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Friday, May 22, 2015

Report of the Day

Results Review: Alam Maritim 1Q15, SELL (TP: RM0.56) – “Sailing Into Heavy Waves”

Results Review: Kossan 1Q15, HOLD (TP: RM6.12) – “Steady Outlook”

Economic Report: 11th Malaysia Plan – “Game Changer; Structural Adjustments in Full Speed”

At a Glance

FBM KLCI down 15.07 points to finish at 1,795.04 impacted weaker China factory data.....(See full report next page)

Strategy

“Regional Market May Continue to Bleed”

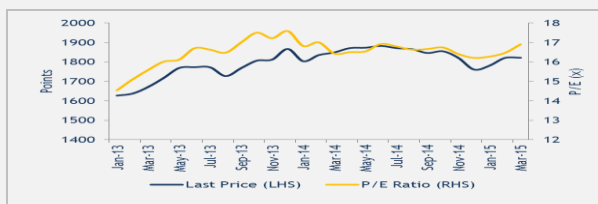
We think that foreign investors will continue moving out their funds out of the region in steady but surely pace.....(See full report next page)

Corporate Highlights

- **Kossan, HOLD (TP: RM6.12):** 1Q net profit up 23% on higher latex glove, clean room income
- **Alam Maritim, SELL (TP: RM0.56):** Lower OSV utilisation rate drags Alam Maritim 1Q profit by 44.89%
- **Hock Seng Lee (CP: RM1.95):** 1Q PBT rose to RM26.3 mil

Economic Update

- **Malaysia:** To post GDP of RM2.6 trillion in 2030, doubling 2020 forecast
- **Japan:** May flash manufacturing PMI back in expansion territory
- **China:** Confident of meeting 2015 GDP target of 7%



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
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 Annualised 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	-	-4.4
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

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBM KLCI	1,795.04	-15.07	-0.83
FBMEMAS	12,404.94	-93.25	-0.75
FBMEMAS SHA	12,904.31	-88.84	-0.68
FBM100	12,080.72	-90.27	-0.74
Volume (mn)	2,447.20	525.29	27.33
Value (RMmn)	2,284.95	343.43	17.69
FBM KLCI YTD Chg			1.92

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMmn)
Local Retail	20.7	23.7
Local Institution	59.0	144.4
Foreign Investors	20.3	-168.1

Top Gainers

	Close	Change+/-	(+/- %)
BAT	64.50	0.46	0.72
MICROLINK SOL	0.92	0.30	48.39
NEW HOONG FAT	2.79	0.17	6.49

Top Losers

	Close	Change+/-	(+/- %)
NESTLE	71.50	-1.30	-1.79
DUTCH LADY	47.00	-0.32	-0.68
KHIND HOLDINGS	2.31	-0.27	-10.47

World Indices

	Close	Change+/-	(+/- %)
DJIA	18,285.74	0.34	0.00
NASDAQ	5,090.79	19.05	0.38
S&P 500	2,130.82	4.97	0.23
FTSE 100	7,013.47	6.21	0.09
DAX	11,864.59	16.12	0.14
Nikkei 225	20,202.87	6.31	0.03
HSI	27,523.72	-61.33	-0.22
KOSPI	2,122.81	-16.73	-0.78
STI	3,441.80	2.12	0.06
KLCI Futures	1,781.50	(22.50)	(0.01)
USDMYR 3M	9.90	(0.01)	(0.00)
USDMYR 6M	9.97	(0.01)	(0.00)
USDMYR 12M	10.08	0.01	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	61	0.0	0.0%
Brent (USD/bbl)	66.5	1.5	2.3%
Gold(USD/ounce)	1,206	1.4	0.1%
Coal (USD/mt)	60.3	0.1	0.2%
CPO (RM/mt)	2,158	16.0	0.7%
Rubber	182	0.1	0.1%
RM/USD	3.60	-0.0141	0.39%
EUR/USD	0.90	0.0003	0.03%
YEN/USD	121.04	0	0.00%

What To Expect

U.S. Market

- The Dow Jones Industrials Average gained 0.34 points to 18,285.74; S&P 500 up by 4.97 points to 2,130.82. Nasdaq soared by 19.05 points to 5,090.79. Stocks closed modestly higher on Thursday, with the Nasdaq outperforming, as investors eyed slightly lower bond yields and mostly shook off the morning's mixed economic data.
- Yields edged lower after disappointing existing home sales, with the 10-year yield dipping below 2.20 percent. The dollar weakened, with the euro at \$1.113.

The Local Market

- FBMKLCI down 15.07 points to finish at 1,795.04 impacted weaker China factory data. There were 259 gainers and 628 decliners in total value traded of RM2.28 billion.
- Among the losers on Bursa Malaysia were Nestle dropped RM1.30 to RM71.50, Dutch Lady fell 32 cent to RM47.00, Khind Holdings slipped 27 cent to RM2.31 and Guinness Anchor slid 26 cent to RM14.58.

Strategy

- **“Regional Market May Continue to Bleed”**

Wall Street closed modestly higher at the back of mixed economic readings. S&P 500 and DJIA added 4.97 (0.23%) and 0.34 (0.00%) points to end at 2,130.82 and 18,285.74 respectively. Investors made a decision to accumulate, albeit small time, in the equity market at the back of relatively mixed economic readings. In sum, the feel-good-feeling was jacked up by improving US economic prospects in 2Q. In meantime, the US April CPI numbers would hold a lot of clue of health of the US economy. The data is due for release today. Note that the US Existing Home Sales for April fell 3.3%, missing an expected 1% gain to 5.24 million units while Manufacturing PMI came in at 53.8 for May, below expectations of 54.5 and The Conference Board's leading indicator index, which forecasts future economic activity, showed a gain of 0.7% in April. Above all, yesterday's development where the US FOMC released its April meeting minutes may be a deal breaker for the regional market. The growing signs that US Federal Funds rate may see the light of adjustment in 2H is a negative catalyst. We think that foreign investors will continue moving out their funds out of the region in steady but surely pace. Unless and until there is a bigger magnitude of catalyst that could stem this, the prognosis in the short term is less-than-upbeat in our view.

- 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

Kossan, HOLD (TP: RM6.12): 1Q net profit up 23% on higher latex glove, clean room income

Kossan Rubber Industries Bhd saw its net profit expanded by 23% to RM45.45 million for the first quarter ended March 31, 2015, from RM36.83 million last year, contributed by latex glove and clean room division's higher revenue. The glove maker's earnings before taxation, interest, depreciation and amortization (EBITDA) margin expanded to 20.9%, from 19.3%, due to overall improvement of operating efficiency and better product mix in glove segment. The improved profit was mainly contributed by its glove division and clean-room division, which saw its profit before tax increased by 34.48% and 49.74% respectively. Meanwhile, its technical rubber division registered a lower PBT by 67.80%, compared to last year. This translates into earnings per share of 7.11 sen, from 5.76 sen last year. (Source: The Edge)

Alam Maritim, SELL (TP: RM0.56): Lower OSV utilisation rate drags Alam Maritim 1Q profit by 44.89%

Lower average utilisation rate of offshore support vessels (OSV) and lower revenue from the offshore installation & construction (OIC) segment had dragged Alam Maritim Resources Bhd's net profit down by 45% to RM8.59 million for the first quarter ended March 31, 2015, against RM15.59 million a year ago. In a filing to Bursa Malaysia today, Alam Maritim (fundamental: 1.6; valuation: 1.5) said the profitability of the OSV segment was lower by 34.7%, primarily due to lower average utilisation rate of OSV. Similarly, its subsea services/OIC segment also registered a 37.2% lower profit before taxation of RM1.38 million the 1QFY15, versus RM2.19 million last year, due to significantly lower revenue registered by OIC segment during the current financial quarter. (Source: The Edge)

Hock Seng Lee (CP: RM1.95): 1Q PBT rose to RM26.3 mil

Revenue for the quarter under review is RM186.46 million, an increase of 61% against the preceding year corresponding quarter's figure of RM116.03 million. The increase was mainly due to the increased activities in construction segment which contributed RM178.53 million (96%) of the Group's revenue for the quarter. The net profit before tax of the Group for the current quarter is RM26.26 million, an increase of 19% as compared to RM22.03 million for the preceding year's corresponding quarter. (Source: Bursa Malaysia)

MFM (CP: RM1.50): Pre-tax profit down to RM11.86mil

Malayan Flour Mills Bhd (MFM) saw its pre-tax profit for the first quarter ended March 31, 2015 slip to RM11.86mil from the RM30.79mil it posted for the same quarter last year. In a filing with Bursa Malaysia, it attributed the decline to lower profit margins in both flour and trading as well as the grain and poultry integration segments, alongside a higher share of loss in an equity-accounted joint venture (JV) in the said quarter. The loss incurred in the JV was attributed to unfavourable product margins and weakening of the rupiah against the US dollar in the first quarter. This resulted in realised and unrealised losses of foreign exchange amounting to RM3.8mil on US dollar borrowings," it said. (Source: The Star)

Scomi Group (CP: RM0.23): Posts stellar results

Scomi Group Bhd posted a stellar jump in net profit to RM49.3mil for the financial year ended March 31, compared with RM4.96mil a year earlier. Revenue for the financial year under review (FY15) increased 8.8% year-on-year to RM1.8bil. In a statement, the group – which is involved in oilfield and marine services, and transport solutions – said the substantial improvement in earnings was due to the turnaround in its transport solutions division which posted a profit after tax of RM400,000, compared with a loss of RM37.7mil in FY14. The group has a RM5.3bil order book, consisting of RM3.9bil from oilfield services, RM1.2bil from transport solutions and RM190mil from marine services. For the fourth quarter, net profit was RM22.75mil, compared with a net loss of RM4.2mil a year ago, while revenue increased 3.6% year-on-year to RM436.36mil. *(Source: The Star)*

Aeon Co (CP: RM3.16): 1Q net profit grows 5.4%

Aeon Co (M) Bhd announced its net profit for the first quarter ended March 31, 2015 (1QFY15) had increased 5.4% to RM49.07 million or 3.52 sen per share, from RM46.87 million or 3.34 sen per share in 1QFY14, driven by contributions from its new shopping centres and overall better performance of existing shopping centres. Quarterly revenue jumped 17% to RM1.11 billion, from RM945.5 million, partly driven by consumers who were in anticipation of the implementation of the goods and services tax (GST). Aeon did not declare any dividend during the quarter. On outlook, Aeon expects a challenging year that would be dampened by consumer sentiment, as a result of higher cost of living and the recent implementation of GST. *(Source: The Edge)*

Petra Energy (CP: RM1.46): 1Q net profit up 86.9% driven by services segment

Petra Energy Bhd saw its net profit surge 86.9% to RM2.08 million or 0.65 sen a share for the first quarter ended March 31, 2015 (1QFY15) from RM1.12 million or 0.35 sen a share a year ago, mainly due to positive contribution from the services segment. The segment recorded an increase in pre-tax profit by RM5.5 million to RM7.4 million in 1QFY15, largely due to higher contribution from the hook up, commissioning and top-side major maintenance in line with its clients' scheduled activities executed. Petra Energy's revenue for 1QFY15 also rose 2.1% to RM119.07 million from RM116.58 million in 1QFY14. In a filing with Bursa Malaysia today, Petra Energy noted that global oil prices rebounded from its lowest position in recent past underpinned by demands in fossil energy sources. *(Source: The Edge)*

AZRB (CP: RM0.70): Bags RM113.26 Million Project In Pahang

Ahmad Zaki Resources Bhd (AZRB) subsidiary Ahmad Zaki Sdn Bhd secured a port link road-related project in Pahang worth RM113.26 million from the East Coast Economic Region Development Council (ECERDC). In a filing to Bursa, the firm said it received the letter of acceptance on May 20, 2015, from ECERDC for the project known as "The Proposed Construction and Completion of the KPC Port Link Road in Kuantan Port City, Pahang". The project is expected to contribute positively to AZRB Group's earnings and the net tangible assets for the financial year ending Dec 31, 2015 onwards, it said. *(Source: Bernama)*

JCY International (CP: RM0.75): To benefit from Seagate expansion in Penang

JCY International Bhd, one of the largest manufacturers of high disk drive (HDD) mechanical components globally, said Seagate's move to expand its operations in Malaysia is good news for the group. JCY executive director Datuk James Wong said on Thursday Seagate was building its factory in Penang to reduce its China operations. "This would mean that we have better prospects," he said, pointing that Seagate is JCY's second largest customer that has about 40% global market share. "According to market talks, Seagate would be investing RM2bil in the new factory in Penang," Wong said after a briefing on JCY's second quarter results ended March 31, 2015 that was announced on Wednesday. *(Source: The Star)*

EPF: Investment income up 20% to RM10.63b in Q1

The Employees Provident Fund (EPF) recorded an investment income of RM10.63bil in the first quarter ended March 31, 2015 due to its equity investments. It said on Thursday the RM10.63bil was an increase of 20.33% from RM8.83bil a year ago. The EPF's total investment assets grew to RM663.75bil as at end Q1, 2015 – boosted by net contributions of RM5.90bil and the reinvestment of investment income generated during the quarter. Commenting on the financial performance, EPF chief executive officer Datuk Shahril Ridza Ridzuan said: "The positive result was mainly attributed to a better performance from our equity investments. *(Source: The Star)*

ECONOMIC UPDATES**Malaysia: To post GDP of RM2.6 trillion in 2030, doubling 2020 forecast**

The Economic Planning Unit (EPU) of the Prime Minister's Department has set a target for Malaysia to double its gross domestic product to RM2.6 trillion in 2030, from RM1.4 trillion in 2020, driven by knowledge-intensive and high-value added activities, generating high income jobs. In 2030, more than 40% of total employment will comprise of skilled workers compared with approximately 35% in 2020. The EPU forecasted GDP per capita to more than double to RM117,260 in 2030, from RM54,890 in 2020, driven by a progressive, inclusive, sustainable and adaptable economy. The EPU further forecasted a shift in trading activities towards the East in the future, driven by the advancing economies of China and India, which will become major markets for Malaysian goods and services. *(Source: The Star)*

Japan: May flash manufacturing PMI back in expansion territory

Japanese manufacturing activity rebounded modestly in May as output and new orders picked up, suggesting a much-needed improvement in demand at home and abroad. The Markit/JMMA flash Japan Manufacturing Purchasing Managers Index (PMI) rose to a seasonally adjusted 50.9 in May from a final 49.9 in April. The index returned above the 50 threshold that separates contraction from expansion for the first time in two months. The output index also rose to a preliminary 51.7 in May, after shrinking in April. New orders rose to a preliminary 51.2 from 48.8 in April, ending two months of declines. *(Source: The Star)*

China: Confident of meeting 2015 GDP target of 7%

Premier Li Keqiang said he was confident China has the ability to meet its 2015 economic growth target of around 7 percent, the official news agency Xinhua said on Thursday. China is set for its slowest growth in a quarter of a century this year and has rolled out a series of measures since last year to shore up the flagging economy and reduce the risk of falling short of its official growth targets. "We have the ability and confidence to meet this target and to maintain medium-to-high speed economic growth," Li said, according to Xinhua. Li was speaking in Brazil where he has been announcing trade, finance and investment deals worth tens of billions of dollars in energy, mining, aviation. (Source: *The Star*)

Indonesia: Opens books on 10-year sukuk at 4.55%

The Republic of Indonesia is marketing a 10-year US dollar sukuk to yield around 4.55%. Indonesia, Asia's most active sovereign borrower in the US dollar market, is indicating a benchmark size for the deal, typically at least \$500 million. The issuance marks the sixth global sukuk for Indonesia. It last raised \$1.5 billion in September, with a 10-year sukuk that drew over \$10 billion in orders. The Islamic bonds will be available to global investors under 144A and Reg S documentation. Indonesia is rated Baa3/BB+/BBB- by Moody's, Standard & Poor's and Fitch. (Source: *The Star*)

India: Central bank seeks to simplify forex rules

India's central bank is working to liberalise its foreign exchange rules to make it easier to do business with Asia's third-largest economy, Deputy Governor H.R. Khan said on Thursday, a step that could support flagging exports. In line with Khan's announcement, the central bank took a small step by simplifying the process for Indian companies to raise rupee funds offshore. Exporters asked the Reserve Bank of India to ease rules for tracking cross-border trade amounting to over \$15 billion annually via third countries to boost exports, said industry officials who attended a town-hall meeting with Khan. India's exports contracted by 14 percent in April from a year earlier, falling for the fifth straight month and casting a shadow over Prime Minister Narendra Modi's goal of achieving over 8 percent economic growth in 2015/16 fiscal year. (Source: *The Edge*)

U.S.: Jobless claims up; four-week average lowest since 2000

The number of Americans filing new claims for unemployment benefits rose slightly more than expected last week, but the underlying trend continued to suggest the labor market was tightening. The jobs market is strengthening despite a sluggish economy that has been characterized by tepid consumer spending, as well as weak business investment and manufacturing activity. Initial claims for state unemployment benefits increased 10,000 to a seasonally adjusted 274,000 for the week ended May 16, the Labor Department said on Thursday. Claims for the prior week were unrevised. Despite last week's increase, claims remained below 300,000, a threshold associated with a strengthening labor market, for an 11th straight week. Economists polled by *Reuters* had forecast claims rising to 271,000 last 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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