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Tuesday, May 12, 2015

## Report of The Day

**Results Review:** Petronas Dagangan 1Q15 – “Share Price Has Run Ahead of Fundamentals”

**Sector Update:** Automotive – “Stronger Pre-GST TIV, Banking on Aggressive Promotional Campaign”

**Sector Update:** Plantation – “April Inventories Up as Production Increase and Export Drop”

## At a Glance

FBMKLCI declined 2.16 points to finish at 1,805.49 despite strong March IPI numbers.....(See full report next page)

## Strategy

## “Wall Street Had a Pause; Waiting for Catalyst”

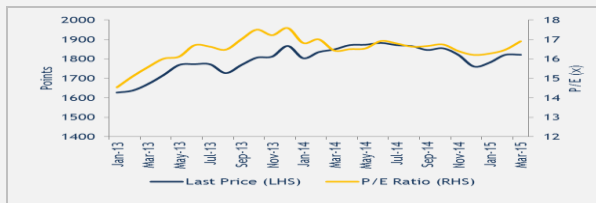
We expect the 1Q15 GDP to be less-than-upbeat, would expect many to stay at the sideline until the economic signals are clear.....(See full report next page)

## Corporate Highlights

- **Petronas Dagangan, SELL (TP: RM18.90):** Q1 earnings higher at RM205m
- **SapuraKencana, HOLD (TP: RM2.93):** Secures overseas jobs worth RM969mil
- **Maybank, BUY (TP: RM10.70):** Ties up with Honda Malaysia for auto financing

## Economic Update

- **Malaysia:** March factory output exceeds forecast, boost from E&E
- **Indonesia:** Considers cutting corporate tax to attract investment
- **Australia:** To better deficit targets in 'boring' budget



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
MY	11-May	12:00 PM	Industrial Production YoY	-	5.2%
JP	12-May	1:00 PM	Leading Index C1	-	104.8
EU	13-May	5:00 PM	Industrial Production SA MoM	-	1.1%
EU	13-May	5:00 PM	GDP SA QoQ	-	0.3%
EU	13-May	5:00 PM	GDP SA YoY	-	0.9%
US	13-May	7:00 PM	MBA Mortgage Applications	-	-4.6%
US	13-May	8:30 PM	Retail Sales Advance MoM	0.3%	0.9%
JP	13-May	7:50 AM	BoP Current Account Balance	-	¥1440.1B
CN	13-May	1:30 PM	Retail Sales YoY	10.4%	10.2%
CN	13-May	1:30 PM	Retail Sales YTD YoY	10.5%	10.6%
CN	13-May	1:30 PM	Industrial Production YoY	6.0%	5.6%
CN	13-May	1:30 PM	Industrial Production YTD YoY	6.3%	6.4%
US	14-May	8:30 PM	PPI Final Demand MoM	0.1%	0.2%
US	14-May	8:30 PM	PPI Ex Food, Energy, Trade MoM	0.1%	0.2%
US	14-May	8:30 PM	Initial Jobless Claims	-	-
US	14-May	8:30 PM	Continuing Claims	-	-
JP	14-May	7:50 AM	Money Stock M2 YoY	-	3.6%
JP	14-May	7:50 AM	Money Stock M3 YoY	-	3.0%
MY	14-May	12:00 PM	GDP YoY	-	5.8%
MY	14-May	12:00 PM	BoP Current Account Balance MoM	-	6.1B
US	15-May	9:15 PM	Industrial Production MoM	0.1%	-0.6%
US	15-May	9:15 PM	Capacity Utilization	78.4%	78.4%
US	15-May	10:00 PM	U. of Mich. Sentiment	97.0	95.9
JP	15-May	7:50 AM	PPI MoM	-	0.3%
JP	15-May	7:50 AM	PPI YoY	-	0.7%
CN	10-15 May	-	New Yuan Loan CNY	900.0B	1180.0B
CN	10-15 May	-	Money Supply M2 YoY	12.0%	11.6%

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,805.49	-2.16	-0.12
FBMEMAS	12,454.78	-15.24	-0.12
FBMEMAS SHA	12,933.22	-23.58	-0.18
FBM100	12,131.03	-13.96	-0.11
Volume (mn)	1,541.13	23.06	1.52
Value (RMmn)	1,602.61	-334.47	-17.27
FBMKLCI YTD Chg			2.51

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	19.0	7.2
Local Institution	58.6	158.5
Foreign Investors	22.4	-165.7

## Top Gainers

	Close	Change+/-	(+/- %)
ORIENTAL FOOD	6.00	0.60	11.11
SAM ENGINEERI	3.76	0.26	7.43
SHANGRI-LA HOTE	6.60	0.25	3.94

## Top Losers

	Close	Change+/-	(+/- %)
NESTLE (MALAY)	72.18	-0.07	-0.10
KLK	21.72	-0.40	-1.81
BLD PLANTATION	7.72	-0.28	-3.50

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,105.17	-85.94	-0.47
NASDAQ	4,993.57	-9.98	-0.20
S&P 500	2,105.33	-10.77	-0.51
FTSE 100	7,029.85	-16.97	-0.24
DAX	11,673.35	-36.38	-0.31
Nikkei 225	19,620.91	241.72	1.25
HSI	27,718.20	140.86	0.51
KOSPI	2,097.38	11.86	0.57
STI	3,470.80	18.79	0.54
KLCI Futures	1,793.00	(9.50)	(0.01)
USDMYR 3M	10.16	(0.02)	(0.00)
USDMYR 6M	10.20	(0.02)	(0.00)
USDMYR 12M	10.22	(0.01)	(0.00)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	59	0.0	0.1%
Brent (USD/bbl)	64.9	-0.5	-0.7%
Gold(USD/ounce)	1,183	-0.5	0.0%
Coal (USD/mt)	61.6	-0.3	-0.4%
CPO (RM/mt)	2,195	33.0	1.5%
Rubber	184	0.3	0.2%
RM/USD	3.60	0.0032	-0.09%
EUR/USD	0.90	0.0008	0.09%
YEN/USD	120.16	0.08	-0.07%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average shed 85.94 points to 18,105.17, S&P 500 down by 10.77 points to 2,105.33. Nasdaq slid by 9.98 points to 4,993.57. U.S. stocks slump Monday as yields spike.
- Equities gave up some of their post-payroll gains from Friday as bonds were hit, pushing up interest rates as the market prices in higher inflation expectations.

### The Local Market

- FBMKLCI declined 2.16 points to finish at 1,805.49 despite strong March IPI numbers. There were 342 gainers and 484 decliners in total value traded of RM1.60 billion.
- Among the losers on Bursa Malaysia were KLK dropped 40 cent to RM21.72, BLD Plantation fell 28 cent to RM6.60, Khind Holdings slid 20 cent to RM2.50 and Panasonic Manufacturing shed 22 cent to RM22.82.

### Strategy

- **“Wall Street Had a Pause; Waiting for Catalyst”**

Wall Street gave up last Friday gains to end in the red no thanks to lack of catalyst. **S&P 500** and **DJIA** lost **10.77 (-0.51%)** and **85.94 (-0.47%)** points to end at **2,105.33** and **18,105.17** respectively. As mentioned, market participants in Wall Street had no reason to re-accelerate their buying momentum due to lack of catalyst and hence, unloaded some of the holdings in an apparent profit taking activity. With no clear reason to resume their buying pattern, we think that the market will prefer to take it easy especially when first quarter results season is in full bloom. With lack of signals from Wall Street, the local and regional market would emulate the lethargic trading pattern of their West comrades until and unless there is a strong reason that could uplift sentiment. The local investors would also prefer to stay cautious due to the 2 big upcoming local economic releases this week including March IPI (and hence, 1Q15 IPI) and also 1Q15 GDP. As we expect the 1Q15 GDP to be less-than-upbeat, would expect many to stay at the sideline until the economic signals are clear.

- Our 1H15 year-end target is 1,840 based on PER of 16.0x and hence, FBMKLCI is poised to record a gain of 4.5% against 2014 closing of 1,761. We have an **OVERWEIGHT** call on auto, construction, rubber gloves and telco respectively. We predict Malaysia to grow by 5.0% in 2015 against the projection of 5.9% in 2014.

## CORPORATE HIGHLIGHTS

**Petronas Dagangan, SELL (TP: RM18.90): Q1 earnings higher at RM205m**

Petronas Dagangan Bhd's net profit rose 32.7% to RM205.76mil in the first quarter ended March 31, 2015 from RM155.19mil a year ago due to lower operating expenditure and higher other income. It said on Monday group operating profit for the quarter ended March 31, 2015 was RM287.2mil, an increase of RM58.3mil compared to the corresponding quarter last year mainly as a result of lower operating expenditure by RM64.8mil and higher other income by RM19.9mil. Petronas Dagangan said revenue fell 26.4% to RM6.10bil from RM8.29bil a year ago mainly due to a 22% decline in average selling price by 22% and a 6% decrease in sales volume. (Source: The Star)

**SapuraKencana, HOLD (TP: RM2.93): Secures overseas jobs worth RM969mil**

SapuraKencana Petroleum Bhd (SapKen) has secured contracts with a combined value of US\$269mil (RM969mil) in Mexico, Indonesia, Vietnam and India. In a filing with Bursa Malaysia, the oil and gas services provider said its Mexican arm SapuraKencana Mexicana S.A.P.I de C.V had been awarded its maiden contract to install structures and superstructures of fixed marine platforms, pipe laying and lifting of major power general equipment valued at between US\$41.2mil (RM148.41mil) and US\$98.1mil (RM353.38mil). In Indonesia, the company in a consortium with PT Encona Inti Industri, will take on a contract to transport and install a 14inch x 200km gas pipeline from the Kepodang field offshore to the onshore receiving facility in Muriah PSC, Central Java for US\$97.5mil (RM351.21mil). (Source: The Star)

**Maybank, BUY (TP: RM10.70): Ties up with Honda Malaysia for auto financing**

Malayan Banking Bhd (Maybank) has tied up with Honda Malaysia Sdn Bhd to be an automotive financier in the country as well as a provider for comprehensive financial services solution. Maybank said on Monday that financial services solution covers car manufacturing, distribution, and retailing and after sale services for its suppliers, dealers and customers in Malaysia. It added that as a financial solution provider, it would provide access to floor stocking financing, hire purchase, credit card merchants, cash management, Distributor-Supplier Financing packages and MaxiPlan. (Source: The Star)

**Tropicana Corp (CP: RM1.10): Profit surges 146% in Q1**

Tropicana Corp Bhd's net profit for its first quarter ended March 31, 2015, surged 146% to RM19.28mil from RM7.83mil in the previous corresponding period due to higher revenue across key projects and proceeds from land sales. Revenue during the period increased to RM390.92mil from RM252.68mil in the previous year's corresponding period. In a statement on Monday, the property developer said first-quarter earnings were driven by key projects within the Klang Valley, such as Tropicana Gardens in Kota Damansara. Tropicana Heights in Kajang and Tropicana Metropark in Subang Jaya, as well as Tropicana Danga Bay in the Iskandar Region in Johor and gain from a land sale located in Klang Valley. (Source: The Star)

**MRCB (CP: RM1.34): To launch four projects with RM1.2b GDV**

Malaysian Resources Corp Bhd (MRCB) has RM1.2bil worth of projects lined up for the financial year ending Dec 31, 2015. Chief financial officer Ann Wan Tee said on Monday the company will be launching four to five projects this year with about RM1.2bil in gross development value (GDV). The immediate one which will probably be done by June is The Grid at Kia Peng. For that, the GDV is about RM400mil. He added MRCB hopes to achieve 70% of sales from the GDV this year. *(Source: The Star)*

**Sunway (CP: RM3.40): Buys PJ land for RM286mil**

Conglomerate Sunway Bhd is boosting its land bank close to its flagship development Sunway Township by buying 17 acres worth RM286mil. The parcel, which is situated next to Western Digital in the Sungei Way Free Trade Zone, works out to about RM386 per square foot. It is believed to have belonged to a politician who used to be active in the 1980s in Selangor and his partner. With the acquisition, the company plans to roll out a mixed project that entails service apartments and retail shops, with a total gross development value of RM1.8bil. Sunway said the purchase from a private company, Kelana Resort Sdn Bhd, was in line with its target to buy land ready for immediate launch. It expects the first launch of the project to be in the financial year ending Dec 31, 2016, with a development period of five years. Sunway said the residential units would be designed to capture the view of the 18-hole golf course of Kelab Golf Negara Subang and a 15-acre water retention pond. It planned

**Genting Malaysia (CP: RM4.30): Resorts World to sell stake in Genting Hong Kong for RM1.7bil**

Leisure and hospitality group Genting Malaysia Bhd's indirect subsidiary Resorts World Ltd has proposed to sell its entire 17.81% stake or some 1.43 billion shares in Genting Hong Kong Ltd for at least RM1.7bil cash. In a filing statement with Bursa Malaysia, Genting Malaysia said the manner in which the shares could be disposed of included but was not limited to transactions done in the open market, off-market transactions or a combination of both. The company had not identified any specific purchaser(s) at this juncture. "Regardless of the manner of disposal, the minimum disposal price per disposal share shall not be less than US\$0.33 (RM1.18)." Genting Malaysia said the original cost of investment of US\$604.1mil (RM2.15bil), represented an average purchase price per Genting Hong Kong share of US\$0.42 (RM1.50). The investment was made between 1998 and 2006. As of Dec 31, 2014, the carrying value of the disposal shares was US\$501.5mil (RM1.79bil). *(Source: The Star)*

**Malaysia Airlines: Caterer Brahim's agrees to new 25% lower contract**

Brahim's Holdings Bhd in a detailed statement explained that delays in payment that caused it to face cash-flow problems and left the company with no choice but for its 70% subsidiary to enter into a new catering contract with Malaysia Airlines Bhd (MAB), that comes with a shorter term and lower in price by up to 25%. The new catering agreement (NCA) is for a period of five years with an option for additional five years renewal, subject to Brahim's 70% subsidiary, Brahim's Airlines Catering Sdn Bhd (BAC) meeting several conditions with regards to its service levels. The old contract was for a period of 25 years and

ends in 2028. The reduction in cost for supply contracts is part of a 12-point initiative by Khazanah Nasional Bhd to bring national carrier Malaysia Airlines back to profitability within the next five years. (Source: The Star)

#### **KWAP: Agrees to buy TRX land at lower cost compared with Tabung Haji deal**

Retirement Fund Inc (KWAP) has agreed to buy a parcel of land and building that will be its new headquarters at the Tun Razak Exchange (TRX) at a price that is more than 15% lower than what Lembaga Tabung Haji (LTH) had paid for. The heads of agreement for the purchase had been ironed out between KWAP and 1Malaysia Development Bhd (1MDB) that would see KWAP pay between RM1bil and RM1.2bil for a 40-storey building and land at the TRX in Kuala Lumpur. According to sources, KWAP will be purchasing the land at about RM2,300 per sq ft. "The heads of agreement is a prelude to the sales and purchase (S&P) agreement. The terms of agreement is also tight where KWAP will only pay 10% first and the rest upon completion of the building," said a source. KWAP has been renting its headquarters and the decision to move to TRX was a natural step given that the development was being designed as a Islamic financial market hub. (Source: The Star)

#### **BNM: Introduces ink-stain technology to combat ATM theft**

Bank Negara Malaysia (BNM), in collaboration with the Association of Banks in Malaysia and the Royal Malaysian Police (PDRM), today introduced ink-stain technology to combat theft involving automated teller machines (ATM). The technology, developed by French company Oberthur Cash Protection, releases indelible ink to smear currency notes on the corners, when there is an attempt to tamper with the protected ATM. BNM Deputy Governor Datuk Muhammad Ibrahim said the stained notes would lose their legal tender and thus, cannot be brought back into circulation. (Source: The Star)

#### **Manufacturing Sector: March manufacturing sales value up to RM58b**

The sales value of the manufacturing sector in March 2015 rose 4.4% to RM58.4bil from RM55.9bil a year ago on the back of higher sales from manufacturing industries. The Department of Statistics revealed on Monday the rise in sales was from the manufacturing of semiconductor devices, rubber gloves, consumer electronics, basic organic chemicals as well as electrical capacitors and resistors. It said year-on-year sales also increased due to higher output in 76 out of 138 industries surveyed. The sales value of March 2015 jumped 12.1% to RM6.3bil compared to February 2015. However, on a seasonally adjusted month-on-month, the sales value in March 2015 decreased by 1.2%. On the other hand, salaries and wages in March 2015 increased by 6.4% or RM185.1mil to RM3.08bil from a year ago. The amount was up 3.6% on-month. (Source: The Star)

### **ECONOMIC UPDATES**

#### **Malaysia: March factory output exceeds forecast, boost from E&E**

Malaysia's factory output, as measured by the industrial production index (IP), rose 6.9% in March from a year ago and the strong expansion also exceeded a survey of 4.5% growth. The Statistics Department said on Monday the increase



in March 2015 was due to the positive growth in manufacturing (6.3%), mining (9.2%) and electricity (3.8%). The IPI in February 2015 remained unchanged by 5.2% year-on-year. In seasonally adjusted terms, the IPI in March 2015 increase by 0.6% month-on-month following an increase in the indices: Manufacturing (1.2%), Mining (1.2%) and Electricity (2.3%). The department said manufacturing output rose by 6.3% in March 2015 after increasing of 4.0% in February 2015. (Source: The Star)

#### **Indonesia: Considers cutting corporate tax to attract investment**

Indonesia is considering cutting its corporate tax rate to as low as 17.5 percent from 25 percent to attract more investment from companies that are operating in the region, a tax ministry official said on Monday. Indonesia, which posted the weakest economic growth since 2009 in the first quarter, has one of the lowest tax collection rates in Southeast Asia. The corporate tax cut being considered will bring it closer to its neighbour, Singapore, which offers 17 percent. If the tax rate difference is reduced, there may be more incentives for multi-national companies that are operating in regional countries to shift their investment to Indonesia directly. (Source: The Star).

#### **Australia: To better deficit targets in 'boring' budget**

Australia's government budget deficit will undershoot market forecasts and keep improving over time, Treasurer Joe Hockey said - just hours before delivering his annual policy package. Speaking to the media, Hockey said the market was forecasting a shortfall of around A\$40-A\$41 billion but the actual deficit would "beat that". Hockey said the government had been forced over the past 18 months to write off A\$90 billion of expected revenue, partly due to a slide in prices for iron ore, the country's biggest export earner. Prime Minister Tony Abbott's conservative government is taking a far more cautious approach to their second budget after last year's attempt at slashing spending and welfare proved politically disastrous. (Source: Reuters)

#### **Germany: Floats Greek referendum on reform, others doubt timing**

EU paymaster Germany suggested on Monday that Greece might need a referendum to approve painful economic reforms on which its creditors are insisting, but Athens said it had no such plan for now and others warned a vote could delay vital aid. Greece calmed immediate fears of a default by making a crucial 750 million euro payment to the International Monetary Fund a day early. But Finance Minister Yanis Varoufakis said the liquidity situation was "terribly urgent" and a deal to release further funds was needed in the next couple of weeks. Euro zone finance ministers welcomed some progress in slow-moving talks on a cash-for-reform deal between Athens and the IMF, the European Commission and the European Central Bank but said more work was needed to reach a deal. Euro zone governments have previously opposed a referendum, saying there is no time and it could destabilize financial markets and trigger a run on struggling Greek banks. (Source: Reuters)

#### **Argentina: Debt holdouts seek to broaden scope of court injunction**

Argentina debt holdouts on Monday asked a U.S. court to make more of the country's debt, including bonds issued last month, subject to a prior court order blocking the country from making payments on its obligations without paying

the holdouts as well. Aurelius Capital Management, one of the lead holdout investors in defaulted Argentina sovereign debt, wants its prior victory in U.S. District Court on the principal of *pari passu*, or equal treatment, extended to all of Argentina's external indebtedness. At issue is the treatment of Argentina's BONAR bonds, which are denominated in U.S. dollars but governed by local law. The government issued \$1.4 billion in BONAR 2024 bonds last month in order to raise desperately needed capital. *(Source: Reuters)*

**Greece: Says deal will be 'difficult' at Euro-group meeting**

Finance Minister Yanis Varoufakis acknowledged that a deal to ease Greece's cash crunch was not likely at a meeting of euro zone finance ministers later on Monday despite progress in talks with lenders on some issues. Greece is under growing pressure to reach agreement with lenders to avoid financial chaos though many Greeks also want the government to stick to its "red lines" of avoiding further pension cuts and labor reforms making it easier to fire workers. A 750 million euro debt repayment to the IMF falls due on Tuesday but Varoufakis said a deal that would provide some liquidity relief for Greece was more likely in the coming days. Varoufakis, who will take part in the meeting, said the two sides had converged on many issues. *(Source: Reuters)*

**U.S.: Fed said to have emergency plan to intervene if U.S. defaulted on debt**

The Federal Reserve drew up extensive plans for handling a U.S. debt default that included scheduling deferred payments and lending cash to investors, according to a lawmaker who cited Fed documents. America courted disaster in 2011 and 2013 when political fights over the national debt nearly left the federal government unable to pay its bills. Analysts and officials warned that missing payments could lead to economic calamity, and details have only slowly emerged over how financial officials braced for the unthinkable. In a June 2014 letter to Treasury Secretary Jack Lew seen by Reuters on Monday, Republican Representative Jeb Hensarling of Texas said his staff had reviewed the Fed's unclassified plans for how to handle a default. *(Source: Reuters)*

# M&A Securities

## STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ 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 $\geq -10\%$ 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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