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Thursday, May 21, 2015

Report of the Day

Results Review: KLK 2Q15, HOLD (TP: RM21.50) – “A Challenging Year”

Results Review: TSH Resources 1Q15, HOLD (TP: RM2.38) – “A Tough Quarter - More Room to Grow”

Results Review: CIMB 1Q15, HOLD (TP: RM6.10) – “Niaga Letdown”

Briefing Notes: Axiata, HOLD (TP: RM7.40) – “Banking on Celcom to Recover”

At a Glance

FBMKLCI up marginally 0.39 points to finish at 1,810.11 ahead of the tabling of 11th Malaysia Plan.....(See full report next page)

Strategy

“UF FOMC April Meeting Minutes: Rate Hike Almost Imminent in 2H15”

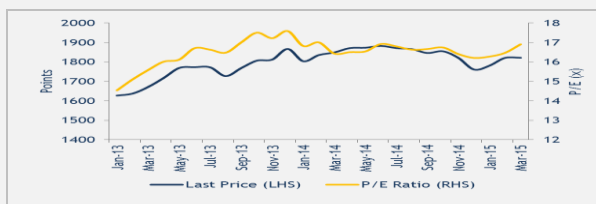
At this stage, we take this as less-than-favourable news as it will spook the foreign investors.....(See full report next page)

Corporate Highlights

- **KLK, HOLD (TP: RM21.50):** 2Q profit drops 29.3% to RM222.5m on weaker plantation
- **TSH Resources, HOLD (TP: RM2.38):** Weak CPO price, seasonal low crop hurts TSH earnings
- **CIMB, HOLD (TP: RM6.10):** Posts RM580m profit, Indonesian ops weaker results

Economic Update

- **China:** To spend US\$182bil to boost Internet by end of 2017
- **Indonesia:** World Bank aids Indonesia infrastructure plans with \$12 bln loan
- **Eurozone:** Slides as Greek official says IMF repayment in doubt



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Price	
JP	18-May	7:50 AM	Machine Orders MoM	-	-0.4%
JP	18-May	7:50 AM	Machine Orders YoY	-	5.9%
JP	18-May	12:30 PM	Industrial Production MoM	-	-0.3%
JP	18-May	12:30 PM	Industrial Production YoY	-	-1.2%
JP	18-May	12:30 PM	Capacity Utilization MoM	-	0.0%
EU	19-May	5:00 PM	Trade Balance NSA	-	20.38
EU	19-May	5:00 PM	CPI MoM	-	1.1%
EU	19-May	5:00 PM	CPI YoY	0.0%	0.0%
EU	19-May	5:00 PM	CPI Core YoY	0.6%	0.6%
US	19-May	8:30 PM	Housing Starts	1020K	926K
US	19-May	8:30 PM	Building Permits	1063K	1039K
US	20-May	7:00 PM	MBA Mortgage Applications	-	-3.5%
JP	20-May	7:50 AM	GDP SA QoQ	0.4%	0.4%
JP	20-May	7:50 AM	GDP Annualized SA QoQ	1.6%	1.5%
JP	20-May	7:50 AM	GDP Deflator YoY	3.6%	2.4%
JP	20-May	1:00 PM	Leading Index C1	-	105.5
JP	20-May	1:00 PM	Coincident Index	-	109.5
EU	21-May	4:00 PM	Markit Eurozone Manufacturing PMI	51.8	52.0
EU	21-May	4:00 PM	Markit Eurozone Services PMI	53.8	54.1
EU	21-May	4:00 PM	Markit Eurozone Composite PMI	53.6	53.9
EU	21-May	10:00 PM	Consumer Confidence	-	-4.6
US	21-May	8:30 PM	Initial Jobless Claims	-	-
US	21-May	8:30 PM	Continuing Claims	-	-
US	21-May	9:45 PM	Markit US Manufacturing PMI	54.4	54.1
US	21-May	10:00 PM	Existing Home Sales	5.22M	5.19M
US	21-May	10:00 PM	Existing Home Sales MoM	0.6%	6.1%
US	21-May	10:00 PM	Leading Index	0.2%	0.2%
CN	21-May	9:45 AM	HSBC China Manufacturing PMI	-	48.9
US	22-May	8:30 PM	CPI MoM	0.1%	0.2%
US	22-May	8:30 PM	CPI Ex Food and Energy MoM	0.2%	0.2%
US	22-May	8:30 PM	CPI YoY	-0.2%	-0.1%
US	22-May	8:30 PM	CPI Ex Food and Energy YoY	1.7%	1.8%
JP	22-May	-	Bank of Japan Monetary Policy Statement	-	-
MY	22-May	12:00 PM	CPI YoY	-	0.9%
MY	22-May	-	Foreign Reserves	-	\$105.8B

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Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,810.11	0.39	0.02
FBMEMAS	12,498.19	-0.60	0.00
FBMEMAS SHA	12,993.15	-2.00	-0.02
FBM100	12,170.99	-1.09	-0.01
Volume (mn)	1,921.92	-171.45	-8.19
Value (RMmn)	1,941.52	-55.13	-2.76
FBMKLCI YTD Chg			2.77

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	19.3	-15.0
Local Institution	60.4	102.7
Foreign Investors	20.3	-87.7

Top Gainers

	Close	Change+/-	(+/- %)
KL KEPONG	22.40	0.34	1.54
DUTCH LADY MILK	47.32	0.32	0.68
HARBOUR-LINK G	2.00	0.24	13.64

Top Losers

	Close	Change+/-	(+/- %)
BAT	64.04	-0.46	-0.71
HONG LEONG FIN	16.32	-0.42	-2.51
AMWAY MALAY	10.84	-0.20	-1.81

World Indices

	Close	Change+/-	(+/- %)
DJIA	18,285.40	-26.99	-0.15
NASDAQ	5,071.74	1.71	0.03
S&P 500	2,125.85	-1.98	-0.09
FTSE 100	7,007.26	12.16	0.17
DAX	11,848.47	-4.86	-0.04
Nikkei 225	20,196.56	170.18	0.85
HSI	27,585.05	-108.49	-0.39
KOSPI	2,139.54	18.69	0.88
STI	3,439.68	-14.36	-0.42
KLCI Futures	1,801.50	(1.00)	(0.00)
USDMYR 3M	9.93	(0.02)	(0.00)
USDMYR 6M	9.94	(0.02)	(0.00)
USDMYR 12M	10.04	(0.01)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	59	-0.3	-0.4%
Brent (USD/bbl)	65.0	1.0	1.6%
Gold(USD/ounce)	1,210	0.4	0.0%
Coal (USD/mt)	60.2	0.0	0.0%
CPO (RM/mt)	2,142	-16.0	-0.7%
Rubber	182	-1.9	-1.0%
RM/USD	3.62	0.0243	-0.67%
EUR/USD	0.90	0	0.00%
YEN/USD	121.27	-0.08	0.07%

What To Expect

U.S. Market

- The Dow Jones Industrials Average shed 26.99 points to 18,285.40; S&P 500 shed by 1.98 points to 2,125.85. Nasdaq up by 1.71 points to 5,071.74. Stocks closed narrowly mixed Wednesday, failing to hold record levels, as the Fed minutes mostly confirmed market expectations for a rate hike in the second half of the year.
- The Fed minutes showed policymakers mostly brushed aside the wobbly start the U.S. economy has had in 2015, attributing the lack of growth to "transitory" factors that will abate soon. Only a few policymakers supported a June rate hike.

The Local Market

- FBMKLCI up marginally 0.39 points to finish at 1,810.11 ahead of the tabling of 11th Malaysia Plan. There were 341 gainers and 413 decliners in total value traded of RM1.94 billion.
- Among the gainers on Bursa Malaysia were KLK surged 34 cent to RM22.40, Dutch Lady gained 32 cent to RM47.32, Harbour Link grew 24 cent to RM2.00 and Telekom Malaysia up 19 cent to RM7.60.

Strategy

- **"UF FOMC April Meeting Minutes: Rate Hike Almost Imminent in 2H15"**

Wall Street ended lower back-to-back as market participants chewing on the US FOMC April policy meeting minutes. S&P 500 and DJIA lost **1.98 (-0.09%)** and **26.99 (-0.15%)** points to end at 2,125.85 and 18,285.40 respectively. The US FOMC April meeting minutes says it all in that June rate hike would not be possible but adjustment in second half is almost a done deal. FOMC blamed US recent lack of growth to transitory factors and this will abate soon. Only a few of the FOMC committees supported rate hike in June. We read the 'transitory' could mean the oil price and consumers spending as most analyses are all pointing towards a stronger global commodity prices in 2H while the latter could zoom stronger in a blip due to US full employment. Recall that the US unemployment hit 5.4% in April, essentially a full employment. The danger is that if the policy rate is not clamped (read: adjusted) inflation will be pressurized and due to the lag factor, policy rate adjustment may not be fast enough to take things in control if it gets adjusted way too late. In sum, we predict a hike in US Federal Funds rate in 2H15 but in small dose of 25-50 basis points, predicted to be in September onwards of FOMC meeting. US still have 5 FOMC meetings left for the year including in June, July, September, October and December. At this stage, we take this as less-than-favourable news as it will spook the foreign investors. This may essentially cap the feel-good-factor arising from the tabling of Malaysia's 11th Malaysian Plan 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

KLK, HOLD (TP: RM21.50): 2Q profit drops 29.3% to RM222.5m on weaker plantation earnings

Kuala Lumpur Kepong Bhd net profit dropped 29.3% to RM222.5 million in the second quarter ended March 31, 2015, from RM314.6 million in the previous corresponding quarter. The lower net profit came on weak contribution from its plantation, manufacturing and oleochemical segments, despite improved contribution from its property segment. Revenue however, grew 4.5% to RM3.07 billion, from RM2.93 billion a year ago. Despite lower earnings, KLK has declared an interim single tier dividend of 15 sen per share for the financial year ending Sept 30, 2015. In a statement to Bursa Malaysia, KLK said its plantation sector's recorded profit declined 45.3% to RM157.9 million, from RM288.5 million previously. (Source: The Edge)

TSH Resources, HOLD (TP: RM2.38): Weak CPO price, seasonal low crop hurts TSH Resources earnings

Palm oil planter TSH Resources Bhd saw its net profit plunge 87.7% to RM6.44 million or 0.48 sen a share for the first quarter ended March 31, 2015 (1QFY15) from RM52.17 million or 3.88 sen a share a year ago, on lower crude palm oil (CPO) price, seasonal low crop and exchanges differences. Revenue fell 28.2% to RM206.03 million from RM287.12 million in 1QFY14. TSH said that its crop production for the quarter was 8.6% lower year-on-year. It fell to 143,258 tonnes from 156,742 tonnes in 1QFY14. CPO price was also weaker at RM2,201 per tonne in 1QFY15 versus RM2,543 per tonne in 1QFY14. Generally, fresh fruit bunch (FFB) yield during 1QFY15 was low due to cyclical low crop yielding period but was also affected by the hangover of long term stress from 2014 drought in Indonesia, Sabah and Sarawak and exacerbated by the dry weather during early 2015 in Sabah and Sarawak. (Source: The Edge)

CIMB, HOLD (TP: RM6.10): Posts RM580m profit, Indonesian ops weaker results

CIMB Group Holdings Bhd made a net profit of RM580.12mil in the first quarter ended March 31, after excluding RM202mil of restructuring expenses, while its Indonesian operations reported a weaker set of results. This compared with a net profit of RM1.07bil in the corresponding period a year earlier. It said after excluding the exceptional expenses, the group's business as usual (BAU) net profit fell 26.6% year-on-year. The group's annualised first-quarter BAU net return on average equity was 8.2%. During the quarter in review, CIMB group revenue increased 4% to RM3.68bil from RM3.54bil a year ago, while its earnings per share were at 6.89 sen compared with 13.15 sen previously. (Source: The Star)

TH Plantations, HOLD (TP: RM1.47): Expects CPO production to reach 948,000 tonnes

TH Plantations Bhd expects its crude palm oil (CPO) production to reach 948,000 tonnes this year compared with 788,000 tonnes in 2014, driven by maturing plantations. Chief executive officer Datuk Zainal Azwar Aminuddin said 51 per cent of the company's 60,000 hectares (ha) of plantations comprised young trees. He added that the young plantation areas would be gradually entering their prime mature period, starting from this year until 2020, adding to the existing 24 per cent of matured areas. Zainal Azwar said TH Plantations had gone through a growth phase in the last three years which saw its landbank grow to 106,000ha currently from 15,000ha during its listing in 2006. (Source: *Btimes*)

Axiata, HOLD (TP: RM7.40): Eyes 4G LTE coverage for 35% Malaysians

Axiata Group Bhd, the parent company of Celcom Axiata Bhd, expects to increase its 4G LTE coverage for 35% of Malaysian population from 20% currently. President and Group Chief Executive officer Datuk Seri Jamaludin Ibrahim said the increase would be driven by its major capital expenditure of RM4.8 billion for 2015. We have spent RM1 billion across all countries as at the first quarter, primarily towards strengthening the data network. For Celcom, we have been investing in the IT system to support the move from 3G to 4G," he told a press conference after the group's annual general meeting on Wednesday. (Source: *The Star*)

SKP Resources (CP: RM1.01): Wins contract from Dyson worth RM400mil annually

The contract to make cordless vacuum cleaners which SKP Resources Bhd bagged from Dyson Ltd is worth RM400mil annually. In a filing with Bursa Malaysia, SKP, a manufacturer of plastic products, said the contract tenure was five years. Dyson is an existing customer of SKP. SKP said the contract, which commences in October this year, was expected to contribute positively to the group's revenue and earnings for the financial years ending March 31, 2016 and 2017. SKP, being one of the Dyson's contract manufacturers in Malaysia, currently assembles a range of Dyson's products including upright vacuum cleaners and bladeless fans. (Source: *The Star*)

MFM (CP: RM1.51): Cautiously optimistic of 2015 growth

Malayan Flour Mills Group (MFM) is cautiously optimistic over its 2015 growth despite registering a decrease in profits last year. MFM's pre-tax profit dropped 11% to RM83.7 million for the year-ended Dec 31, 2014. Managing Director Teh Wee Chye said the decrease was mainly due to low contribution from its new joint venture in Indonesia with PT Bungasari Flour Mills Indonesia (BFMI). Despite being a new player in the market, he said BFMI achieved a revenue of RM66 million from the sale of flour and by-products in 2014. Meanwhile, MFM's poultry integration business delivered RM52.9 million in operating profit last year, up 59 per cent, from RM33.2 million in 2013. Group revenue for 2014 was recorded at RM2.3 billion with the flour and trading in grains constituting 62%. (Source: *The Star*)

Lafarge Malaysia (CP: RM9.50): Revenue up 2.88% on higher cement, concrete sales

Lafarge Malaysia Bhd saw its revenue increased 2.88% to RM696.09 million in the first quarter of financial year 2015 ended March 31, 2015 (1QFY15), compared to RM676.63 million in the previous corresponding quarter, on higher cement and concrete sales. In a filing with Bursa Malaysia, Lafarge, however, saw its net profit dipped slightly by 0.32% to RM73.69 million or 8.7 sen per share, compared to RM73.93 million or 8.7 sen per share in the first quarter of financial year 2014 (1QFY14). Lafarge declared a dividend of eight sen per share. (Source: The Edge)

Batu Kawan (CP: RM18.18): 2Q net profit shrinks 26% to RM120.9m

Batu Kawan Bhd's net profit dropped 25.9% to RM120.9 million in the second quarter ended March 31, 2015, from RM163.2 million in the previous corresponding quarter. The lower net profit came on weak contribution from its plantation and manufacturing segments, despite improved contributions from its property and investment holding/others segments. The group's revenue, however, rose 4.5% to RM3.16 billion, from RM3.02 billion a year ago, as all segments reported higher revenues. In its result announcement to Bursa Malaysia, Batu Kawan declared an interim single tier dividend of 15 sen per share for the financial year ending Sept 30, 2015. (Source: The Edge)

JCY International (CP: RM0.77): Net profit jumps 34% due to weak ringgit, higher selling prices

JCY International Bhd saw its net profit increased 34% to RM51.15 million or 2.52 sen per share in the second quarter of financial year 2015 ended March 31, 2015 (2QFY15), compared to RM38.1 million or 1.88 sen per share in the previous corresponding quarter, due to weaker ringgit against the US dollar and better average selling prices (ASP). In a filing with Bursa Malaysia, JCY International recorded a 7.044% increase in revenue to RM508.8 million in 2QFY15, compared to RM475.32 million in the second quarter of financial year 2014 (2QFY14). Year-to-date (YTD), net profit rose 48% to RM101.34 million or 4.99 sen per share, compared to RM68.36 million or 3.37 sen per share last year; while revenue rose 4.68% to RM996.67 million, compared to RM952.13 million last year. (Source: The Edge)

Deleum (CP: RM1.58): 1Q profit falls 15.6% to RM8.2m

Deleum Bhd's net profit fell 15.6% to RM8.2 million in the first quarter ended March 31, 2015, from RM9.8 million in the previous corresponding quarter, although its quarterly revenue jumped 34% to RM135.9 million, from RM101.4 million previously. In a statement, Deleum said the lower profit was due to lower contributions from its oilfield services segment and maintenance, repair and overhaul (MRO) segment. However, it said the power and machinery segment remains the key contributor to the revenue contribution and pre-tax profit of the group. The major oil and gas players in the country are observed to be cutting back and/or deferring capital and operating expenditures. (Source: The Edge)

ECONOMIC UPDATES

China: To spend US\$182bil to boost Internet by end of 2017

China will spend more than US\$182bil (RM657.52bil) to boost Internet speeds by the end of 2017, a top government body said, as Beijing moves towards a more service-driven economy to boost growth. The State Council said the government will invest more than 430bil yuan (RM250.56bil) this year on network construction, with at least another 700bil yuan (RM408.28bil) spent over the following two years. The goal is to accelerate the development of fibre optic broadband and high speed 4G mobile networks, the governing body said on its website. China ranked 82nd in the world for average Internet connection speed, slower than Malaysia, Thailand and Taiwan, according to cloud computing services provider Akamai's State of the Internet report for the fourth quarter of 2014. (Source: The Star)

Indonesia: World Bank aids Indonesia infrastructure plans with \$12 bln loan

The World Bank Group on Wednesday offered Indonesia up to \$12 billion in new financing to 2019 to support President Joko Widodo's ambitious infrastructure plans, its president said. Jim Yong Kim, World Bank Group president, said around \$8 billion would be available for reconstruction and development in Southeast Asia's largest economy, up 25 percent from the previous four years. The World Bank is not the only one offering President Widodo support to make good on his promises of a massive infrastructure push during his 5-year term. Chinese President Xi Jinping on a visit to Jakarta in April had already expressed his interest to increase China's infrastructure investments to Indonesia. (Source: The Edge)

Eurozone: Slides as Greek official says IMF repayment in doubt

The euro slid to a two-week low and a rally in European shares stalled on Wednesday after a Greek official said the country may not make an upcoming repayment to the International Monetary Fund. The euro's fall follows remarks from a European Central Bank board member on Tuesday that the central bank could increase the pace of its bond-buying in May and June, bringing its losses against the dollar this week to more than 3 percent. The pause in European shares mirrored the sticky performance of Asian bourses, although the Nikkei in Tokyo jumped to a 15-year high after Japan posted surprisingly strong economic growth for the first quarter. European bank shares were in focus after Switzerland's UBS paid \$545 million to settle with U.S. authorities over currency rigging. Four other global banks are expected to settle later on Wednesday. Ahead of minutes from the U.S. Federal Reserve's Open Market Committee due later on Wednesday, the focus for investors will likely be on Greece and the euro's steep fall this week. (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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