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Monday, May 25, 2015

Report of the Day

Results Review: Sime Darby 3Q15, HOLD (TP: RM9.00) – “Tough Business Foundation”

Results Review: AMMB Holding 4Q15, HOLD (TP: RM6.80) – “Not Good Enough”

At a Glance

FBMKLCI down 7.54 points to finish at 1,787.50 due to the selling pressure on some heavyweight counters.....(See full report next page)

Strategy

“Negative Catalysts Weighing in”

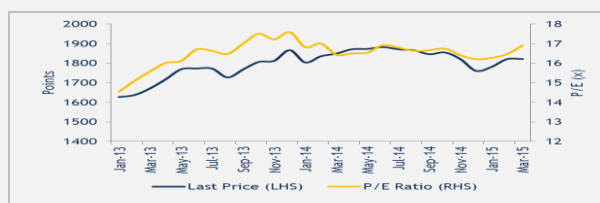
In a nutshell, it will be a tough call for investors to enter the global equity market.....(See full report next page)

Corporate Highlights

- **Sime Darby, HOLD (TP: RM9.00):** Q3 net profit down to RM386m
- **AMMB Holdings, HOLD(TP:6.80):** Earnings near RM2bil in FY15
- **Tan Chong, HOLD (TP: RM3.00):** Opens its largest sales, service and spare parts centre

Economic Update

- **Malaysia:** April inflation rate up slower than expected
- **Malaysia:** Japan trade up 1.4% to RM137.45bil
- **Japan:** BOJ slightly more optimistic on economy as business mood improves



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
JP	25-May	7:50 AM	Trade Balance	-	¥229.3B
US	26-May	8:30 PM	Durable Goods Orders	-0.5%	4.0%
US	26-May	8:30 PM	Durable Ex Transportation	0.4%	-0.2%
US	26-May	9:00 PM	S&P/CS 20 City MoM SA	-	0.93%
US	26-May	9:00 PM	S&P/CS Composite-20 YoY	4.50%	5.03%
US	26-May	9:00 PM	S&P/CasShiller 20-City Index NSA	-	173.67
US	26-May	9:45 PM	Markit US Composite PMI	-	57.0
US	26-May	9:45 PM	Markit US Services PMI	-	57.4
US	26-May	10:00 PM	New Home Sales	500K	481K
US	26-May	10:00 PM	New Home Sales MoM	4.0%	-11.4%
US	26-May	10:00 PM	Consumer Confidence Index	95.2	95.2
US	27-May	7:00 PM	MBA Mortgage Applications	-	-1.5%
EU	28-May	5:00 PM	Economic Confidence	-	103.7
EU	28-May	5:00 PM	Business Climate Indicator	-	0.32
EU	28-May	5:00 PM	Consumer Confidence	-	-
JP	28-May	7:50 AM	Retail Trade YoY	-	-9.7%
JP	28-May	7:50 AM	Retail Sales MoM	-	-1.9%
US	28-May	8:30 PM	Initial Jobless Claims	-	-
US	28-May	8:30 PM	Continuing Claims	-	-
US	28-May	10:00 PM	Pending Home Sales MoM	1.0%	1.1%
EU	29-May	4:00 PM	M3 Money Supply YoY	-	4.6%
JP	29-May	7:30 AM	Jobless Rate	-	3.4%
JP	29-May	7:50 AM	Industrial Production MoM	-	-0.8%
JP	29-May	7:50 AM	Industrial Production YoY	-	-1.7%
JP	29-May	12:00 PM	Vehicle Production YoY	-	-6.5%
JP	29-May	1:00 PM	Housing Starts YoY	-	0.7%
JP	29-May	1:00 PM	Annualized Housing Starts	-	0.920M
JP	29-May	1:00 PM	Construction Orders YoY	-	10.8%
US	29-May	10:30 AM	GDP Annualized QoQ	-0.9%	0.2%
US	29-May	10:30 PM	Personal Consumption	-	1.9%
US	29-May	10:00 PM	U. of Mich. Sentiment	90.1	88.6
MY	29-May	6:00 PM	Money Supply M3 YoY	-	7.9%

Research Team

research@mna.com.my

03-22877228/03-22825373

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,787.50	-7.54	-0.42
FBMEMAS	12,353.41	-51.53	-0.42
FBMEMAS SHA	12,837.93	-66.38	-0.51
FBM100	12,027.60	-53.12	-0.44
Volume (mn)	1,577.92	-869.28	-35.52
Value (RMmn)	1,926.24	-358.71	-15.70
FBMKLCI YTD Chg			1.49

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	15.9	18.4
Local Institution	59.5	156.1
Foreign Investors	24.6	-174.5

Top Gainers

	Close	Change+/-	(+/- %)
NESTLE	72.48	0.98	1.37
UNITED PLANT	26.48	0.28	1.07
MICROLINK SOL	1.17	0.25	27.17

Top Losers

	Close	Change+/-	(+/- %)
TENAGA	13.70	-0.30	-2.14
SAM ENGIN	4.00	-0.19	-4.53
SIME DARBY	8.75	-0.19	-2.13

World Indices

	Close	Change+/-	(+/- %)
DJIA	18,232.02	-53.72	-0.29
NASDAQ	5,089.36	-1.43	-0.03
S&P 500	2,126.06	-4.76	-0.22
FTSE 100	7,031.72	18.25	0.26
DAX	11,815.01	-49.58	-0.42
Nikkei 225	20,264.41	61.54	0.30
HSI	27,992.83	469.11	1.70
KOSPI	2,146.10	23.29	1.10
STI	3,439.86	12.50	0.36
KLCI Futures	1,775.00	(8.00)	(0.00)
USDMYR 3M	9.66	(0.05)	(0.00)
USDMYR 6M	9.80	(0.03)	(0.00)
USDMYR 12M	9.96	(0.01)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	60	0.3	0.4%
Brent (USD/bbl)	65.6	0.2	0.3%
Gold(USD/ounce)	1,204	-2.2	-0.2%
Coal (USD/mt)	60.0	-0.3	-0.5%
CPO (RM/mt)	2,135	-23.0	-1.1%
Rubber	182	0.0	0.0%
RM/USD	3.58	-0.0172	0.48%
EUR/USD	0.91	0.0011	0.12%
YEN/USD	121.54	0	0.00%

What To Expect

U.S. Market

- The Dow Jones Industrials Average shed -53.72 points to 18,232.02; S&P 500 down by 4.76 points to 2,126.06. Nasdaq tumble by 1.43 points to 5,089.36. U.S. stocks fell in late morning trading on Friday, retreating from recent record highs, as investors await Federal Reserve Chair Janet Yellen's economic outlook for clues on the timing of a rate hike after new data showed a rise in inflation.
- Yellen is expected to highlight the economy's steady job growth, while April's consumer price index data is likely to bolster Fed's case for its first policy tightening in nearly a decade.

The Local Market

- FBMKLCI down 7.54 points to finish at 1,787.50 due to the selling pressure on some heavyweight counters. There were 296 gainers and 498 decliners in total value traded of RM1.93 billion.
- Among the losers on Bursa Malaysia were Tenaga dropped 30 cent to RM13.70, SAM Engineering fell 19 cent to RM4.00, Sime Darby slipped 19 cent to RM8.75 and Syarikat Takaful slid 18 cent to RM16.20.

Strategy

- **“Negative Catalysts Weighing in”**

Wall Street traded range bound last Friday and finally gave up a few points, hurt by Federal Reserve statement that policy rate will be due for adjustment in 2H15. **S&P 500** and **DJIA** erased **4.70 (-0.22%)** and **53.72 (-0.29%)** points to end at **2,126.06** and **18,232.02** respectively. A few negative catalysts will weigh on sentiment this week including, but not limited to, Janet's Yellen speech last Friday which she reiterated that the US Federal Funds rate (FFR) will see the light of adjustment in 2H15. As with before, the adjustment, according to her, will be 'data dependent' and the strength of the economy and she was clearer than ever in mentioning about this. She was also the view that the recent headwinds facing the domestic economy including the headwinds from abroad could wane in due time as most would be transitory in nature. She also warned on the likelihood of market choppiness in weeks to come as the market starts to absorb this inevitable factor. Note that there is an increasing probability that the FFR may get adjusted in September by 25 basis points, ample time for the Fed to be convinced of the economic strength and asses inflationary impulse. By making direct speech like that, Janet Yellen was seen coaxing the public into accepting the first rate hike since the last 6 ½ years. There would be a lot of pain as a result as there would be costlier borrowing cost that could weigh on equity market sentiment. In addition, the uncertainty over the speed and quantum of FFR adjustment will certainly raise risk premia in the broader market. Added salt to the wound would be Greece recent bomb over the weekend that it does not have the cash to meet IMF Euro1.6 billion (USD1.8 billion) debt obligations in June. Greece debt standstill will definitely shake the Eurozone's banking system and hence, elevating systematic risk as a result. In a nutshell, it will

be a tough call for investors to enter the global equity market this week more so when negative catalyst in hand is so overwhelming and more global in nature.

- 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

Sime Darby, HOLD (TP: RM9.00): Q3 net profit down to RM386m

Sime Darby Bhd posted a weaker set of earnings for the third quarter and nine months ended March 31, 2015 as its financial performance was impacted by tough business conditions, weak markets for commodity prices. It said on Friday the motors division's expansion into new territories and the property division's focus on integrated development and affordable properties enable it face challenging market conditions. It said on Friday earnings fell 54.7% to RM386.04mil from RM852.53mil a year ago. Its pre-tax profit fell declined by 38% to RM595.21mil from RM960.54mil. Revenue fell to RM9.997bil from RM10.101bil. Earnings per share were 6.22 sen compared with 14.08 sen. (Source: The Star)

AMMB Holdings, HOLD (TP: RM6.80): Earnings near RM2bil in FY15

AMMB Holdings Bhd's posted a stronger set of earnings in the financial year ended March 31, 2015 as its stronger financial performance was underpinned by higher non-interest income and lower allowances. The banking group announced on Friday its profit after tax crossed the RM2bil mark to RM2.044bil, an increase from 9.24% from RM1.871bil a year ago. Its earnings, or profit attributable to shareholders, also showed an increase of 7.8% to RM1.918bil in the financial year ended March 31, 2015 from RM1.782bil in FY14 lifted by non-interest income and lower allowances, translating to a return on equity of 13.8%. AMMB's revenue fell 4.8% to RM9.142bil from RM9.606bil a year ago. (Source: The Star)

Tan Chong, HOLD (TP: RM3.00): Opens its largest sales, service and spare parts centre

Edaran Tan Chong Motor Sdn Bhd (ETCM) has launched its biggest sales, service and spare parts (3S) centre in the country that costs RM25.5mil. The new six-storey centre, which has a big showroom and 400 parking bays, is sited on 0.87ha with a built-up area of some 256,000 sq ft. ETCM executive director Datuk Dr Ang Bon Beng said the showroom could display up to 30 vehicles – ETCM's entire Nissan line-up. There are 36 service bays to service up to 150 cars per day at any one time. (Source: The Star)

KPJ Healthcare, HOLD (TP: RM3.92): eyes RM90mil health tourism revenue

KPJ Healthcare Bhd aims to increase its revenue from health tourism to RM90mil this year from RM78mil in 2014, says vice-president (1) corporate and

financial services Mohd Sahir Rahmat. In 2013, the private healthcare provider posted revenue of RM67.09mil for the sector. To meet the target, he said, KPJ would continue to innovate and bring in new technology while expanding its services to meet patients' needs. The growth rate of income in the medical tourism industry had exceeded the 10th Malaysia Plan target by 10% every year, and for the 11th Malaysia Plan period, the income was expected to grow 15% annually, generating revenue of about RM2bil by 2020, he said. *(Source: The Star)*

Samchem (CP: RM0.72): Eyes better performance in FY15

Industrial chemicals distributor, Samchem Holdings Bhd targets a stronger performance in the current financial year ending Dec 31, 2015 by growing the profitability of its Malaysia operations. The company said on Friday that it plans to not only increase its local revenue base by introducing more innovative products, but also improve its cost structure to enhance profit margins. Samchem executive chairman Ng Thin Poh said that company is confident of achieving a stronger financial performance this year as the company taps into increasing demand for high quality and innovative industrial chemicals that cater to the Malaysian market. *(Source: The Star)*

Turbo-Mech (CP: RM1.24): Plans to expand Singapore operations

Turbo-Mech Bhd hopes to maintain its performance this year despite the global economic uncertainty, and set to expand its existing market in Singapore, said executive director Gan Kok Ten. He said as most of the company's clients are based there and contributed significantly to group revenue, it intended to increase the capacity of its Singapore workshop by 20%. "We will allocate between RM10 million and RM20 million for capital expenditure and most of it will be channelled to the Singapore operations," he told reporters after the company's sixth annual general meeting. *(Source: The Star)*

Jiankun International (CP: RM0.28): Expects turnaround in FY15

Jiankun International Bhd, which is currently reporting financial losses, expects to return to the black by the end of financial year ending December 31, 2015, said Executive Chairman Lim Siang Chai. The property developer is expected to report a profit by the end of this year, mainly due to Jiankun's diversification into the construction sector in 2015. "We expect to start reporting a profit in FY2015 based on our first construction contract worth RM32.9 million in Puchong and our second project in Seri Kembangan at a gross development value (GDV) of RM70 million. *(Source: The Star)*

Perodua: Gaining ground in coming out with first sedan

Perusahaan Otomobil Kedua Sdn Bhd (Perodua) is gaining significant ground in its bid to launch its first sedan. President and chief executive officer Datuk Aminar Rashid Salleh said the second national carmaker had reached the prototype stage and had even evaluated the platform, engine and transmission for the new model. He said local engineers and designers would be heavily involved in the project after consultation with its partner Daihatsu Motor Co. He, however, remained tight-lipped when asked on the launching date. *(Source: The Star)*

MRT: RM10bil MRT tunnelling job, tender to start this week,

The tunnelling job for mass rapid transit (MRT) line 2 is expected to be about RM10bil, the most expensive package of the RM28bil project. The pre-qualifying process for the international open tender will start as soon as this week leading up to its award in the first quarter of next year. The new 52.2km urban rail artery is mainly known as the Sungai Buloh-Serdang-Putrajaya (SSP) line. Government incorporated entity MRT Corp Sdn Bhd will be the asset owner of the whole MRT system and is expected to ensure the SSP line is delivered by July 2022 in an effort to ease growing traffic congestion in the capital. Chief executive officer Datuk Seri Shahril Mokhtar said the tunnelling job with international bidders was expected to take a longer evaluation process of about three months, hence it would be the first package they would be working on. (Source: The Star)

Sunway Construction: Making Bursa comeback

Sunway Construction Bhd has come full circle, as it will be relisting on Bursa Malaysia for the second time after an 11-year absence. The company is one of the few large public offerings that will make their debut in the market this year. And while the listing could be fairly well-received by investors, this would also ultimately depend on the valuation that the offering will finally be fixed at. Its major shareholders stand to gain the most from this relisting, as it was privatised at a valuation of five times earnings, against an indicative historical valuation of 12.5 times earnings when it goes public again soon. The listing this time around will see parent company Sunway Bhd raising RM441.1mil at an indicative offer price of RM1.10. (Source: The Star)

Telecommunication Sector (Overweight): Stiffer penalties for telcos and broadcasting industries

Companies in the telecommunications and broadcasting industries will be subjected to stiffer penalties that at the moment are described as measly by the minister in charge of ensuring the operators providing services toe the line. Communications and Multimedia Minister Datuk Seri Ahmad Shabery Cheek felt the current penalties imposed on players providing the various telecommunication and broadcasting services were “nothing”, as they did not deter them from breaking the law. owards this end, the minister said that stiffer penalties and tougher enforcement are in store for the telecoms and broadcasting industries once the existing Communications and Multimedia Act (CMA) was amended. (Source: The Star)

Media Sector (Neutral): Better adex seen in H2

Advertising expenditure (adex) is expected to improve in the second half (H2) of this year, as advertisers start adapting to the implementation of the goods and services tax (GST) and “start spending confidently” again. According to Nielsen, year-on-year adex last month (inclusive of pay-television) was flat at RM1.1bil, which industry observers said was due to advertisers adopting a “wait-and-see” approach. Mahesh Neelakantan, chief operating officer of word-of-mouth specialist firm Advocacy Malaysia, said many were cautious following the implementation of GST on April 1. (Source: The Star)

ECONOMIC UPDATES

Malaysia: April inflation rate up slower than expected

Malaysia's inflation rate, as measured by the Consumer Price Index (CPI), rose at a slower pace of 1.8% from a year ago, which was below a survey of a 2.2% rise. The Statistics Department said on Friday the April CPI increased by 1.8% to 111.9 compared with 109.9 a year ago as the impact of the Goods and Services Taxes (GST) took effect on April 1. It said the rise was due to a significant increase in the index for alcoholic beverages & tobacco group by 13.0%; health by 5.0%; restaurants & Hotels (+ 4.3%); and food & non-alcoholic beverages (+ 3.1%). These four groups of goods and services contributed 79.3% of the increased of CPI. *(Source: The Star)*

Malaysia: Japan trade up 1.4% to RM137.45bil

Malaysia's total trade with Japan increased by 1.4% to RM137.45bil in 2014, said Malaysian Ambassador to Japan Datuk Ahmad Izlan Idris. He said Malaysia recorded exports of RM82.71bil, an increase of 4.4%, while imports from Japan dropped by 2.9% to RM54.75bil. Ahmad Izlan said Malaysia's top exports include liquefied natural gas (LNG), electrical and electronics products as well as chemical-based products, while imports consist of electrical and electronics goods, machine components, and parts and accessories for vehicles. Japan is one of the top investors in Malaysia, with 2,510 projects worth US\$22.7bil implemented by its companies until Dec 31, 2013, creating 332,352 jobs, he said. *(Source: The Star)*

Japan: BOJ slightly more optimistic on economy as business mood improves

The Bank of Japan maintained its massive stimulus programme and offered a slightly more upbeat view of the world's third-largest economy on Friday, citing a modest rebound in consumption and exports. Adding to the more upbeat tone, a Reuters poll showed retailers' mood turned positive in May and hit the highest level since June last year, when sales were reeling after a sales tax increase. That added to some signs of hope from Wednesday's data that showed Japan's economy expanded at the fastest pace in a year in January-March due to modest increases in private consumption, which makes up roughly 60 percent of GDP. *(Source: Reuters)*

Japan: Net external assets hit record \$3 trillion as top creditor nation

Japan's net external assets rose to a record 366.86 trillion yen (\$3.03 trillion) at the end of last year as a weak yen boosted the value of overseas holdings, making the country the world's biggest creditor nation for 24 years in a row, the finance ministry said on Friday. The value of net assets held by the Japanese government, businesses and individuals exceeded the previous year's 325 trillion yen, the biggest amount on comparable data, ministry officials said. Japan's net external assets were 1.7 times those held by China, the world's No.2 creditor nation with 214.3 trillion yen in net assets at the end of 2014, followed by Germany whose assets stood at 154.7 trillion yen, the ministry said. *(Source: Reuters)*

Thailand: Government plans to sell stakes in firms to reduce debt

Thailand plans to sell government stakes in firms to help reduce debt, the finance minister said on Friday. A special law to borrow about 700 billion baht (\$21 billion) to repay debt at state enterprises, announced this week, is expected to go before the cabinet over the next two months, the minister, Sommai Phasee, told reporters. "The government has to seek more money to cut debt of 720 billion baht and what can be done is to sell stakes in businesses which are not useful," he said, adding that details would be decided later. Of the debt, about 513 billion baht is from a failed rice-buying scheme of the previous government and the rest from some other state agencies, Sommai said. (Source: *The Star*)

Indonesia: Central bank to ease mortgage rule for first home buyers

Indonesia's central bank will ease mortgage downpayment requirements for first-home buyers as it tries to revive economic growth without cutting interest rates. Bank Indonesia (BI) kept interest rates unchanged this week, shrugging off political pressure for a cut aimed at turning around the worst economic slowdown since 2009. Instead, the bank announced it will ease some lending requirements next month to spur loan growth. On Friday, BI Governor Agus Martowardojo said that under the new rule, first-home buyers will have to pay 20 percent of downpayment for mortgages, lower than the current 30%. (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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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

Head Of Research



Rosnani Rasul
M&A Securities