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Tuesday, April 28, 2015

## Report of The Day

**Result Review:** MMHE 1Q15 – “Superlative is yet to Come”

## At a Glance

FBMKLCI surged 16.5 points to finish at 1,862.58 lifted by the weaker oil price.....(See full report next page)

## Daily Trading Strategy

**“Wall Street Holding Breath on Policy Outlook This Week”**

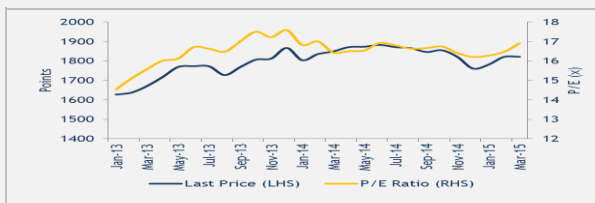
We expect the market to be in cautious mode.....(See full report next page)

## Corporate Highlights

- **MMHE, HOLD (TP: RM1.33):** Net profit up 4%
- **Maxis, HOLD (TP: RM7.10):** Q1 earnings at RM410m, up 21% on-quarter
- **DiGi, BUY (TP: RM7.20):** Posts RM479.2mil in net profit for Q1
- **TNB, HOLD (TP: RM15.20):** Second-quarter earnings jump 25%

## Economic Update

- **China:** Industrial profits down 0.4%
- **China:** Plans mergers to cut number of big state firms to 40 - state media
- **Europe:** ECB seen going all the way on QE as economists doubt taper



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
US	27-Apr	9:45 PM	Markit US Composite PMI	-	59.2
US	27-Apr	9:45 PM	Markit US Services PMI	-	59.2
JP	28-Apr	7:50 AM	Retail Trade YoY	-	-1.8%
JP	28-Apr	7:50 AM	Retail Sales MoM	-	0.7%
US	28-Apr	9:00 PM	S&P/CS Composite-20 YoY	4.70%	4.56%
US	28-Apr	9:00 PM	S&P/CasShiller 20-city Index NSA	-	172.94
US	28-Apr	10:00 PM	Consumer Confidence Index	102.5	101.3
EU	29-Apr	4:00 PM	M3 Money Supply YoY	-	4.0%
EU	29-Apr	4:00 PM	M3 3-month average	-	3.8%
EU	29-Apr	5:00 PM	Consumer Confidence	-	-4.6
EU	29-Apr	5:00 PM	Economic Confidence	-	103.9
US	29-Apr	7:00 PM	MBA Mortgage Applications	-	2.3%
US	29-Apr	8:30 PM	GDP Annualized QoQ	1.0%	2.2%
US	29-Apr	8:30 PM	Personal Consumption	1.7%	4.4%
US	29-Apr	8:30 PM	GDP Price Index	0.5%	0.1%
US	29-Apr	8:30 PM	Core PCE QoQ	-	1.1%
US	29-Apr	8:30 PM	Pending Home Sales MoM	1.0%	3.1%
EU	30-Apr	5:00 PM	Unemployment Rate	-	11.3%
EU	30-Apr	5:00 PM	CPI Estimate YoY	-	-
EU	30-Apr	5:00 PM	CPI Core YoY	-	0.6%
JP	30-Apr	7:50 AM	Industrial Production YoY	-	-2.0%
JP	30-Apr	7:50 AM	Industrial Production MoM	-	-3.1%
JP	30-Apr	1:00 PM	Housing Starts YoY	-	-3.1%
CN	1-May	9:00 AM	Manufacturing PMI	-	50.1
CN	1-May	9:00 AM	Non-manufacturing PMI	-	53.7
JP	1-May	7:30 AM	Jobless Rate	-	3.5%
JP	1-May	9:35 AM	Markit/JMMA Japan Manufacturing PMI	-	-
JP	1-May	1:00 PM	Vehicle Sales YoY	-	-13.1%

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,859.58	-3.00	-0.16
FBMEMAS	12,776.18	-36.55	-0.29
FBMEMAS SHA	13,321.22	-32.33	-0.24
FBM100	12,457.31	-30.21	-0.24
Volume (mn)	2,119.88	16.89	0.80
Value (RMmn)	2,054.75	50.99	2.54
FBMKLCI YTD Chg			5.58

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	20.9	-5.8
Local Institution	58.9	1.6
Foreign Investors	20.2	4.2

## Top Gainers

	Close	Change+/-	(+/- %)
BAT	66.54	0.54	0.82
TASEK CORP BHD	16.76	0.36	2.20
PETDAG	22.30	0.30	1.36

## Top Losers

	Close	Change+/-	(+/- %)
NESTLE (MALAY)	75.00	-0.38	-0.50
SYARIKAT TAKAFU	14.82	-0.18	-1.20
MALAYSIA BUILDN	2.12	-0.05	-2.30

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,037.97	-42.17	-0.23
NASDAQ	5,060.25	-31.84	-0.63
S&P 500	2,108.92	-8.77	-0.41
FTSE 100	7,103.98	33.28	0.47
DAX	12,039.16	228.31	1.93
Nikkei 225	19,983.32	-36.72	-0.18
HSI	28,433.59	372.61	1.33
KOSPI	2,157.54	-2.26	-0.10
STI	3,515.85	2.85	0.08
KLCI Futures	1,857.50	(4.00)	(0.00)
USDMYR 3M	10.01	(0.04)	(0.00)
USDMYR 6M	10.06	(0.03)	(0.00)
USDMYR 12M	10.10	(0.05)	(0.00)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	57	-0.3	-0.5%
Brent (USD/bbl)	64.8	-0.5	-0.7%
Gold(USD/ounce)	1,201	-1.2	-0.1%
Coal (USD/mt)	61.7	0.8	1.3%
CPO (RM/mt)	2,108	-46.0	-2.1%
Rubber	177	4.3	2.5%
RM/USD	3.57	-0.0125	0.35%
EUR/USD	0.92	0.0012	0.13%
YEN/USD	119.19	0.15	-0.13%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average shed 42.17 points to 18,037.97, S&P 500 down by 8.77 points to 2,108.92. Nasdaq decline by 31.84 points to 5,060.25. Stocks drifted lower on Monday in a relatively quiet session. The action, once again, was over in currencies as the U.S. dollar broke down out of the powerful uptrend that has lifted the greenback since last summer.
- As a result, dollar-sensitive precious metals were the day's big winners. The catalyst seemed to be the marginalization of Greece's somewhat aggressive and outspoken finance minister as bailout negotiations with the European establishment continues.

### The Local Market

- FBMKLCI dropped 3.00 points to finish at 1,859.58 due to the profit taking activities. There were 393 gainers and 445 decliners in total value traded of RM2.05 billion.
- Among the losers on Bursa Malaysia were Nestle (M) slid 38 cent to RM75.00, Syarikat Takaful down 18 cent to RM14.82, Malaysia Building fell 5 cent to RM2.12 and Latitude Tree shed 17 cent to RM5.94.

### Strategy

- **"Wall Street Holding Breath on Policy Outlook This Week"**  
Wall Street ended lower on Monday tempered by avalanche of corporate earnings results to be issued this week. The upcoming policy statement by the Fed this Wednesday also pushed investors to the sideline. S&P 500 and DJIA lost 8.77 (-0.41%) and 42.17 (-0.23%) points to end at 2,108.92 and 18,037.97 respectively. As mentioned, the US equity market will see a huge number of companies issuing their 1Q15 results, totaling about 150 in all. Rather than jump into the market hastily, investors would prefer to see further pulse of the economy that is via analysing the corporate earnings results. Also, the US FOMC will be issuing its month of April policy statement where further clue on policy path may be on the plate now that oil prices have been moving heavenward steadily. As for today, we expect the market to be in cautious mode given a host of upcoming earnings results in addition to the jitteriness over FOMC monetary statement.
- 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

**MMHE, HOLD (TP: RM1.33): Net profit up 4%**

Malaysia Marine and Heavy Engineering Holdings Bhd's (MMHE) net profit for the first quarter ended March 31, 2015 increased 4% to RM36.03mil, from RM34.63mil a year ago on the back of higher revenue from the group's offshore and marine divisions. In an announcement to Bursa Malaysia, MMHE said on Monday that the group's revenue for the quarter jumped 7.2% to RM719.50mil compared to RM671.46mil in the corresponding period a year ago. Meanwhile, its offshore segment posted higher revenue from the progress of the on-going SK316 project for the quarter. The group has successfully loaded out SK316 jacket to Petronas Carigali Sdn Bhd. Furthermore, MMHE added that the marine division posted a higher revenue and operating profit due to higher value for vessels repaired from rigs, floating storage unit and general cargo categories. (Source: The Star)

**Maxis, HOLD (TP: RM7.10): Q1 earnings at RM410m, up 21% on-quarter**

Maxis Bhd's earnings rose 21% to RM410mil in the first quarter ended March 31, 2015 from the preceding quarter's RM339mil, riding on the positive momentum from its transformation initiatives. It said on Monday the positive momentum from the initiatives in Maxis was driving operational indicators upwards. For the first time since 2010, the company bucked the trend of a traditionally slow first quarter to deliver a service revenue of RM2.127bil, up 1.6% from Q4 2014. The quarter also saw Maxis adding 328,000 new revenue generating subscriptions (RGS), bringing its total RGS base to 12 million. The company registered solid subscriber growth and enhanced data usage driven by winning value propositions and a high performing network in its first quarter of 2015. (Source: The Star)

**DiGi, BUY (TP: RM7.20): Posts RM479.2mil in net profit for Q1**

DiGi.com Bhd's net profit for its first quarter ended March 31, 2015 slipped 1.2% to RM479.21mil from RM485.15mil a year ago due to seasonally higher device sales and impact from lower margins. It said on Monday its revenue rose by 4.2% to RM1.791bil from RM1.717bil a year ago. Earnings per share were 6.16 sen against 6.24 sen a year ago. DiGi declared 6.1 sen dividend for the quarter. The group said the lower earnings were due to seasonally higher device sales and impact from lower margins. However, the group said its strong data momentum seen in 2014 continued to pick up in 2015, with data revenue rising by 17.7% from a year ago. (Source: The Star)

**TNB, HOLD (TP: RM15.20): Second-quarter earnings jump 25%**

Tenaga Nasional Bhd's (TNB) net profit for the second quarter ended Feb 28, 2015, jumped 25% to RM2.16bil compared with the previous corresponding period, mainly due to improved electricity sales. Revenue for the second quarter increased to RM10.61bil from a year earlier. Additionally, TNB said Peninsular Malaysia and Sabah registered a growth of 2.8% and 2.3%, respectively, compared with the previous corresponding period. For the six-month period ended Feb 28, 2015, net profit rose to RM4.51bil from RM3.48bil, while revenue increased to RM21.64bil from RM19.57bil a year earlier. TNB said earnings were boosted by lower generation costs due to the reduced coal price and lower

usage of the more expensive liquefied natural gas fuel. The company said the coal price was registered at US\$66.40 (RM239) per tonne and US\$68.49 (RM246) per tonne in the second and first quarter of 2015, respectively. *(Source: The Star)*

**Telekom, HOLD (TP: RM6.95): Ties up with Cyberview to deliver smart services**

Intelsec Sdn Bhd, a wholly owned subsidiary of Telekom Malaysia Bhd, ties up with Cyberview Sdn Bhd to strengthen telecommunication as well as information and communications technology (ICT) infrastructure in Cyberjaya. Telekom said on Monday that the collaboration would enhance high technology oriented jobs in Cyberjaya as well as transform the district into a global technology hub. Meanwhile, Intelsec chief executive officer Massimo Migliuolo said the tie-up would see Telekom becoming the strategic telecommunication partner in promoting smart city living in Cyberjaya. Furthermore, Telekom said the collaboration would also strengthen and enhance public safety and security, increasing the quality of living in the district. *(Source: The Star)*

**MSC (CP: RM2.72): Positive on FY15 financial results**

Malaysia Smelting Corp Bhd (MSC) is positive on its financial results ending December 2015 mostly driven by the smelting business. Chief Executive Officer Chua Cheong Yong said the smelting segment would continue to be profitable this year while the mining business would be price-related. The mining business is more sensitive to the tin price. The production levels of smelter and mining would be maintained, but the mining division's profitability will depend much on the tin price. Chua said with the current tin price at US\$15,800 per tonne, MSC's mining division is likely to struggle, although the smelter business would continue to be profitable. *(Source: The Star)*

**United Plantations (CP: RM26.80) Q1 profit down**

United Plantations Bhd recorded a 30% drop in net profit for the first quarter ended March 31, 2015 to RM61.15mil compared to the previous corresponding quarter a year ago due to lower crude palm oil and lower palm kernel prices as well as higher costs of production incurred. In a filing with Bursa Malaysia, the company said revenue for the quarter fell to RM233.92mil from RM261.03mil previously. *(Source: The Star)*

**KKB Engineering (CP: RM1.64): Q1 profit soars**

Civil engineering firm KKB Engineering Bhd's net profit for the first quarter ended March 31, 2015 rose more than six-fold to RM26.7mil compared to the same period last year. According to a filing with Bursa Malaysia, the higher profit margin was due to the engineering and manufacturing sectors, especially from steel fabrication and steel pipes manufacturing divisions. *(Source: The Star)*

**Amanah Harta Tanah PNB (CP: RM1.19): To buy Seremban mall for RM240mil**

Real estate investment trust (REIT) Amanah Harta Tanah PNB (AHTP) is proposing to acquire a three-storey mall in Seremban for RM240mil. MIDF Amanah Investment Bank Bhd said in a stock exchange filing on behalf of Pelaburan Hartanah Nasional Bhd (PHNB), the REIT manager, that a conditional sale and purchase agreement with Mydin Mohamed Holdings Bhd had been

signed to acquire the property, which sits on a 13.38-acre freehold plot. The investment bank said the acquisition would be accretive on a per-unit distribution basis and would provide AHTP with additional stable and sustainable income stream – pursuant to the leaseback agreement with Mydin with a committed lease of 30 years. *(Source: The Star)*

#### **Pesona Metro (CP: RM0.92): Buying another concession holder**

Construction firm Pesona Metro Holdings Bhd has further entrenched its position in the concession business by entering into a sale of shares agreement with Semarak Korporat Sdn Bhd (SKSB) to acquire a 90% equity stake in Selasih Asli Sdn Bhd (SASB) for RM60mil. This would be the company's second acquisition, after it bought SEP Resources Sdn Bhd for RM29.15mil last December. SEP Resources has a 22-year concession with University Malaysia Perlis (UniMAP) valued at some RM600mil, which was first announced in February 2014. The company said in a Bursa Malaysia announcement that SASB, a special-purpose vehicle, was incorporated to enter into a concession agreement with the relevant authorities for the design, development and maintenance *(Source: The Star)*

#### **QL (CP: RM4.07): Major shareholders buy Sunsuria stake**

The major shareholders of agriculture food and poultry giant QL Resources Bhd, via Ruby Technique Sdn Bhd, has bought a 5.05% stake in property developer Sunsuria Bhd. In a stock exchange filing, QL Resources' substantial shareholders, CBG Holdings Sdn Bhd and Farsathy Holdings Sdn Bhd via private investment company Ruby Technique, bought eight million shares or a 5.05% stake in Sunsuria through an off-market transaction. StarBiz reported yesterday that QL Resources was taking a substantial stake in Sunsuria. The filing confirms that substantial shareholders of QL Resources were the ones acquiring the stake in Sunsuria. CBG holds a 42.07% stake in QL Resources, with Farsathy Holdings owning another 12.08%. *(Source: The Star)*

#### **IJM Land: Singapore's Perennial Real Estate in RM3b waterfront devt in Penang**

IJM Land Bhd has teamed up with Singapore-based Perennial Real Estate Holdings Ltd (PREH) to acquire and develop RM3 billion freehold waterfront site in Penang. IJM Land said the 13.26-hectare site in Gelugor will be developed into a large-scale integrated mixed-used development and be completed in phases, starting from 2018. IJM Land said both entities will each have an effective 50 per cent interest in the joint-venture (JV) company, Aura Hebat Sdn Bhd. Under the agreement, the JV Company will acquire the site from Jelutong Development Sdn Bhd, a subsidiary of IJM Land. *(Source: The Star)*

### **ECONOMIC UPDATES**

#### **China: Industrial profits down 0.4%**

Profits earned by Chinese industrial firms fell 0.4% in March from a year earlier to 508.61 billion yuan (US\$82bil), the National Bureau of Statistics (NBS) said. That compared with a 4.2% year-on-year fall in the first two months of the year. For the first quarter of the year, profits declined 2.7% from a year earlier to 1.25



trillion yuan, the bureau said. The NBS attributed the narrower decline in profits last month to a deeper fall in raw material prices and lower financing costs cost after the central bank cut interest rates. Prices of raw materials fell 5.7% from a year earlier in March, 0.2 percentage point more than in the first two months of this year, helping profit margins, the bureau said. *(Source: The Star)*

#### **China: Plans mergers to cut number of big state firms to 40 - state media**

China will likely cut the number of its central government-owned conglomerates to 40 through a series of mergers, as Beijing pushes forward a plan to overhaul the country's underperforming state sector, state media reported on Monday. Currently, the central government owns 112 conglomerates, including 277 public firms listed on the Shanghai or Shenzhen stock exchanges with a market capitalisation of more than 10 trillion yuan (RM5.7 trillion), according to the official newspaper Economic Information Daily. The consolidation would first take place in commercial sectors, especially in competitive industries, the paper said quoting an anonymous authority. *(Source: The Star)*

#### **Europe: ECB seen going all the way on QE as economists doubt taper**

The European Central Bank won't end its asset-buying program early, though it might do so abruptly, economists say. More than two-thirds of respondents in a Bloomberg survey said the ECB will stop quantitative easing in September 2016, as currently planned, and most of those said it'll do so without tapering purchases. The remaining analysts said policy makers will gradually wind the program down, with the end-date ranging from December 2016 to December 2017. Massive stimulus from record-low borrowing costs, a weaker euro and cheaper energy is stoking speculation over how quickly the ECB might reach its inflation goal and complete a 1.1 trillion-euro (\$1.2 trillion) program that started only last month. The risks related to policy tightening were highlighted in 2013 when global market volatility escalated as the Federal Reserve signaled it was ready to taper its own QE. *(Source: The Edge)*

#### **U.K.: Deflation? Oil's 45% rebound could be markets' next headache**

Whisper it, but the next challenge for financial markets and policymakers may not be deflation, but the remarkable surge in oil prices from the six-year low touched in January. Since then, Brent crude futures have risen 45 percent. If that is sustained or even increased throughout this year, inflation next year could rise significantly, posing questions for policymakers largely committed to ultra-loose policy. No fewer than 27 central banks around the world have eased monetary policy to some extent this year in a battle against deflation, slowing growth or both. These measures have ranged from interest rate cuts to bond-buying "quantitative easing" programmes. All have been in response to the fall in inflation rates and inflation expectations driven by the 60 percent collapse in oil prices over the latter part of last year. *(Source: The Star)*

# 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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