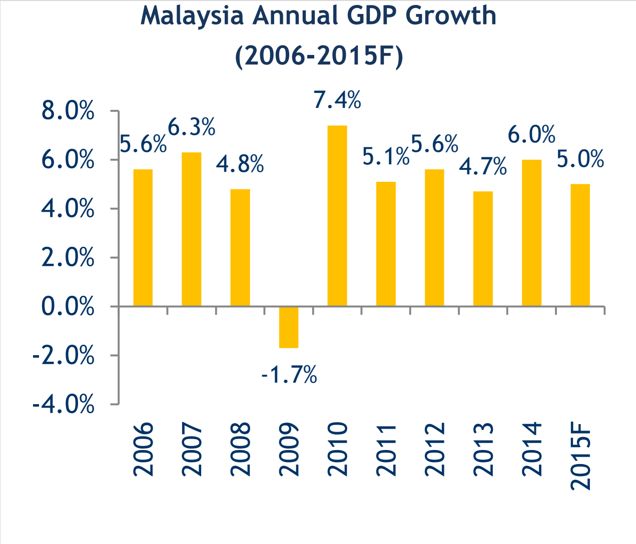
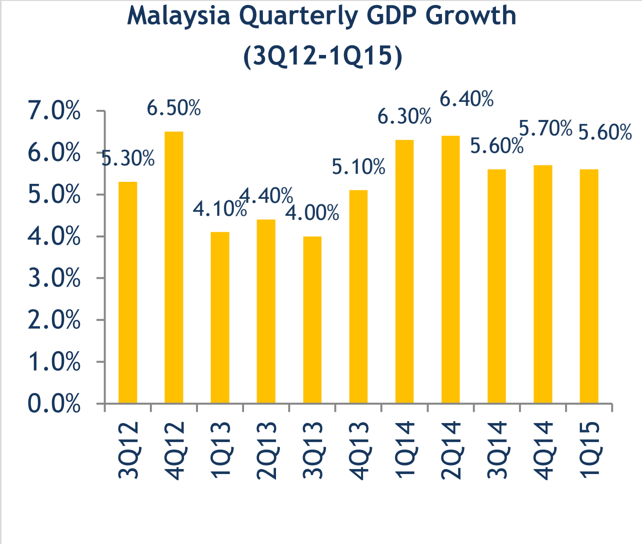
PP14767/09/2012(030761)

Friday, May 15, 2015

"Good Start; 1Q15 GDP Hit 5.6%"





Source: MOS, M&A Securities

Table 1: Malaysia GDP Performance

	Growth (%)		
	1Q15	4Q14	1Q14
Real GDP (y-o-y)	5.6	5.7	6.3
***Real GDP (q-o-q)**	1.2	1.8	1.4

Source: BNM

**seasonally adjusted*

Overall of 1Q15 GDP and Economic Outlook

Malaysia hammered a respectable 1Q15 GDP of 5.6% (4Q14: 5.7%; 1Q14: 6.3%), successfully arresting the contraction in export, after private consumption saved the day thanks to sizzling economic spending ahead of 1st April GST implementation. The front loading consumption ahead of GST was also supplemented by the flood relief spending at the back of strong private investment performance (1Q15: 11.7%; 1Q14: 14.9%) that vaulted seamlessly thanks to accommodative interest rate environment. All in, 1Q15 GDP grew by 1.2% q-o-q. At 5.6% growth, 1Q15 GDP was a deceleration against 4Q14 and 1Q14 of 5.7% and 6.3% but still enviable given the sharp decline in export. Recall that Malaysia gross export dropped by 13.5 pps against 1Q14 after 1Q15 gross export came in at a contraction of 2.6%.

The external environment has been a source of pain for the country given the rising divergence of growth across advanced countries with the US emerges as the only clear source of growth. Hence, to offset against the sharp drop in commodity prices, Malaysia has to cough higher output as evident in the mining sector strong growth that jumped by almost 3-fold to 9.6% in 1Q15 (2014 growth: 3.3%). This is to avoid alarming fiscal strain while avoiding balance sheet vulnerabilities. Going forward, we think that inflation, although netted at only 0.7% in 1Q15 (4Q14: 2.8%), will not be a source of risk, many thanks to the protracted softness in global commodity prices. As the global commodity prices are suffering from twin-risk including demand (i.e. growth divergence across

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advanced economies) and supply (i.e. supply glut), we foresee inflation will remain anchored throughout the year despite the GST implementation. Hence, adjustment in monetary policy is quite remote unless the Ringgit tumbles sharply or the US adjusts its policy rate in successive fashion with sharp upswing.

Going forward, 2015 will not an easy year as the nation has to grapple with rising external risks that could weigh on our export. Malaysia may also face increasing balance sheet vulnerabilities due to the prolong softness in global commodity prices. As sentiment against global commodity may not see heighten interest anytime soon with China predicted to grow slower and the US Dollar is heading heavenward, we can't see the signals yet that global commodity prices will normalize anytime soon. The supply glut facing some commodities (e.g. oil) will only add to the pressure. This may result in increasing balance sheet vulnerabilities, potentially leading to some selling pressure on Ringgit. At this juncture, we hope that sizzling domestic activity will be more than offset the rising external risks. Should however, economic activity cool due to the GST issue, then we opine our 2015 GDP projection of 5.0% may experience some downside risk.

Malaysia Economic Statistics - By Economic Activity

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual Change (%)			
Agriculture	9.2	2.6	-3.7	2.1	-4.7
Mining	9.0	-0.1	9.5	3.3	9.6
Manufacturing	23.0	7.0	5.4	6.2	5.6
Construction	4.3	19.3	8.8	11.8	9.7
Services	53.5	6.7	6.6	6.5	6.4
Real GDP	**100**	**6.3**	**5.7**	**6.0**	**5.6**
Real GDP (Q-o-Q)	**-**	**1.4**	**1.8**	**n.a**	**1.2**

Source: BNM, M&A Securities

Malaysia Economic Statistics - By Expenditure

	Share 2014 (%)	2014			2015
		1Q	4Q	Year	1Q
		Annual Change (%)			
Aggr demand (excl. stocks)	91.5	7.6	5.7	5.9	7.9
Private Sector	68.5	8.9	8.3	7.9	9.6
- Consumption	51.8	7.0	7.6	7.0	8.8
- Investment	16.6	14.9	11.1	11.0	11.7
Public Sector	23	3.6	0.6	0.4	2.5
- Consumption	13.6	12.2	2.5	4.4	4.1
- Investment	9.5	-6.3	-1.9	-4.7	0.5
Net Exports	9.3	8.2	-4.0	12.8	-10.2
- Export	76.1	7.9	1.9	5.1	-0.6
- Import	66.8	7.8	2.6	4.2	1.0
Real GDP	**100**	**6.3**	**5.7**	**6.0**	**5.6**
Real GDP (Q-o-Q)	**-**	**1.4**	**1.8**	**n.a**	**1.2**

Source: BNM, M&A Securities

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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 1Q15

Services sector which grew by 6.4% in 1Q15 (4Q14: 6.6%; 1Q14: 6.7%) turned out to be the star performer during the quarter along side mining which gained by a solid 9.6% (4Q14: 9.5%; 1Q14: -0.1%). The steady loans growth that grew by 9% plus, made possible by accommodative interest rate environment, has shored up the sector's pulsating performance. Many thanks also to heighthen economic activity ahead of the GST implementation in April. Other than that, agriculture made some headline deceleration after growth came in at -4.7% pulled down chiefly by softness in global commodity prices, most notably the CPO.

Note that CPO production in 1Q15 was hit by severe flood especially in the northern states in addition to prolong weakness in CPO price. Manufacturing clocked in slightly slower performance of 5.6% in 1Q15 against 1Q14 blazing pace of 7.0% despite the Ringgit weakness. Note that demand for our goods has been sapped, to some extent, due to the dwindling economic activity by advanced economies and some of our major trading partners particularly China. Construction sector, meanwhile, made slower growth after 1Q15 performance of 9.7% (4Q14: 8.8%; 1Q14: 19.3%) no thanks to the cooling property market following several harsh measures by the central bank.

Demand Side Analysis 1Q15

As for the demand side, private consumption held its ground after registering a solid growth of 8.8% (4Q14: 7.6%; 1Q14: 7.0%) benefitting from front loading spending ahead of GST implementation in April. Going forward, there is quite a chance that private consumption could suffer a cool down emanating from some backlash following the GST implementation. Private investment, in the meantime, maintained its steady performance with 11.7% growth in 1Q15, beating 4Q14 growth of 11.1% but markedly lower than 1Q14 of 14.9%. The growth in private investment was anchored by rising capacity spending in manufacturing and services sector. Notably, public investment reversed its performance into a positive trajectory of 0.5% in 1Q15 (4Q14: -1.9%; 1Q14: -6.3%) following higher capital spending by the government. Finally, net export came in at a heft contraction of 10.2% (4Q14: -4.0%; 1Q14: 8.2%) no thanks to the sharp downturn in global commodity prices despite Ringgit sliding backwards in 1Q15.

BOP Assessment for 1Q15

Malaysia netted a lower current account surplus of 3.9% of GDP in 1Q15, no thanks to challenging export performance. Recall that gross export contracted by 2.6% for the quarter that was essentially 13.5 pps lower than a year ago. This is lower than 2014 current account surplus of 6.3% in 2014 but nonetheless has been forewarned by the central bank.

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On financial account (FA), Malaysia suffered continuous bleeding in FA after it made larger outflow of RM29.7 billion from RM26.6 billion last quarter. This was mainly due to higher net outflow in other investment of RM20.6 billion from RM4.0 billion. However, on y-o-y basis, FA registered a lower net outflow by RM8.6 billion from RM38.2 billion in Q1 2014. Meanwhile, Foreign Direct Investment (FDI) recorded a higher net inflow of RM9.9 billion (Q4 2014: RM9.8 billion).

Malaysia's BOP Info (Financial Account)

Components of FA	3Q14	4Q14	1Q15	2014
Direct investment (net)	2,097	-2,480	-1,235	-18,480
Portfolio investment (net)	-11,046	-20,326	-7,878	-38,536
Other investment (net)	6,145	-3,985	-20,554	-23,606
Financial Derivatives	50	234	3	-975
Total	**-2,755**	**-26,558**	**-29,664**	**-81,597**

Source: DOS, M&A Securities

Monetary Outlook 2015

Few factors could affect OPR in 2015 including 1) sharp spike in inflation rate and rising inflation expectation 2) sharp drop in economic momentum 3) sharp drop in Ringgit and 4) sharp adjustment of US Federal Funds Rate. Unless and until one of these factors rears its ugly head, we opine that OPR will remain unchanged at 3.25% throughout 2015. At this juncture, neither seems to be making its entrance and hence, our view that OPR will stay the same in 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
1st	27-28th January (Tuesday and Wednesday)
2nd	17-18th March (Tuesday and Wednesday)
3rd	28-29th April (Tuesday and Wednesday)
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

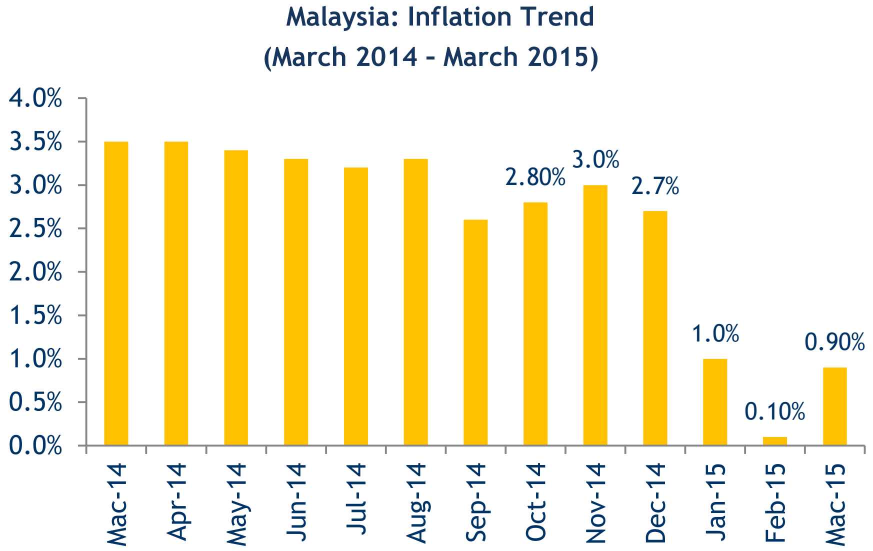
Inflation will remain anchored in 2015, many thanks to the prolonged softness in global commodity prices. Unless global commodity prices make a sharp turn any time soon, we opine that inflation will average between 2%-3% in 2015. This is despite fiscal plan to implement GST in April. Nonetheless, we think that private consumption will turn southward 2Q onwards due to the GST backlash similar to Japan's recent experience. Nonetheless, we don't think that Malaysia is in any deflation danger despite 1Q15 average inflation of 0.7%.

Ringgit Outlook

Ringgit outlook hinges on several factors but chief of it is the balance sheet vulnerabilities emanating from prolong softness in global commodity prices. As such, if the grim outlook prolong, Ringgit may take a beating. It would accelerate down south even faster if the US adjust its FFR sharply and successively. Otherwise, Ringgit may trade in a range of RM3.50 to RM3.60 in the short term. Its long term outlook is still murky, however, due to several uncertainties looming in the financial and commodity market.

What to Expect Going Forward in 2015

2015 may see Malaysia facing several economic headwinds but thanks to the previous structural economic adjustment, the country should be able to weather the turbulence steadily. Although the country can be buffeted by prolong global commodity prices weakness but we think that heighten fiscal pumping can help arrest the slide to some extent. This is in line with our expectation that 2015 GDP can reach 5.0% against 6.0% registered in 2014.



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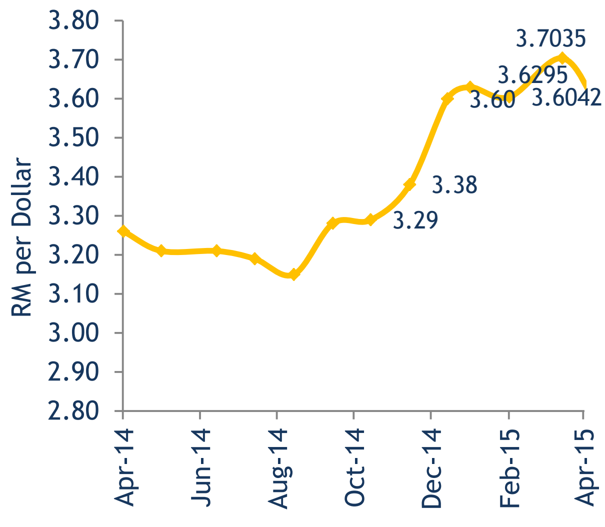
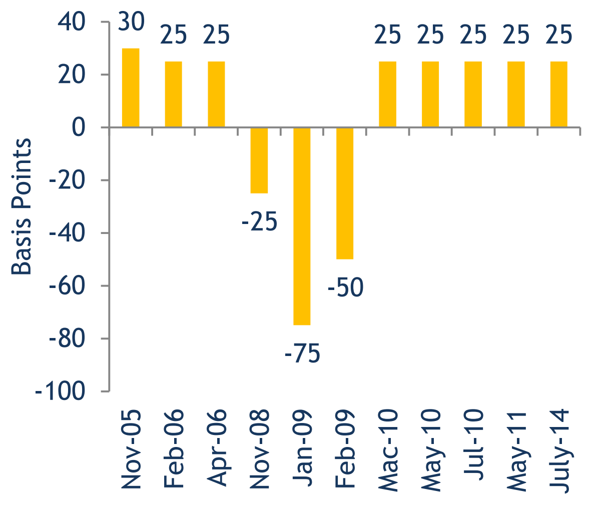
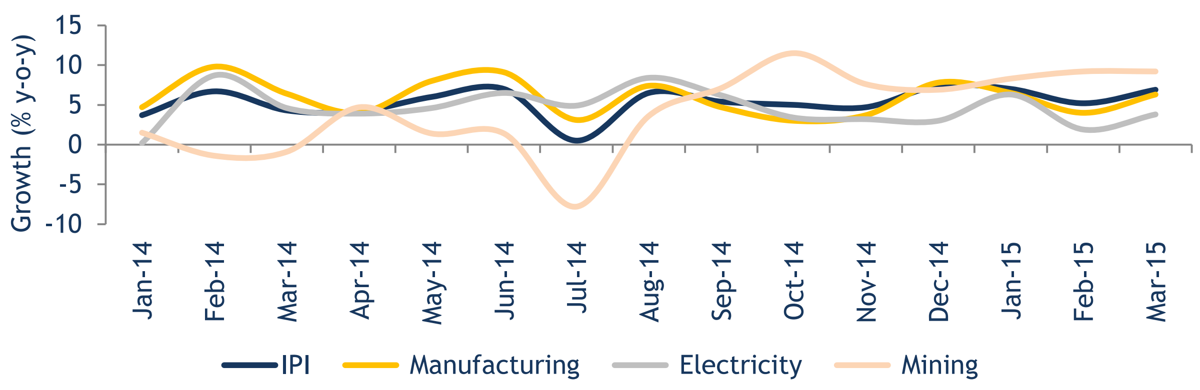
Ringgit per Dollar
(April 2014 - April 2015)



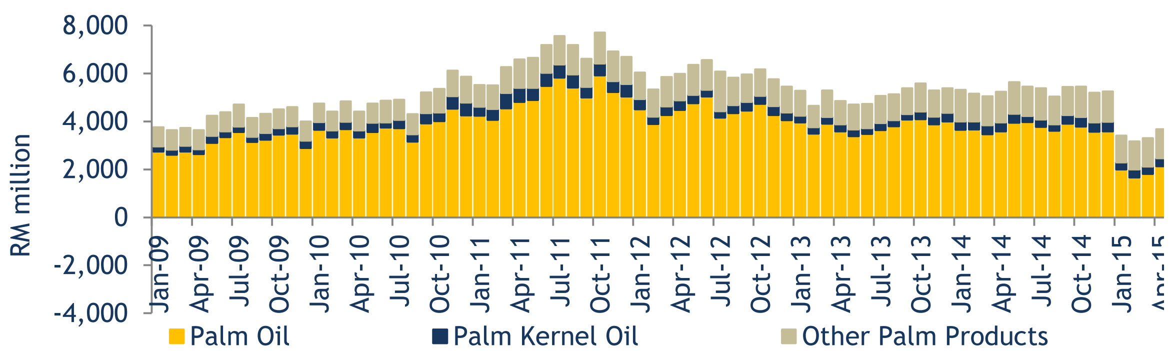
BNM Quantum of Policy Adjustment
(November 2005-July 2014)



Malaysia IPI
(January 2014 - March 2015)



Malaysia Palm Oil Export Since 2009
(January 2009- April 2015)



Source: MPOB, M&A Securities

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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

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