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Friday, May 15, 2015

## Report of The Day

**Results Review:** Media Prima 1Q15, HOLD (TP: RM1.80) –“Uncertainty of Implementation GST”

**Results Review:** UMW OG 1Q15, HOLD (TP: RM2.21) –“Signal to A Challenging Year”

**Results Review:** IOI Corp 3Q15, HOLD (TP: RM4.04) –“Hits by Translation Loss”

## At a Glance

FBM KLCI rose 4.53 points to finish at 1,807.55 ahead of the release of 1Q15 GDP figures.....(See full report next page)

## Strategy

## “Wall Street Zoom Higher; Malaysia GDP Today”

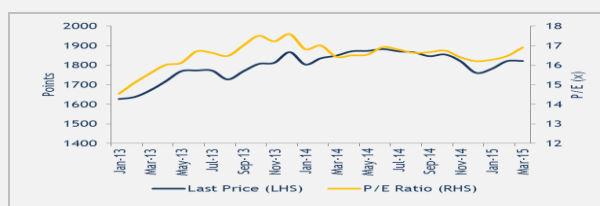
We predict it to be in positive momentum.....(See full report next page)

## Corporate Highlights

- **IOI Corp, HOLD (TP: RM4.04):** Q3 net losses at RM188m on forex loss
- **UMW-OG, HOLD (TP: RM2.21):** PBT fell to RM43 mil
- **Media Prima, HOLD (TP: RM1.80):** 1Q net profit down 30% on 'continuous market uncertainties'

## Economic Update

- **Malaysia:** Franchise sector to contribute RM26.8b to GDP
- **Malaysia:** Challenges include federal deficit, risky household debt
- **Greece:** Signs EBRD deal worth up to 500 million euros a year



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%

## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,807.55	4.53	0.25
FBMEMAS	12,466.72	26.06	0.21
FBMEMAS SHA	12,943.07	18.89	0.15
FBM100	12,142.16	25.36	0.21
Volume (mn)	1,574.17	-114.41	-6.78
Value (RMmn)	1,794.43	-211.18	-10.53
FBMKLCI YTD Chg			2.63

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	17.3	-21.6
Local Institution	52.7	108.3
Foreign Investors	30.0	-86.7

## Top Gainers

	Close	Change+/-	(+/- %)
KLK	22.00	0.66	3.09
KESM INDUS	3.51	0.46	15.08
SYARIKAT TAKAF	15.80	0.30	1.94

## Top Losers

	Close	Change+/-	(+/- %)
UNITED PLANT	25.60	-0.40	-1.54
PETRONAS DAG	19.78	-0.20	-1.00
STORE CORP	2.80	-0.20	-6.67

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,252.24	191.75	1.06
NASDAQ	5,050.80	69.10	1.39
S&P 500	2,121.10	22.62	1.08
FTSE 100	6,973.04	23.41	0.34
DAX	11,559.82	208.36	1.84
Nikkei 225	19,570.24	-194.48	-0.98
HSI	27,286.55	37.27	0.14
KOSPI	2,120.33	6.17	0.29
STI	3,454.04	0.87	0.03
KLCI Futures	1,799.50	(4.00)	(0.00)
USDMYR 3M	10.20	(0.03)	(0.00)
USDMYR 6M	10.14	(0.03)	(0.00)
USDMYR 12M	10.17	(0.02)	(0.00)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	60	-0.1	-0.2%
Brent (USD/bbl)	66.7	-0.6	-0.8%
Gold(USD/ounce)	1,222	0.7	0.1%
Coal (USD/mt)	61.5	0.1	0.2%
CPO (RM/mt)	2,206	8.0	0.4%
Rubber	182	-2.2	-1.2%
RM/USD	3.58	-0.0158	0.44%
EUR/USD	0.88	0.0008	0.09%
YEN/USD	119.20	0.02	-0.02%

## Research Team

research@mna.com.my

03-22877228/03-22825373

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## What To Expect

### U.S. Market

- The Dow Jones Industrials Average gained 191.75 points to 18,252.24, S&P 500 surged by 22.62 points to 2,121.10. Nasdaq up by 69.10 points to 5,050.80. The large-cap stocks in the **S&P 500** zoomed a new record high on Thursday after a soft report on producer price inflation raised hopes the Federal Reserve will be forced to delay the pace and timing of its interest rate hikes later this year — with no action expected until September at the earliest.
- Stocks cheered the news, since the bulls now have a strong Pavlovian response to any promise of more cheap money stimulus.

### The Local Market

- FBMKLCI rose 4.53 points to finish at 1,807.55 ahead of the release of 1Q15 GDP figures. There were 411 gainers and 355 decliners in total value traded of RM1.79 billion.
- Among the gainers on Bursa Malaysia were KLK gained 66 cent to RM22.00, KESM Industries up 46 cent to RM3.51, Syarikat Takaful soared 30 cent to RM15.80 and Suiwah Corp increased 21 cent to RM3.40.

### Strategy

- **“Wall Street Zoom Higher; Malaysia GDP Today”**  
Wall Street snapped its last 3 days of losses after it zoomed higher as investors picked up beaten down share price. **S&P 500** and **DJIA** gained **22.62 (1.08%)** and **191.75 (1.06%)** points to end at **2,121.10** and **18,252.24** respectively. It was the weakness of Dollar along with increasingly cheaper share price that boosted Wall Street sentiment on Thursday. The Dollar, hurt by struggling US economy, is projected to lose steam soon, shoring up investors sentiment, as this would be precursor for reducing the imbalance in US economy. Above all, after the last 3 days of mild rout, market participants had picked up low hanging fruits, resulting in the steady upward movement of major bellwether index in the US at the back of thin economic release. Note that Malaysia 1Q15 GDP will be released today at 12pm with market consensus expecting economic growth to come in between 5.2% to 6.0%, benefitting from strong private consumption ahead of GST implementation that more than offset the 2.6% export contraction. We expect domestic demand to continue fuel the economy especially with rising external risks at the back of steady private investment, many thanks to accommodative monetary environment. Stay tuned for our GDP report later today. As for the local market, although big bets in equity market are quite remote but at least we predict it to be in positive momentum.
- 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

**IOI Corp, HOLD (TP: RM4.04): Q3 net losses at RM188m on forex loss**

Plantation heavyweight IOI Corporation Bhd posted a surprising net loss of RM188mil in the third quarter ended March 31, 2015. The company said on Thursday there was a foreign exchange translation loss of RM332.7mil in the quarter. This was a sharp contrast to the net profit of RM2.176bil a year ago when there was a forex translation gain of RM43.6mil. The previous quarter also benefited from the one-off net gain arising from demerger exercise of RM1.83bil. Loss per share was 2.95 sen compared with earnings per share of 34.20 sen. Loss before tax was RM109.20mil compared with profit before tax of RM460mil. During the quarter, revenue was lower at RM2.776bil compared with RM2.899bil. (Source: *The Star*)

**UMW-OG, HOLD (TP: RM2.21): PBT fell to RM43 mil**

Group revenue of RM312.5 million for the first quarter ended 31st March 2015 exceeded the RM195.6 million registered in the same quarter of 2014 by RM116.9 million or 59.8%. Improved revenue contributions from both the Drilling Services segment and the Oilfield Services segment resulted in the revenue increase in the first quarter of 2015. Overseas operations contributed approximately 63.5% of the Group revenue in the first quarter of 2015. However, Group profit before tax declined to RM42.5 billion in the first quarter ended 31st March 2015 from the RM58.3 million recorded in the same quarter of 2014, a reduction of RM15.8 million or 27.1%. Lower contributions from the Drilling segment accounted for the profit reduction in the first quarter of 2015. (Source: *Bursa Malaysia*)

**Media Prima, HOLD (TP: RM1.80): 1Q net profit down 30% on 'continuous market uncertainties'**

Media Prima Bhd net profit for its first quarter ended March 31 (1QFY15) declined 30% on-year to RM18.8 million or 1.7 sen per share from RM27.02 million or 2.45 sen per share previously, on "continuous market uncertainties" and dampened consumer sentiment ahead of the implementation of the goods and services tax (GST). Revenue for the quarter fell 6% on-year to RM329.39 million from RM351.03 million in 1QFY14. In its filing with the exchange today, Media Prima said it saw lower revenue and profit from across most of its segments, compared to the previous corresponding period. These segments include the television network (revenue down 7%, profit after tax (PAT) down 56%), print media (revenue down 6%, on lower newspaper sales revenue), outdoor media (revenue up 2%, but PAT down 2% on provision for authority fees), radio network divisions (revenue down 18%, PAT down 37%), and digital media segment (revenue down 18% but loss improved 60%). (Source: *The Edge*)

**Dayang Enterprise (CP: RM2.64): Launches MGO for Perdana Petroleum**

Dayang Enterprise Holdings Bhd has launched a mandatory general offer for Perdana Petroleum Bhd at RM1.55 per share after its stake was increased to 35.51%. Dayang said on Thursday it was buying 42.96 million shares of Perdana Petroleum, representing 5.74%, from Affin Hwang Investment Management Bhd for RM66.59mil cash or RM1.55 a share. After the acquisition, its shareholding in the oil and gas services provider increased to 35.51%, which triggered the

MGO. The corporate exercise saw it offering RM1.55 per Perdana Petroleum share and 84 sen per warrant for the remaining stake which it does not own. (Source: *The Star*)

**IOI Properties (CP: RM2.09): Q3 earnings higher at RM107m**

IOI Properties Bhd's earnings rose 20.9% to RM107.76mil in the third quarter ended March 31, 2015 from RM89.11mil a year ago due to contribution from all the operating segments. It said on Thursday its revenue increased by 28% to RM468.38mil from RM365.79mil. Earnings per share were 3.04 sen compared with 2.75 sen. IOI Properties said the property development segment recorded revenue of RM370.20mil and operating profit of RM106.70mil – up 22% and 33% - respectively. The higher revenue was mainly due to higher progress work and sales from the groups ongoing and completed development projects and the recent launched of its new township at Bandar Puteri Bangi which received overwhelming response. The increase in operating profit was mainly contributed from higher sales of properties in Klang Valley especially in commercial properties sub-segment. (Source: *The Star*)

**Syarikat Takaful Malaysia (CP: RM15.80): Takaful Malaysia's exposure to 1MDB via RM85 million sukuk issued in 2009**

Syarikat Takaful Malaysia Bhd (Takaful Malaysia) has exposure to 1MDB by way of the RM85 million sukuk it bought six years ago. The Islamic bond was issued in 2009 by the Terengganu Investment Authority (TIA), now known as 1MDB. Takaful Malaysia group managing director Datuk Sri Mohamed Hassan Kamil said the RM85 million sukuk has a 30-year tenure with a coupon rate of 5.25 per cent. He said the sukuk was purchased when the TIA issued the paper, which was prior to 1MDB coming in existence. (Source: *Business Times*)

**Zelan (CP: RM0.36): Eyes projects in Pengerang to boost order book**

Construction outfit Zelan Bhd, with an order book of RM1.1bil, is bidding for some of the Pengerang projects which are up for tender in Johor. Its managing director Adnan Mohammad confirmed on Thursday Zelan was bidding for some of the projects but did not want to disclose the details. He said Zelan has stepped up its efforts to turn around the group and intends to secure more local construction jobs. The present order book will last till the first half of 2017. "We are optimistic about securing more engineering projects in the country this year. The key issue is still turning around the company and our shareholders are looking for returns.

**YFG Bhd (CP: RM0.09): SC fines YFG RM200,000 for knowingly furnishing false statement**

YFG Bhd, which announced its plan to raise up to RM100 million through a proposed issuance of redeemable convertible notes earlier this month, has been fined RM200,000 by the Securities Commission (SC) for knowingly authorising false or misleading statements to be furnished in its amended audited financial statements (amended AFS) to Bursa Malaysia on Nov 5, 2014. In a filing to the local bourse today, YFG said the company and its board of directors received letters dated May 13, 2015 from the SC, informing them the regulator had imposed sanctions against them as at Nov 5, 2014, for the above offence. SC has found that the impairment loss adjustment of RM3.375 million made in the

amended AFS of the company for the financial year ended June 30, 2014, was unascertainable. *(Source: The Edge)*

#### **Cliq (CP: RM0.67): Extends time for Kazakhstan acquisition**

Cliq Energy Bhd and vendor Phystech Firm LLP have mutually agreed a one month extension for Phystech to execute the business transfer agreement (BTA) between itself and the special purpose vehicle (SPV) to transfer its assets for the production of hydrocarbons at oilfield blocks at the Karazhanbas Northern Deposit in the Kazakhstan, contractual obligations and certain existing employees to the SPV. Phystech now has until June 24, 2015 to do so. This is in line with the proposed acquisition by Cliq of a 51% stake in a SPV to be incorporated in Kazakhstan from Phystech for US\$117.3 million (RM433.4 million). Cliq had on May 12, 2015 received a letter from the vendor's representative requesting a 30 day extension of time to execute the BTA. Phystech is the sole operator of the Karazhanbas Northern Field and is principally involved in the exploration and production activities at the Karazhanbas Northern deposit. *(Source: The Sun)*

### **ECONOMIC UPDATES**

#### **Malaysia: Franchise sector to contribute RM26.8b to GDP**

The franchise sector is expected to contribute RM26.8 billion to Malaysia's gross domestic product (GDP) this year, compared to RM25.4 billion or the 2.6% registered last year. Deputy Minister of Domestic Trade, Co-operatives and Consumerism Datuk Seri Ahmad Bashah Md Hanipah said the targeted increase of 5% was driven by positive growth among franchise companies which stand now at 770. Of this figure, he added, 22% are international franchisees. Ahmad Bashah said 60 local franchise companies had succeeded in opening 2,000 business branches in 54 countries, including in the middle east and Indonesia. *(Source: The Star)*

#### **Malaysia: Challenges include federal deficit, risky household debt**

Malaysia's major challenges include the need to strengthen the federal government's fiscal position and the risky household debt, says Malaysian Rating Corporation Bhd (MARC). The ratings agency said Malaysia's household debt was posing a risk especially to the lower-income households. "While the pace of increase in the quantum of debt has moderated in recent years, at the aggregate level, household debt remained elevated at 87.9% of gross domestic product (GDP) in 2014," it added. Despite the country's healthy financial assets, MARC noted household indebtedness would put pressure on private consumption if the economic cycle took a turn for the worse. *(Source: The Star)*

#### **Greece: Signs EBRD deal worth up to 500 million euros a year**

Greece signed an investment deal worth up to 500 million euros a year with the European Bank for Reconstruction and Development (EBRD) on Thursday, gaining a rare financial endorsement from the region for its attempts to remain solvent. The EBRD and Greece formally signed the five-year agreement at the development bank's annual meeting in Georgia. It was approved by the bank's shareholders in March. The ministry added it should boost the funding options



of Greek businesses, especially the small and medium-sized ones that have been hit the hardest by the country's economic crisis. The EBRD's decision to start lending in Greece comes after years of debate at the bank about whether a member of the world's most advanced monetary union fits with the bank's role of helping countries make the transition to market economies. (Source: *The Edge*)

**Thailand: Finance minister expects GDP to grow 3.5% this year**

Thailand's economy was mired in a slump, Finance Minister Sommai Phasee said on Thursday, lowering the growth forecast to 3.5%, from 3.7% earlier. "It's not deflation but there is no money as banks refuse to lend and export earnings are small. It's an economic slump," he told reporters. The economy has struggled to regain traction after an army coup a year ago ended months of political unrest. Last month, the ministry cut its growth forecast to 3.7% from 3.9% due mainly to sluggish exports. (Source: *The Star*)

**U.S.: Jobless claims fall; 4-week average at 15-year low**

The number of Americans filing new claims for unemployment benefits unexpectedly fell last week, indicating the jobs market was on solid footing even as the economy struggles to regain momentum after abruptly slowing in the first quarter. Initial claims for state unemployment benefits slipped 1,000 to a seasonally adjusted 264,000 for the week ended May 9, the Labor Department said on Thursday, within a whisker of a 15-year low reached two weeks ago. Claims for the prior week were unrevised. They have been below 300,000, a threshold associated with a strengthening labor market, for 10 straight weeks. A Labor Department analyst said there was nothing unusual in the state-level data and no states had been estimated. (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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A Participating Organisation of Bursa Malaysia Securities Berhad

Level 1,2,3 No.45-47 & 43-6  
The Boulevard, Mid Valley City,  
Lingkaran Syed Putra,  
59200 Kuala Lumpur  
Tel: +603 – 2282 1820 Fax: +603 – 2283 1893  
Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)

Head Of Research



Rosnani Rasul  
M&A Securities