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Friday, April 03, 2015

## Report of the Day

**Strategy Report: Malaysia Second Quarter Strategy- "No Change in Landscape; Jitteriness to Prevail"**

### At a Glance

FBMKLCI gained 5.66 points to finish at 1,831.97 in tandem with positive regional market sentiment.....(See full report next page)

### Strategy

#### "Wall Street Cautiously Optimistic"

We foresee no bad news that can injure sentiment and hence, expect the local and regional market to resume its trajectory today. ....(See full report next page)

### Corporate Highlights

- **Star Publications (M), HOLD (TP: RM2.53):** Acquiring US exhibition assets for S\$21m
- **MAHB (CP: RM6.97):** Spent RM14m on klia2 apron repair works
- **BHIC (CP: RM2.19):** To focus on servicing navy over next 5 years

### Economic Update

- **Malaysia:** To decide on TPPA in Q3 2015
- **Eurozone:** ECB policymakers agree to 'remain firm' in executing bond-buy plan -minutes
- **U.S.:** Factory orders rise, offer glimmer of hope for manufacturing



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
EU	30-Mar	5:00 PM	Consumer Confidence	-	7.0%
JP	30-Mar	7:50 AM	Industrial Production MoM	-	3.7%
JP	30-Mar	7:50 AM	Industrial Production YoY	-	-2.8%
US	30-Mar	8:30 PM	Personal Income	0.3%	0.3%
US	30-Mar	8:30 PM	Personal Spending	0.2%	-0.2%
US	30-Mar	10:00 PM	Pending Home Sales MoM	0.7%	1.7%
EU	31-Mar	5:00 PM	Unemployment Rate	-	11.2%
EU	31-Mar	5:00 PM	CPI Estimaee YoY	-	-0.3%
EU	31-Mar	5:00 PM	CPI Core YoY	-	0.7%
EU	31-Mar	5:00 PM	Markit Eurozone Manufacturing PMI	-	51.9
CN	31-Mar	5:00 PM	Non-Manufacturing PMI	-	53.9
US	31-Mar	9:00 PM	S&P/CaseShiller-20 City Index	-	173.02
US	31-Mar	10:00 PM	Consumer Confidence Index	96.3	96.4
CN	1-Apr	9:00 AM	Manufacturing PMI	-	49.9
CN	1-Apr	9:45 AM	HSBC China Manufacturing PMI	-	49.2
JP	1-Apr	7:50 AM	Tankan Large Mfg Outlook	16	9
JP	1-Apr	7:50 AM	Tankan Large Non-Mfg Outlook	18	15
JP	1-Apr	9:35 AM	Markit/JMMA Japan Manufacturing PMI	-	50.4
US	1-Apr	7:00 PM	MBA Mortgage Applications	-	9.5%
US	1-Apr	8:15 PM	ADP Employment Change	225K	212K
US	1-Apr	9:45 PM	Markit US Manufacturing PMI	-	55.3
US	1-Apr	10:00 PM	ISM Manufacturing	-	52.9
JP	2-Apr	7:50 AM	Monetary Based YoY	-	36.7%
US	2-Apr	8:30 PM	Initial Jobless Claims	-	-
US	2-Apr	8:30 PM	Trade Balance	(\$41.0B)	(\$41.8B)
US	2-Apr	10:00 PM	Factory Orders	0.5%	-0.2%
MY	3-Apr	12:00 PM	Exports YoY	-	-0.6%
MY	3-Apr	12:00 PM	Imports YoY	-	-5.3%
MY	3-Apr	12:00 PM	Trade Balance MYR	-	9.01B
CN	3-Apr	9:45 AM	HSBC China Composite PMI	-	51.8
CN	3-Apr	9:45 AM	HSBC China Services PMI	-	52.0
JP	3-Apr	9:35 AM	Markit Japan Services PMI	-	48.5
JP	3-Apr	9:35 AM	Markit/JMMA Japan Composite PMI	-	50.0
US	3-Apr	8:30 PM	Change in Nonfarm Payrolls	250K	295K
US	3-Apr	8:30 PM	Unemployment Rate	5.5%	5.5%

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,831.97	5.66	0.31
FBMEMAS	12,565.02	47.35	0.38
FBMEMAS SHA	13,113.09	19.02	0.15
FBM100	12,261.51	44.12	0.36
Volume (mn)	2,166.53	-744.35	-25.57
Value (RMmn)	2,039.83	468.66	29.83
FBMKLCI YTD Chg			4.02

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	18.2	-40.7
Local Institution	57.7	103.6
Foreign Investors	24.1	-62.9

## Top Gainers

	Close	Change+/-	(+/- %)
BAT	68.66	0.80	1.18
UNITED PLANT	26.36	0.36	1.38
TECNIC GROUP	6.34	0.29	4.79

## Top Losers

	Close	Change+/-	(+/- %)
TAHPS GROUP	6.50	-0.20	-2.99
ADV PACKAGIN	2.17	-0.18	-7.66
AMWAY MALAY	10.90	-0.12	-1.09

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,763.24	65.06	0.37
NASDAQ	4,886.94	6.71	0.14
S&P 500	2,066.96	7.27	0.35
FTSE 100	6,833.46	23.96	0.35
DAX	11,967.39	-33.99	-0.28
Nikkei 225	19,312.79	277.95	1.46
HSI	25,275.64	192.89	0.77
KOSPI	2,029.07	0.62	0.03
STI	3,453.75	6.73	0.20
KLCI Futures	1,828.00	5.50	0.00
USDMYR 3M	10.41	(0.03)	(0.00)
USDMYR 6M	10.48	(0.03)	(0.00)
USDMYR 12M	10.57	(0.02)	(0.00)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	49	-1.0	-1.9%
Brent (USD/bbl)	55.0	-2.2	-3.8%
Gold(USD/ounce)	1,202	-0.9	-0.1%
Coal (USD/mt)	55.6	-0.4	-0.7%
CPO (RM/mt)	2,166	12.0	0.6%
Rubber	172	0.3	0.2%
RM/USD	3.67	-0.0302	0.82%
EUR/USD	0.92	0.0008	0.09%
YEN/USD	119.76	0.04	-0.03%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average recovered 65.06 points to 17,763.24, S&P 500 soared by 7.27 points to 2,066.96. Nasdaq surged by 6.71 points to 4,886.94. Stocks moved higher Thursday ahead of the Good Friday market closure, snapping a two-day losing streak and keep the major averages above major technical support levels. Trading was quiet as everyone waits for Friday's jobs report for clues as to the path and timing of the Federal Reserve's rate-hike campaign.
- Initial jobless claims were in focus as the Fed said in its last policy statement that a continued labor market recovery was a precondition for a liftoff on interest rates from 0% — where they've been since 2008. Claims came in at a better-than-expected 268,000 versus 288,000 the week before. Analysts were looking for 285k.

### The Local Market

- FBMKLCI gained 5.66 points to finish at 1,831.97 in tandem with positive regional market sentiment. There were 466 gainers and 325 decliners in total value traded of RM2.03 billion.
- Among the gainers on Bursa Malaysia were BAT up 80 cent to RM68.66, United Plantation increased 36 cent to RM26.36, Tecnic Group rose 29 cent to RM6.34 and Negri Sembilan Oil Palm grew 22 cent to RM5.10.

### Strategy

- **“Wall Street Cautiously Optimistic”**

Wall Street managed to make some gains on Thursday energised by the prospect of lower US March unemployment numbers, an economic release that is due on Friday but the optimism was capped by the drop in oil price. S&P 500 and DJIA gained 7.27 (0.35%) and 65.06 (0.37%) points to end at 2,066.96 and 17,763.24 respectively. Rumour has it that the US unemployment numbers may stay at 5.5% for March, matching February's level, a situation that is welcome by all. Note that the statistics on this will be issued on Friday, which coincides with Good Friday, which is a holiday in the US. Hence, the impact to Wall Street following March US unemployment numbers, if any, will be felt on Monday trading day. On another development, oil continued to drop amid the possibility of sanction being lifted in Iran, suggesting further downside risk to oil price at the back of rising prospect of steady incoming new supply. WTI ended lower at USD49 per barrel with the Brent following suit after finishing lower at USD55 per barrel. We see lack of catalyst in oil price in the short term, where in adverse, is littered with many negative catalysts, Iran issue being one of them. At this juncture, we foresee no bad news that can injure sentiment and hence, expect the local and regional market to resume its trajectory today.

- 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

##### **Star Publications (M), HOLD (TP: RM2.53): Acquiring US exhibition assets for S\$21m**

Star Publications (M) Bhd is acquiring the entire stake in a dormant company, which will own US exhibition assets to diversify the buyer's income source. In a Bursa Malaysia filing this afternoon, Star said its 64.1%-owned Singapore-listed unit Cityneon Holdings Ltd was acquiring Singapore-based Victory Hill Exhibitions Pte Ltd (VHE) from Philadelphia Investments Pte Ltd for S\$21 million (RM56.77 million). It is in the interest of the company (Star) to expand its businesses overseas to provide additional sources of revenue and diversify the company's existing businesses and geographical risk of the group. With the inclusion of the complementary portfolio of assets made pursuant to the asset transfer within the group's business, the group is able to tap into a different area of business while leveraging its current expertise in events and exhibitions. *(Source: The Edge)*

##### **MAHB (CP: RM6.97): Spent RM14m on klia2 apron repair works**

Malaysia Airports Holdings Bhd (MAHB) has spent RM14 million on repair works on the apron of klia2 since May last year, said Transport Minister Datuk Seri Liow Tiong Lai. It has been clarified that the cracks have only occurred in the areas where the apron is located and not on the runway of klia2 that was a result of differential settlement. He had asked on the number of locations where the cracks had surfaced and the costs involved repairing them. Liow also said the affected area covers some 23,900 square meters out of the apron area measuring 700,000 sq m. That worked out to about 3% of the apron at klia2. *(Source: The Edge)*

##### **BHIC (CP: RM2.19): To focus on servicing navy over next 5 years**

Boustead Heavy Industries Corporation Bhd's (BHIC) top priority will continue to be servicing the Royal Malaysian Navy for ship building, repair and maintenance over the next five years, said its chairman Tan Sri Lodin Wok Kamaruddin. Currently, Lodin said that around 80% of BHIC's revenue came from its contracts from the Malaysian armed forces, adding that another 20% was from the commercial sector. He said BHIC would probably aim for a 70:30 revenue contribution from the military and commercial sectors respectively over the next four to five years. But the number one priority is still the Malaysian navy. The focus will be on making sure we give the best possible service with the highest level quality. Then, we can make sure our shores are well-protected. *(Source: The Star)*

##### **GW Plastics (CP: Suspended): Completes book-building, offer price fixed at RM1.28 a share**

GW Plastics Holdings Bhd has completed its book-building process and it has fixed the offer price at RM1.28 a share under the reverse takeover by property-based MCT Consortium Bhd. GW Plastics acquired the entire 100% of property-based MCT Consortium Bhd from the vendors Tan Sri Goh Ming Choon and

Datuk Seri Tong Seech Wi for RM1.2bil cash consideration. The issue/offer price for the offering securities under the regularisation plan is priced at RM1.28 per new share, and the gross proceeds expected to be raised by the company and vendors are RM384mil and RM195mil respectively. *(Source: The Star)*

**Protasco (CP: RM1.54): Wins RM77mil maintenance job**

Construction outfit Protasco Bhd has been awarded with a road maintenance job worth RM77mil in Sarawak. In a filing with Bursa Malaysia, the company said that it had received the award from the Public Works Department to undertake maintenance works on federal roads in Sarawak. The award comprises the construction of four overtaking lanes in the Sibu and Bintulu divisions. Protasco said the works were expected to be completed within a 12-month period. "The award is expected to contribute positively to the results of the group for the financial year ending Dec 31, 2015," it said. Protasco, which is currently facing a boardroom tussle, posted a net loss of RM47.86mil in the financial year ended Dec 31, 2014 (FY14) compared with a net profit of RM48.17mil in FY13. The company recorded revenue of RM1.04bil in FY14 compared with RM969.71mil previously. *(Source: The Star)*

**Faber (CP: RM3.35): Contracts worth RM3bil**

Integrated facilities management provider Faber Group Bhd has finally announced the value of the contracts it received recently. They are worth about RM3bil collectively. The 10-year concession it signed on March 11 is worth RM307.32mil per year. The new agreement is for the provision of support services (HSS) at hospitals in Perak, Penang, Kedah and Perlis, and takes effect this month. Faber secured the contract through its 100%-owned unit Faber Medi-Serve Sdn Bhd (FMS). The contract also includes undertaking the development of assets and services information system at Government healthcare facilities in the covered regions. Besides that, it also announced the value of the six-month contract in Sabah and Sarawak. The contract FMS signed with Sedafiat Sdn Bhd is worth RM77.68mil, while the contract with One Medicare Sdn Bhd is worth RM68mil. *(Source: The Star)*

**Cahaya Mata Sarawak (CP: RM4.50): Buys 50% of Sacofa for RM186m**

Cahaya Mata Sarawak Bhd (CMS) is buying a 50% stake in Sarawak-state controlled telecommunications infrastructure arm, Sacofa Sdn Bhd, for RM186.8mil in cash. Sacofa currently enjoys a monopoly in the state in providing telecommunication towers to telcos players, which include Celcom, DiGi and Maxis. CMS told Bursa Malaysia on Thursday that it had signed a conditional agreement to acquire 42.4 million RM1 shares at RM4.40 apiece from the State Financial Secretary (SFS), which currently owns a 70.51% interest in Sacofa. In March 2002, Sacofa was granted a 20-year exclusive right to build, manage, lease and maintain telecommunication towers in Sarawak. It was also given the "deemed native status" allowing it to acquire native lands in the state for construction of telecommunication facilities. *(Source: The Star)*

**UMW Toyota Motor: Trims Toyota's sales target to 90,000 units in 2015**

UMW Toyota Motor Sdn Bhd, a 51%-owned unit of UMW Holdings Bhd has reduced its sales target to 90,000 units this year from the 100,000 it announced two weeks ago, on weaker sales in the first quarter of this year (1Q15), lower

volume and a challenging operating environment, said its president Datuk Ismet Suki. "We are realistic of our sales performance last year and the first quarter of this year (1Q15). Given the challenging operating environment, with negative sentiment surrounding the implementation of the Goods and Services Tax (GST) as well as the volume, we have decided to revise our sales target to 90,000 units," Ismet told reporters yesterday after launching the all-new Toyota Camry. (Source: *The Edge*)

#### **Telecommunication Sector (Overweight): To cut broadband rates by more than 6%**

Telecommunication's companies have agreed to reduce their broadband rates and the details of the reduction will be announced this month. Minister of Communications and Multimedia, Datuk Seri Shabery Cheek said on Thursday the drop in broadband prices would be more than 6%. He said this reduction would help cushion the impact of the 6% imposed under the Goods and Services Tax (GST) which came into effect on Wednesday. (Source: *The Star*)

#### **Tabung Haji: Launches RM200m Al-Ansar Bumiputera fund**

The RM200 million Al-Ansar Bumiputera fund, a new initiative by Lembaga Tabung Haji (LTH), was launched by Prime Minister Datuk Seri Najib Razak to help bumiputera businessman obtain funds for business. Najib said the initiative by LTH is a good one and is set to make a big impact. The fund would be the first Restricted Investment Account (RIA) in Malaysia, and is approved by Bank Negara Malaysia. It offers credit ranging between RM50,000 and RM1 million to bumiputera businessman through Bank Islam for a period of five years. The fund will benefit businessman from 11 sectors, including halal food, oil and gas, education, healthcare, agriculture and agrobases, transportation, telecommunication among others. (Source: *The Edge*)

#### **KWAP: Buys first local property for RM1bil**

The Retirement Fund Inc (KWAP) has closed its first local real estate deal by acquiring Integra Tower, which is part of The Intermark development, for RM1.065bil. In a statement yesterday, the fund said that the 39-storey, grade-A office building, with a net lettable area of 760,715 sq ft and 850 parking bays, had a yield of 6%. The Integra Tower, which was completed in 2012, comes with a "green building" status, and is located at the intersection of Jalan Ampang and Jalan Tun Razak in Kuala Lumpur. The property - which forms part of The Intermark that also comprises Vista Tower, Double Tree by Hilton and Intermark Mall - has the LEED Platinum certification. (Source: *The Star*)

### **ECONOMIC UPDATES**

#### **Malaysia: To decide on TPPA in Q3 2015**

Malaysia will decide whether it will be part of the Trans-Pacific Partnership Agreement (TPPA) in the third quarter of this year after the completion of the talks, said International Trade and Industry Minister Datuk Seri Mustapa Mohamed. Mustapa said the TPPA has already gone through a five-year negotiating process and leaders of its participating countries had committed to conclude discussions by the first half of 2015. The TPPA is a free trade agreement initiative involving 12 countries – Australia, Brunei, Canada, Chile,

Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam. Speaking to reporters after the townhall plenary session on the TPP, he said on the local front in the last couple of years over 100 engagements and consultations have been held by his ministry to bridge the TPPA information gap, and over the years there has been better understanding of the content of the negotiations. *(Source: Business Times)*

**Eurozone: ECB policymakers agree to 'remain firm' in executing bond-buy plan -minutes**

European Central Bank policymakers agreed at their March meeting to "remain firm" in implementing their large-scale asset-purchase programme, even though the economic outlook is improving, records published on Thursday showed. The Governing Council, at its policy meeting on March 5, said it would begin printing money to buy bonds — so-called quantitative easing (QE) — on the following Monday (March 9). It also presented updated forecasts from its staff economists that gave a more rosy outlook, but policymakers agreed that did not reduce the need for QE. The ECB left its main interest rate at a record low just above zero at the off-base March meeting in Cyprus. It also lifted its growth forecast for the euro zone economy to 1.5 percent for this year, from the 1.0 percent it predicted in December. The March 2015 projections should ... not be interpreted as suggesting that the latest monetary policy measures were less necessary," the accounts of the meeting read. *(Source: The Edge)*

**U.S.: Factory orders rise, offer glimmer of hope for manufacturing**

New orders for U.S. factory goods unexpectedly rose in February after six straight months of declines, offering a ray of hope for a sector that has been battered by a strong dollar and weaker global demand. The Commerce Department said on Thursday new orders for manufactured goods increased 0.2 percent, the largest gain since July, after a revised 0.7 percent drop in January. Orders excluding transportation rose 0.8 percent, the biggest rise in eight months. Shipments of factory goods rose 0.7 percent after four straight months of declines. The department also said orders for non-defense capital goods excluding aircraft — seen as a measure of business confidence and spending plans — declined 1.1 percent instead of the 1.4 percent drop reported last month. *(Source: The Edge)*

**U.S.: Jobless data boosts labor market outlook; trade deficit narrows**

The number of Americans filing new claims for unemployment benefits unexpectedly fell last week, suggesting the labor market continues to expand at a solid clip even as economic growth has stalled. Sustained labor market strength supports views that the sharp slowdown in activity is probably temporary. A host of factors ranging from bad weather to a strong dollar has sucked momentum from the economy in the first quarter. Initial claims for state unemployment benefits dropped 20,000 to a seasonally adjusted 268,000 for the week ended March 28, the Labor Department said on Thursday. That was the lowest level since January and confounded economists' expectations for a rise to 285,000. *(Source: The Edge)*

# 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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