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Monday, June 01, 2015

Report of the Day

Results Review: RHB Capital 1Q15, HOLD (TP: RM8.35) - "The Grand Opening"

Results Review: TM 1Q15, HOLD (TP: RM6.87) - "Rough Starts to The Year"

Sector Report: Banking (Neutral) - "Colors of GST Weighing in"

At a Glance

FBMCLCI dropped by 8.04 points to finish at 1,747.52 in tandem with other regional markets.....(See full report next page)

Strategy

"Several Stress Points to Weigh on Market This Week"

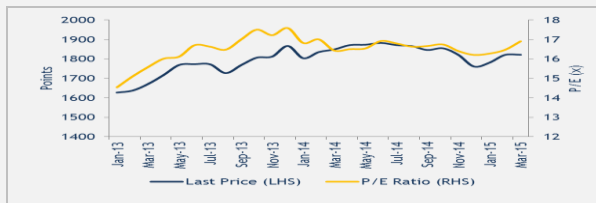
All in, the prognosis is less-than-upbeat for global equity market this week.....(See full report next page)

Corporate Highlights

- **RHB Capital, HOLD (TP: RM8.35):** Q1 earnings higher at RM476m
- **TM, HOLD (TP: RM6.87):** 1Q revenue up at RM2.77b on Internet income; profit down
- **Sime Darby, HOLD (TP: RM9.00):** Motors listing delay contributes to Sime rating down-grade

Economic Update

- **Malaysia:** Domestic PPI for April falls 0.4%
- **China:** To replace business tax on financial sector
- **Japan:** Spending slump casts doubt on central bank optimism



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	1-Jun	4:00 PM	Markit Eurozone Manufacturing PMI	52.3	52.3
CN	1-Jun	9:00 AM	Manufacturing PMI	50.2	50.1
CN	1-Jun	9:45 AM	HSBC China Manufacturing PMI	49.3	49.1
JP	1-Jun	7:50 AM	Capital Spending YoY	-	2.8%
JP	1-Jun	9:35 AM	Markit/JMMA Japan Manufacturing PMI	-	50.9
US	1-Jun	1:00 PM	Vehicle Sales YoY	0.3%	5.0%
US	1-Jun	8:30 PM	Personal Income	0.1%	0.0%
US	1-Jun	8:30 PM	Personal Spending	0.1%	0.4%
US	1-Jun	9:45 PM	Markit US Manufacturing PMI	53.8	53.8
US	1-Jun	10:00 PM	Construction Spending MoM	0.7%	-0.4%
US	1-Jun	10:00 PM	ISM Manufacturing	51.9	51.5
US	1-Jun	10:00 PM	ISM Price Paid	42.5	40.5
EU	2-Jun	5:00 PM	PPI MoM	-	0.2%
EU	2-Jun	5:00 PM	PPI YoY	-	-2.3%
EU	2-Jun	5:00 PM	CPI Estimate YoY	-	-
US	2-Jun	5:00 PM	Factory Orders	-0.2%	2.1%
EU	3-Jun	4:00 PM	Markit Eurozone Services PMI	-	53.3
EU	3-Jun	4:00 PM	Markit Eurozone Composite PMI	-	53.4
EU	3-Jun	5:00 PM	Unemployment Rate	-	11.3%
EU	3-Jun	5:00 PM	Retail Sales MoM	-	-0.8%
EU	3-Jun	5:00 PM	Retail Sales YoY	-	1.6%
EU	3-Jun	7:45 PM	ECB Main Refinancing Rate	-	0.050%
EU	3-Jun	7:45 PM	ECB Deposit Facility Rate	-	-0.200%
EU	3-Jun	7:45 PM	ECB Marginal Lending Facility	-	0.300%
CN	3-Jun	9:45 AM	HSBC China Composite PMI	-	51.3
CN	3-Jun	9:45 AM	HSBC China Services PMI	-	52.9
JP	3-Jun	9:35 AM	Markit Japan Services PMI	-	51.3
JP	3-Jun	9:25 AM	Markit/JMMA Japan Composite PMI	-	50.7
US	3-Jun	7:00 PM	MBA Mortgage Applications	-	-
US	3-Jun	8:15 PM	ADP Employment Change	180K	169K
US	3-Jun	8:30 PM	Trade Balance	(\$44.3B)	(\$51.4B)
US	3-Jun	9:45 PM	Markit US Composite PMI	-	56.1
US	3-Jun	9:45 PM	Markit US Services PMI	-	56.4
US	4-Jun	8:30 PM	Nonfarm Productivity	-2.9%	-1.9%
US	4-Jun	8:30 PM	Initial Jobless Claims	-	-
EU	4-Jun	8:30 PM	Continuing Claims	-	-
EU	5-Jun	9:00 PM	GDP SA QoQ	-	0.4%
AY	5-Jun	12:00 PM	Exports YoY	-	2.3%
AY	5-Jun	12:00 PM	Imports YoY	-	5.8%
AY	5-Jun	12:00 PM	Trade Balance MYR	-	7.82B
AY	5-Jun	8:30 PM	Foreign Reserves	-	\$106.2B
US	5-Jun	8:30 PM	Unemployment Rate	5.4%	5.4%
US	5-Jun	8:30 PM	Labour Force Participation Rate	-	62.8%

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMCLCI	1,747.52	-8.04	-0.46
FBMEMAS	12,097.37	-36.74	-0.30
FBMEMAS SHA	12,576.45	-21.12	-0.17
FBM100	11,784.11	-34.26	-0.29
Volume (mn)	2,234.55	618.06	38.23
Value (RMmn)	3,693.68	1,789.03	93.93
FBMCLCI YTD Chg			-0.78

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	9.2	7.0
Local Institution	41.1	263.3
Foreign Investors	49.7	-270.3

Top Gainers

	Close	Change+/-	(+/- %)
Y&G CORP BHD	1.08	0.30	38.46
MICROLINK SOLUT	1.70	0.26	18.06
SAM ENGINEERIN	4.00	0.25	6.67

Top Losers

	Close	Change+/-	(+/- %)
BAT	62.00	-0.98	-1.56
PUBLIC BANK BHD	18.50	-0.46	-2.43
CARLSBERG BREW	12.20	-0.40	-3.17

World Indices

	Close	Change+/-	(+/- %)
DJIA	18,010.68	-115.44	-0.64
NASDAQ	5,070.03	-27.95	-0.55
S&P 500	2,107.39	-13.40	-0.63
FTSE 100	6,984.43	-56.49	-0.80
DAX	11,413.82	-263.75	-2.26
Nikkei 225	20,563.15	11.69	0.06
HSI	27,424.19	-30.12	-0.11
KOSPI	2,114.80	3.91	0.19
STI	3,392.11	-25.66	-0.75
KLCI Futures	1,738.50	(7.00)	(0.00)
USDMYR 3M	9.91	(0.02)	(0.00)
USDMYR 6M	9.89	(0.02)	(0.00)
USDMYR 12M	10.03	(0.01)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	60	-0.4	-0.6%
Brent (USD/bbl)	65.2	-0.4	-0.6%
Gold(USD/ounce)	1,193	2.0	0.2%
Coal (USD/mt)	57.6	0.3	0.5%
CPO (RM/mt)	2,216	8.0	0.4%
Rubber	190	3.9	2.1%
RM/USD	3.67	0.0258	-0.70%
EUR/USD	0.91	0.0023	0.25%
YEN/USD	124.19	0.04	-0.03%

What To Expect

U.S. Market

- The Dow Jones Industrials Average declined 115.44 points to 18,010.68; S&P 500 dropped by 13.40 points to 2,107.39. Nasdaq shed by 27.95 points to 5,070.03. U.S. stocks closed lower on Friday as data showed the economy contracted in the first quarter but indexes still posted gains for the month.
- Data showed the U.S. economy contracted at a 0.7 percent annual rate in the quarter, a sharp turnaround from the earlier estimate of growth of 0.2 percent. Weak reports on factory activity in the Midwest and consumer sentiment for May suggested that the growth pace was modest early in the second quarter.

The Local Market

- FBMKLCI dropped by 8.04 points to finish at 1,747.52 in tandem with other regional markets. There were 370 gainers and 424 decliners in total value traded of RM3.69 billion.
- Among the losers on Bursa Malaysia were BAT declined 98 cent to RM62.00, Public Bank fell 46 cent to RM18.50, Carlsberg Brewer slid 40 cent to RM12.20 and KLK decreased 30 cent to RM20.70.

Strategy

- **“Several Stress Points to Weigh on Market This Week”**
Wall Street tanked yet again last Friday hurt by several boiling points. S&P 500 and DJIA lost 13.40 (-0.63%) and 115.44 (-0.64%) points to end at 2,107.39 and 18,010.68 respectively. Several unsettled issues weighed on global equity market last week and this will spill over into this week. Of importance is Greece debt repayment of which they have to make or break payment amounting to Euro330 million due this 5th June with June total payment reaching Euro1.6 billion to be followed by a whopping Euro3.5 billion repayment in July, all of which pointing to a painful fact that Greece does not have the money to half of the money if at all. This will be one the single biggest stress points in June that will weigh on market this month other than the ongoing consolidation involving the US monetary rate adjustment. China’s disappointing economic statistics will also chip in. Added to that, the US will be releasing its May unemployment market on Friday. All in, the prognosis is less-than-upbeat for global equity market this week.
- 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

RHB Capital, HOLD (TP: RM8.35): Q1 earnings higher at RM476m

RHB Capital Bhd's earnings rose 5.6% to RM476.27mil in the first quarter ended March 31, 2015 on total income growth and lower loan impairment charges. The banking group said on Friday, the earnings were however, partially offset by higher operating expenses and lower impairment write-back on other assets. Its revenue increased 12.3% to RM2.699bil from RM2.402bil. Earnings per share were 18.5 sen compared with 17.7 sen. Group managing director of RHB Banking Group, Datuk Khairussaleh Ramli said in Q1, FY15, there were challenges emanating from the global economic environment and "we expect the full year to remain the same". (Source: The Star)

TM, HOLD (TP: RM6.87): 1Q revenue up at RM2.77b on Internet income; profit down

Telekom Malaysia Bhd (TM) reported a 39% drop in first quarter net profit from a year earlier as operating and finance cost increased. Foreign exchange (forex) losses also curbed bottom line. TM (fundamental: 1; valuation: 1.1) said net profit fell to RM128.92 million in the first quarter ended March 31, 2015 (1QFY15) from RM210.63 million. Revenue, however, rose to RM2.77 billion from RM2.62 billion. "For the current quarter under review, group revenue increased by 5.9% to RM2,774.1 million as compared to RM2,620.0 million in the same quarter last year, mainly due to higher revenue from Internet and multimedia, other telecommunication-related services and data services, partially offset by decline in voice. (Source: The Edge)

Sime Darby, HOLD (TP: RM9.00): Motors listing delay contributes to Sime rating down-grade

Sime Darby Bhd's delay in listing its auto unit, Sime Darby Motors Bhd, has partly contributed to the conglomerate being accorded a lower rating by Standard & Poor's Ratings Services (S&P). The rating agency said in a statement that it had lowered its long-term corporate credit rating on Sime Darby to A- from A, while the outlook was rated negative. Sime Darby recently said it was delaying the flotation of Sime Darby Motors, which distributes BMW, Ford and Hyundai vehicles, indefinitely due to an uncondusive market environment. Sime Darby Motors is not the only issuer to be reconsidering a listing due to current market conditions. (Source: The Star)

Masteel (Suspended): Unable to release audited financial statement FY14

Malaysia Steel Works (KL) Bhd is unable to release the audited financial statement 2014 (AFS 2014) and annual report for the financial year ended Dec 31, 2014. It said on Friday it was also unable to release the first quarterly report for the first quarter ended March 31, 2015 as the "special review is still in progress". Masteel's board of directors had applied to Bursa Malaysia Securities for extensions of time to comply with the Main Market Listing Requirements regarding the release of the statement but "were rejected by Bursa Securities as announced". (Source: The Star)

Tanjung Offshore (CP: RM0.47): Adopts whistle-blowing policy

In a bid to provide greater transparency, Tanjung Offshore Bhd (TOB) has implemented a whistle-blowing policy to provide directors and employees a platform to raise their concerns on any malpractices within the group. Chairman Datuk Mohd Hafarizam Harun said the move was aimed at strengthening corporate governance within the group, taking a cue from recommendations of a forensic audit by Ferrier Hodgson triggered by several "contentious transactions". The policy will enable every issue to be speedily investigated and for action to be taken and resolved effectively within the group if possible. *(Source: The Star)*

LBS Bina (CP: RM1.65): Confident of achieving RM1bil sales

Property developer, LBS Bina Bhd, is confident of achieving RM1bil in sales this year given the number of new launches in the pipeline, says Managing Director Datuk Sri Lim Hock San. He said the company would launch five projects with a combined gross development value of RM1.28bil next month. The projects are mainly residential properties, priced below RM500,000 a unit, located in the Klang Valley, Pahang and Johor. *(Source: The Star)*

Ahmad Zaki Resources (CP: RM0.70): Net profit down 25% to RM2.27mil

Ahmad Zaki Resources Bhd's net profit for its first quarter ended March 31, 2015 fell 25% to RM2.27mil from RM4.48mil a year ago. In a filing to Bursa Malaysia on Friday, the group said revenue for the quarter was flat at RM153.05mil compared to RM153.7mil a year ago. Earnings per share stood at 0.7 sen from 1.62 sen the same quarter last year. Commenting on its performance, the group said earnings was down due to lower operating income and increased finance costs compared the the same quarter last year. *(Source: The Star)*

RGB (CP: RM0.17): Aims to sell 1,400 gaming machines

RGB International Bhd's orders for 700 machines worth about US\$15mil (RM56mil) since January 2015 have exceeded the sales projection of the group by more than 15%. Group managing director Datuk Chuah Kim Seah told *StarBiz* after the company's AGM that the delivery of the machines would be completed by the third quarter of 2015. Under RGB's concession business, the leasing of the machines in the Asean region has been generating about RM6.5mil a month since January 2015, compared with RM6mil a month last year in the same period, he said. *(Source: The Star)*

Petronas: Q1 results factored into A1 Stable, says Moody's

Petronas weak results for the first quarter ended March 31, 2015 were within Moody's Investors Service expectations and have been factored into its A1 Stable ratings. Moody's Vice-President and Senior Credit Officer Vikas Halan said the Q1 results could be accommodated within the current rating which was affirmed in March this year. Halan said on a full year basis, Moody's believes that the company's earnings would decline by around 30%, given the US\$55 per barrel (bbl) average Brent crude price assumption for 2015. PETRONAS reported a 39% year-on-year decline in net profit to RM11.4 billion in the first quarter which was largely attributable to the 50 per cent decline in the benchmark crude prices. *(Source: The Star)*

MAS: CEO's plans seen promising

New chief executive officer Christoph Mueller's plans for troubled Malaysia Airlines (MAS) – including a new brand, a smaller fleet and one third less staff are widely seen as a promising blueprint for a fresh start. The 52-year old German has successfully restructured Ireland's state-backed Aer Lingus and spearheaded a revamp at Lufthansa. He has also already impressed in his new job with his micromanaging ways, according to one long-time Malaysia Airlines executive. Even so, many analysts worry that the state-owned carrier's long history of mismanagement and government interference, and its severely damaged brand after last year's two plane disasters will be too much to overcome. (Source: *The Star*)

ECONOMIC UPDATES**Malaysia: Domestic PPI for April falls 0.4%**

Malaysia's domestic Producer Price Index (PPI) for April 2015 decreased 0.4% to 104.4 from 104.8 in March, the Statistics Department said on Friday. This was due to a decline in local production index of 0.7% while the import price index increased 0.4 per cent. Year-on-year comparison revealed that the PPI for local production fell 8.8% in April 2015, said the department in a statement. The highest drop was recorded by mining index (-32.2%), followed by agriculture, forestry and fishing (-9.9%), manufacturing (-5.2%), electricity and gas (-5.2%) and water supply (-0.9%). (Source: *The Star*)

China: To replace business tax on financial sector

China's Ministry of Finance plans to introduce a 6% value-added tax for financial institutions, replacing the current corporate tax on the sector, sources with direct knowledge of the situation told Reuters. The sources said the Ministry of Finance is consulting banks, having notified them that the change will take place on October 1. The Ministry of Finance did not answer calls requesting comment. (Source: *The Star*)

Japan: Spending slump casts doubt on central bank optimism

Spending by Japanese households slumped unexpectedly in April and consumer inflation came in roughly flat, casting doubt on the central bank's view that a steady economic recovery will help move inflation toward its ambitious 2 percent target. Households spent less on leisure and dining out even as the jobless rate fell to a 18-year low, underscoring the challenge of eradicating the sticky "deflationary mindset" that has beset Japan for nearly two decades. While analysts expect consumption to pick up in coming months, lingering weakness will keep policymakers under pressure to underpin a fragile economic recovery. Household spending fell 1.3 percent in the year to April, data showed on Friday, disappointing analysts who expected a 3.1 percent gain from the same month a year ago - when Japan raised the sales tax. Spending also fell 5.5 percent from the previous month. (Source: *The Edge*)

Canada: Q1 economy contracts by the most in 6 years

Canada's economy contracted by the most in nearly six years in the first quarter, with business investment and exports both falling as the country grappled with a slump in oil prices. Growth in March was also disappointing, suggesting a

weaker handoff to the second quarter than anticipated. This prompted analysts to question whether the Bank of Canada's forecast for renewed momentum later in the year was overly optimistic. Gross domestic product shrank at an annualised 0.6% rate in the first three months of the year, Statistics Canada said, well below the 0.3% growth economists had forecast. (Source: *The Star*)

Greece: May top ECB's agenda

The European Central Bank (ECB), bolstered by the success of its controversial bond purchase programme, will pledge to keep it in place while downside risks to economic growth remain, analysts said. The ECB's decision-making governing council is scheduled to meet on Wednesday but is unlikely to announce any new policy moves, central bank watchers predicted. Instead, analysts said they would be listening out for what president Mario Draghi had to say about the effectiveness of the programme so far and about the situation in Greece. (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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