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Wednesday, May 13, 2015

## Report of The Day

**Initiation Coverage:** Malakoff, BUY (TP: RM2.30) – “Return of the Giant”

**Results Review:** Petronas Gas 1Q15, HOLD (TP: RM23.20) – “Stable, But Lack of Catalyst”

**Results Review:** Dialog 3Q15, HOLD (TP: RM1.70) – “Making Decent Progress”

**Company Update:** SapuraKencana, BUY (TP: RM3.22) – “Bundle of Contract Wins”

## At a Glance

FBMKLCI tumbled 6.88 points to finish at 1,798.61 as anxiety rising before Malaysia's GDP number release.....(See full report next page)

## Strategy

## “Back-to-Back Retreat in Wall Street”

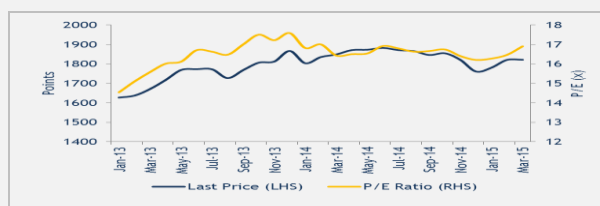
lack of catalyst will put additional pressure to the equity market in addition to the jitteriness over the Eurozone's 1Q15 GDP.....(See full report next page)

## Corporate Highlights

- **Petronas Gas, HOLD (TP: RM23.20):** Net profit up 7.6%
- **Dialog, HOLD (TP: RM1.70):** Q3 earnings up 65% to nearly RM82m
- **TM, HOLD (TP: RM6.95):** To extend Unifi coverage in Johor

## Economic Update

- **Malaysia:** Services index up 7.1% in Q1
- **Malaysia:** Trade sector expands 8.8% in 1Q15
- **U.S.:** Wage growth may be on tap as more Americans quit jobs



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 CI	-	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	1,798.61	-6.88	-0.38
FBMEMAS	12,409.68	-45.10	-0.36
FBMEMAS SHA	12,895.08	-38.14	-0.29
FBM100	12,089.65	-41.38	-0.34
Volume (mn)	1,626.97	85.84	5.57
Value (RMmn)	1,700.02	97.42	6.08
FBMKLCI YTD Chg			2.12

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	16.6	-1.5
Local Institution	59.3	225.0
Foreign Investors	24.1	-223.5

## Top Gainers

	Close	Change+/-	(+/- %)
NESTLE (MALAY)	73.00	0.82	1.14
SAM ENGINEER	4.10	0.34	9.04
DUTCH LADY MILK	47.32	0.32	0.68

## Top Losers

	Close	Change+/-	(+/- %)
PETRONAS DAG	20.98	-0.66	-3.05
BAT	65.50	-0.58	-0.88
PETRONAS GAS	22.20	-0.40	-1.77

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,068.23	-36.94	-0.20
NASDAQ	4,976.19	-17.38	-0.35
S&P 500	2,099.12	-6.21	-0.29
FTSE 100	6,933.80	-96.05	-1.37
DAX	11,472.41	-200.94	-1.72
Nikkei 225	19,624.84	3.93	0.02
HSI	27,407.18	-311.02	-1.12
KOSPI	2,096.77	-0.61	-0.03
STI	3,442.33	-28.47	-0.82
KLCI Futures	1,784.00	(7.00)	(0.00)
USDMYR 3M	10.27	(0.03)	(0.00)
USDMYR 6M	10.29	0.02	0.00
USDMYR 12M	10.25	(0.01)	(0.00)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	61	0.6	0.9%
Brent (USD/bbl)	66.9	2.0	3.0%
Gold(USD/ounce)	1,193	-0.9	-0.1%
Coal (USD/mt)	61.4	-0.2	-0.3%
CPO (RM/mt)	2,225	30.0	1.4%
Rubber	184	0.2	0.1%
RM/USD	3.62	0.0146	-0.40%
EUR/USD	0.89	-0.0004	-0.04%
YEN/USD	119.88	0.01	-0.01%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average shed 36.94 points to 18,068.23, S&P 500 down by 6.21 points to 2,099.12. Nasdaq slid by 17.38 points to 4,976.19. U.S. stocks cut losses as bond carnage reverses.
- Equities finished with modest losses on Tuesday, recovering from steep early losses, as weakness in the bond market was reversed heading into a U.S. Treasury auction. The 10-year yield tested 2.33% before finishing down at 2.25%.

### The Local Market

- FBMKLCI tumbled 6.88 points to finish at 1,798.61 as anxiety rising before Malaysia's GDP number release. There were 240 gainers and 576 decliners in total value traded of RM1.70 billion.
- Among the losers on Bursa Malaysia were Petronas Dagangan dropped 82 cent to RM20.98, British American Tobacco fell 58 cent to RM65.50, Petronas Gas slid 40 cent to RM22.20 and Kuala Lumpur Kepong shed 32 cent to RM21.40.

### Strategy

- **"Back-to-Back Retreat in Wall Street"**

Wall Street endured back-to-back retreat impacted by the selling pressure in European equity market at the back of investors' migration towards the bond market. **S&P 500** and **DJIA** uploaded **6.12 (-0.29%)** and **36.94 (-0.20%)** points to end at **2,099.12** and **18,068.23** respectively. As penned, Wall Street got spooked with the European equity market selling pressure. This is ahead of the Eurozone's 1Q15 GDP that is due today. Perhaps investors were jittery that the latest Eurozone quantitative easing measures may not be able to shore up the pact's economy, of which if it failed, will surely dent the global equity market sentiment. As a result, investors redirected their investment towards the bond's market. As for today, lack of catalyst will put additional pressure to the equity market in addition to the jitteriness over the Eurozone's 1Q15 GDP. Hence, the market may retreat again as a result.

- 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 Gas, HOLD (TP: RM23.20): Net profit up 7.6%**

Petronas Gas Bhd's net profit for the first quarter ended March 31, 2015 rose 7.6% to RM449.93mil, from RM418mil a year ago cushioned by higher revenue from gas processing, gas transportation and utilities segment. It said on Tuesday, revenue for the quarter increased 4.4% to RM1.10bil compared to RM1.05bil a year ago largely due to higher revenue from gas transportation and gas processing segment. Meanwhile, its earnings per share for the quarter was 22.74sen compared to 21.12sen a year ago. Furthermore, its gas processing segment's revenue for the quarter segment surged by 21.5mil, from the corresponding period a year ago due to higher reservation charge under the new GPA. (Source: The Star)

**Dialog, HOLD (TP: RM1.70): Q3 earnings up 65% to nearly RM82m**

Dialog Group Bhd earnings rose 65.2% to RM81.85mil in the third quarter ended March 31, 2015 from RM49.55mil a year ago, boosted by its Malaysian operations. The oil and gas services company said on Tuesday its revenue increased 4.9% to RM669.76mil from RM638.32mil. Earnings per share were 1.65 sen versus 1.01 sen. It rewarded shareholders with one sen dividend for its shares which have a par value of 10 sen. Dialog said its Malaysian operations achieved better results from a year ago following the contributions from the upstream activities mainly as a result of the operation of the production sharing contract (PSC) for three fields D35, D21 and J4, located offshore Sarawak. The group's participation in this contract started from September 2014. (Source: The Star)

**TM, HOLD (TP: RM6.95): To extend Unifi coverage in Johor**

Telekom Malaysia Bhd (TM) will extend its Unifi broadband service coverage to three exchange areas of Batu Pahat, Taman Perling and Ulu Tiram in Johor by the third quarter of the year. At last year's event, TM announced 10 exchanges areas for Unifi service which included Skudai, Johor, Gelang Patah, Senai, Permas, Kulaijaya and Pasir Gudang. The currently Unifi utilisation rate in the state stood at 47 per cent with 800,000 Unifi users of which 130,000 were industries. Meanwhile, TM Consumer and SME Executive Vice President Imri Mokhtar said small and medium enterprises (SMEs) were encouraged to have online presence to meet the needs of consumers who were increasingly focused on electronic commerce. (Source: The Star)

**Matrix Concepts (CP: RM3.27): Net profit surges to RM115m**

Matrix Concepts Holdings Bhd's net profit surged nearly 200% to RM115.4mil in the first quarter ended March 31, 2015 from RM38.6mil a year ago on the back of higher revenue for residential and industrial properties. The company said on Tuesday revenue rose 135.8% to RM317.6mil in the quarter compared to RM134.6mil in the corresponding period a year ago. Matrix Concepts chairman Datuk Mohamad Haslah noted it was a bumper quarter due to quicker construction progress of its on-going residential projects in Bandar Sri Sendayan as well as accelerated payments by investors for industrial properties at Sendayan TechValley. (Source: The Star)

**OSK Property (CP: RM1.84): 1Q doubles to RM48.34m, revenue at RM284.02m**  
 OSK Property Holdings Bhd's net profit doubled to RM48.34 million for the first quarter ended March 31, 2015 (1QFY15), against RM24.95 million a year ago, due to disposal of its 43.7ha freehold land in Kedah for RM56 million to PR1MA Corp Malaysia (PR1MA) last August. In addition, lower operating cost and a higher level of construction work carried out during the period under review for on-going projects such as Pan'gaea in Cyberjaya, Mirage Residence in Kuala Lumpur, Atria SOFO Suites in Damansara Jaya and Bandar Puteri Jaya in Sungai Petani, also contributed to the jump in its 1QFY15 profit. The better earnings translated into basic earnings per share of 19.85 sen, compared with 9.51 sen last year. (Source: The Star)

**Syarikat Takaful (CP: RM14.60): On acquisition trail**

Syarikat Takaful Malaysia Bhd is hoping to acquire a local Takaful company over the next two years in a bid to strengthen its operations in the Takaful space in line with the Islamic Financial Services Act (IFSA) 2013. Its group managing director Datuk Seri Mohamed Hassan Kamil said on Tuesday with the IFSA on board this would create opportunities for M&As in the Takaful business. Under the IFSA 2013, composite & Takaful players are required to split their family and general insurance biz into separate licensed entities hence this will create opportunities for M&As. Hassan said most probably the company would be looking to acquire a local Takaful operator by 2017. (Source: The Star)

**Asia Knight (CP: RM0.35): Seeks to sell Kuantan land and hotel**

Asia Knight Bhd, a Practice Note 17 company, has proposed to sell two parcels of freehold land in Kuantan together with an 84-room hotel for RM17mil cash. The plastics parts maker told Bursa Malaysia on Tuesday that it planned to sell the 965 sq m land and two-star Citiview Hotel to E-Red Hotel Sdn Bhd at a premium of 6.25% to the indicative market value of the property of RM16mil as appraised by a valuer. The total gross proceeds of RM17mil from the proposed disposal would be used to acquire new business or assets (RM5mil), for working capital (RM11mil) and to defray estimated expenses from the disposal (RM1mil). (Source: The Star)

**Masteel (CP: RM0.62): Bursa rejects Masteel's deadline extension to submit FY14 accounts, annual report**

Bursa Malaysia has rejected Malaysia Steel Works (KL) Bhd (Masteel) application to extend the deadline to submit its audited financial statements and annual report for the financial year ended Dec 31, 2014 (FY14). In a filing with the exchange today, Masteel (fundamental: 0.35; valuation: 1.4) said the regulator had rejected its applications via a letter dated yesterday (May 11). Masteel had sought to extend deadlines for submission of its audited financial statements and annual report for FY14 until June 30, 2015 and July 31, 2015 respectively. The previous deadline for Masteel's FY14 annual audited accounts was April 30, 2015. Shares of Masteel were suspended today, following its failure to submit the FY14 audited accounts within the stipulated timeframe. (Source: The Edge)

**Aeon Credit (CP: RM14.54): To launch RM1b debt note programme**

Aeon Credit Service (M) Bhd plans to undertake a RM1bil Islamic commercial papers programme for working capital and consumer financing. It said on Tuesday the seven-year programme of up to RM1bil in nominal value would be based on the Shariah principle of Murabahah (via a Tawarruq arrangement). Each Sukuk Murabahah issuance would have maturities of any tenure from one to 12 months from the date of issuance. Aeon Credit Service said the ICP programme had been approved and authorised by the Securities Commission on May 8. *(Source: The Star)*

**Tanjung Offshore (CP: RM0.47): Appoints executive deputy chairman**

Tan Sri Tan Kean Soon, who earlier this year was suspended for three weeks as director of Tanjung Offshore Bhd, has been appointed its executive deputy chairman effective Tuesday. The oil and gas service provider told Bursa Malaysia on Tuesday that Tan, a substantial shareholder with a 7.68% direct and indirect stake, was redesignated from the position of executive director. Tan, who is the company's third largest shareholder, and Muhammad Sabri Ab Ghani were suspended from their director position on Jan 28 after an independent committee found possible conflicts of interest and breaches of fiduciary duty in relation to last year's aborted reverse takeover exercise by Paris-based Bourbon SA. *(Source: The Star)*

**Construction sector (Overweight): PDP for LRT 3 to get 6% of project cost as fees**

The project delivery partner (PDP) for the estimated RM9bil light rail transit line three (LRT 3) project, which is expected to be announced in July, stand to earn 6% of total cost as management fees, going by the rate charged by the PDP of the mass rapid transport (MRT) project. This is the first time a PDP will be named for work on the LRT project. Prior news report had only named six interested contenders that were mainly joint ventures speculated to be eyeing the urban rail job. The additional one, according to sources, could be among other usual suspects equipped with industry expertise and capabilities such as IJM Corp Bhd and Ahmad Zaki Resources Bhd. *(Source: The Star)*

**ECONOMIC UPDATES****Malaysia: Services index up 7.1% in Q1**

The first quarter Index of Services, which measures short-term changes on a quarterly basis for private services activities in Malaysia, rose 7.1 per cent to 132.2 in the first quarter of 2015. Minister in the Prime Minister's Department Datuk Seri Abdul Wahid Omar said the rise was contributed by the growth recorded in several segments under the services sector. The expansion was driven by growth in the communication, transport and storage segment (8.5 per cent); Distributive Trade, Food and Beverages and Accommodation (8.4 per cent) other services (6.6 percent) and finance, real estate and professional (4.0 per cent). The professional sub-sector under real estate and professional segment rose 4 per cent compared to the same period last year impelled by the professional sub-sector (11.5 per cent) due to the industry's preparation for the Goods and Services Tax on April 1. *(Source: The Star)*



**Malaysia: Trade sector expands 8.8% in 1Q15**

Malaysia's distributive trade sector expanded to 8.8% in the first quarter of 2015 (1Q15), supported by positive trading in its sub-sector. The retail trade sub-sector contributed 10.7%, followed by wholesale trade (7.9%) and motor vehicles (7%), the Statistics Department said in a statement on Tuesday. The index of wholesale trade increased by 7.9% in the first quarter to the same quarter of 2014. This was due to the contribution of other specialised wholesale (11.8%), non-specialised wholesale trade (10.1%) and wholesale on a fee or contract basis (9%). (Source: The Star)

**U.S.: Wage growth may be on tap as more Americans quit jobs**

Americans are becoming more apt to quit their jobs, a government report showed on Tuesday, a sign that a stronger labor market and falling unemployment rate could result in healthier wage growth and inflation. The three-month quit rate for non-government jobs rose to 6.6 percent, the report showed, the highest since the second quarter of 2008 and up from 6.5 percent in the final quarter of 2014. Both wages and inflation tend to follow a rise in the quit rate by a couple of quarters, research from the Chicago Federal Reserve Bank shows. (Source: The Edge)

**U.S.: Small business confidence jumps**

U.S. small business confidence increased in April with owners in the energy field surprisingly bullish about capital expenditure and hiring plans, further supporting views that economic growth was rebounding after a dismal first quarter. The National Federation of Independent Business said on Tuesday its Small Business Optimism Index rose 1.7 points to 96.9 last month. It is the latest sign the economy is clawing back after being slammed by a mix of bad weather, port disruptions, a strong dollar and deep spending cuts by energy firms. Nine of the index's 10 components rose last month, with the exception of sales. (Source: The Edge)

**Greece: Tapped IMF reserves to make debt repayment**

Greece tapped emergency reserves in its holding account at the International Monetary Fund to make a crucial 750 million euro (\$839 million) debt payment to the Fund on Monday, two government officials said on Tuesday. With Athens close to running out of cash and a deal with its international creditors still elusive, there had been doubts whether the leftist-led government would pay the IMF or opt to save cash to pay salaries and pensions later this month. Member countries of the IMF have two accounts at the fund - one where their annual quotas are deposited and a holding account which may be used for emergencies. (Source: The Edge)

**Indonesia: April crude palm oil output seen up 11 pct m/m**

Indonesian crude palm oil (CPO) output likely rose 11 percent in April to its highest since September, a survey of leading industry officials showed, as trees entered a stronger period in the production cycle. A rise in supply from the world's No.1 producer of the tropical oil could weigh on benchmark palm prices currently trading near five-week peaks at 2,196 ringgit (\$606) per tonne. Indonesia produced 2.662 million tonnes of CPO in April, the median estimate in a Reuters survey of four Indonesian industry officials and plantation companies

showed, versus 2.397 million tonnes in March. Malaysian palm oil stocks in April rose to a five-month high as accelerating crude palm oil output offset weaker exports, data from an industry regulator showed on Monday. *(Source: The Edge)*

**Japan: Wants growth and spending cuts**

Members of Japan's top economic advisory panel will propose that the government focus on higher economic growth and spending cuts to meet fiscal targets, but some analysts worry the plan could actually crimp Tokyo's ability to maintain fiscal prudence. Private-sector members of the Council on Economic and Fiscal Policy (CEFP) will propose later on Tuesday that the government keep gross domestic product growth above 2 percent in real terms and 3 percent in nominal terms, government sources said. Ratings agencies have already downgraded Japan twice since late last year due to frustration with the pace of fiscal reform, so a credible fiscal discipline plan is needed to prevent further erosion of the nation's credit worthiness. *(Source: The Edge)*

**India: Eyes \$1.1 bln solar loan from German bank KFW**

German development bank KFW could lend India \$1.1 billion for rooftop solar projects, on top of another loan it has extended to help the Asian country fund its ambitious green energy plans, India's top renewable energy bureaucrat told *Reuters*. Prime Minister Narendra Modi wants to quintuple India's renewable energy capacity to 175 gigawatts by 2022, making clean energy part of his fight against climate change without necessarily committing to a timeline for emission cuts. KFW has already offered India a loan of about 1.38 billion euros (\$1.55 billion) to help build a "green corridor" of power lines through nine states, and Modi's visit last month to Germany helped advance talks on the rooftop plans, said Upendra Tripathy, secretary in the Ministry of New and Renewable Energy. *(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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