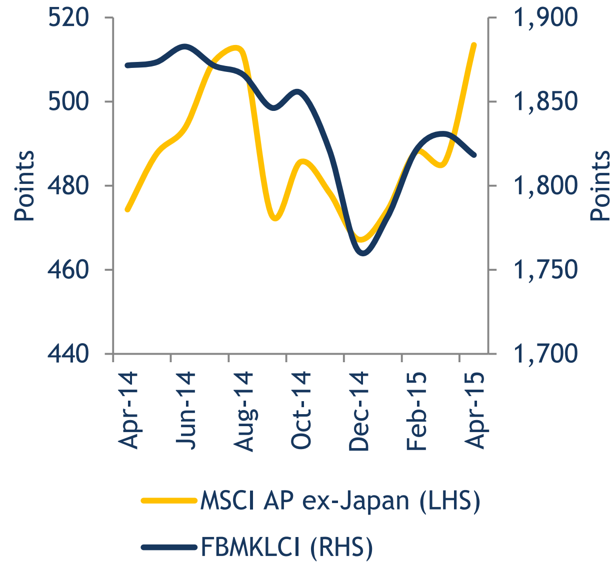
Source: Bloomberg, M&A Securities

Rosnani Rasul
Research_r@mna.com.my
03-22840580

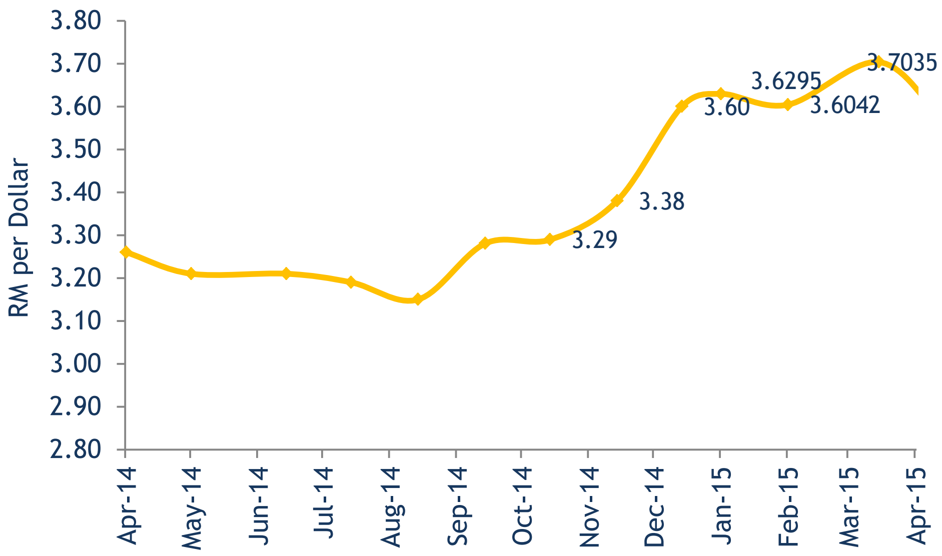
Oil (WTI and Brent)
(April 2014 - April 2015)



FBMKLCI vs. MSCI AP ex-Japan
(April 2014 - April 2015)



Ringgit per USD
(April 2014 - April 2015)



Source: Bloomberg, M&A Securities

Rosnani Rasul
Research_r@mna.com.my
03-22840580

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.*

M & A Securities Sdn Bhd (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 & 43-46
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 – 2282 1820   Fax: +603 – 2283 1893

Rosnani Rasul
Research_r@mna.com.my
03-22840580