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Friday, June 12, 2015

## Report of the Day

**Sector Update:** Rubber Glove: – “Improving Rubber Prices”

**Results Review:** Berjaya Auto 4Q15, BUY (TP: 4.41): “Shifts into High Gear”

## At a Glance

FBMKLCI shed marginally 0.87 points to finish at 1,734.76 dragged by selected heavyweights counters.....(See full report next page)

## Strategy

**“Wall Street Turns Skywards Driven by Encouraging Economic Data”**

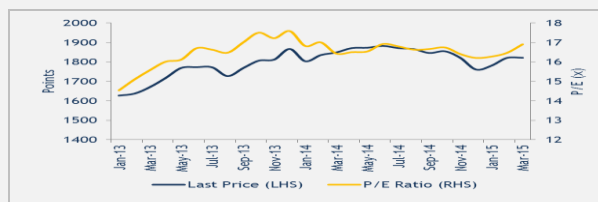
We think that sentiment will continue to be wobbly and hence, thin risk taking measures as a result..... (See full reports next page)

## Corporate Highlights

- **Berjaya Auto, BUY (TP: RM4.41):** Q4 earnings rise 14.89% on higher Mazda sales
- **Alam Maritim, HOLD (TP: RM0.56):** Secures RM49m FLNG offshore works from Petronas
- **FGV, BUY (TP: RM2.15):** Said to seek buyer for \$150 million North American assets

## Economic Update

- **Malaysia:** April factory output up 4.0 pct y/y, in line with forecast
- **China:** Jan-May property investment growth slows to 5.1 pct y/y
- **South Korea:** Cuts interest rates to record low



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
CN	8-Jun	-	Trade Balance	\$44.35B	\$34.13B
CN	8-Jun	-	Exports YoY	-4.0%	-6.4%
CN	8-Jun	-	Imports YoY	-10.0%	-16.2%
JP	8-Jun	7:50 AM	BoP Current Account Balance	-	¥2795.3B
JP	8-Jun	7:50 AM	GDP SA QoQ	0.7%	0.6%
JP	8-Jun	7:50 AM	GDP Annualized SA QoQ	2.7%	2.4%
JP	8-Jun	7:50 AM	GDP Nominal SA QoQ	1.9%	1.9%
JP	8-Jun	7:50 AM	GDP Deflator YoY	3.4%	3.4%
CN	9-Jun	9:30 AM	CPI YoY	1.3%	1.5%
CN	9-Jun	9:30 AM	PPI YoY	-4.5%	-4.6%
JP	9-Jun	1:00 PM	Consumer Confidence Index	-	41.5
JP	10-Jun	7:50 AM	Machine Orders MoM	-	2.9%
JP	10-Jun	7:50 AM	Machine Orders YoY	-	2.6%
JP	10-Jun	7:50 AM	PPI MoM	-	0.1%
JP	10-Jun	7:50 AM	PPI YoY	-	-2.1%
CN	11-Jun	1:30 PM	Retail Sales YoY	10.2%	10.0%
CN	11-Jun	1:30 PM	Retail Sales YTD YoY	10.4%	10.4%
CN	11-Jun	1:30 PM	Industrial Production YoY	6.1%	-
CN	11-Jun	1:30 PM	Industrial Production YTD YoY	6.2%	6.2%
MY	11-Jun	12:00 PM	Industrial Production YoY	-	6.9%
MY	11-Jun	12:00 PM	Manufacturing Sales Value YoY	-	4.4%
US	11-Jun	8:30 PM	Retail Sales Advance MoM	0.9%	0.0%
US	11-Jun	8:30 PM	Retail Sales Ex Auto MoM	0.7%	0.1%
US	11-Jun	8:30 PM	Retail Sales Ex Auto and Gas	-	0.2%
US	11-Jun	8:30 PM	Initial Jobless Claims	-	-
US	11-Jun	8:30 PM	Import Price Index YoY	-	-10.7%
EU	12-Jun	5:00 PM	Industrial Production SA MoM	0.4%	-0.3%
JP	12-Jun	12:30 PM	Industrial Production MoM	-	1.0%
JP	12-Jun	12:30 PM	Industrial Production YoY	-	-0.1%
JP	12-Jun	12:30 PM	Capacity Utilization MoM	-	-1.2%
US	12-Jun	8:30 PM	PPI Final Demand MoM	0.4%	-0.4%
US	12-Jun	8:30 PM	PPI Ex Food and Energy MoM	0.1%	-0.2%
US	12-Jun	8:30 PM	PPI Final Demand YoY	-	-1.3%
US	12-Jun	8:30 PM	PPI Ex Food and Energy YoY	-	0.8%
US	12-Jun	10:00 PM	U. of Mich. Sentiment	91.5	90.7
CN	10-15 Jun	-	Money Supply M1 YoY	3.8%	3.7%
CN	10-15 Jun	-	Money Supply M2 YoY	10.5%	10.1%

## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,734.76	-0.87	-0.05
FBMEMAS	12,015.74	-23.15	-0.19
FBMEMAS SHA	12,525.72	-24.31	-0.19
FBM100	11,698.29	-22.08	-0.19
Volume (mn)	1,399.57	174.89	14.28
Value (RMmn)	1,667.05	120.99	7.83
FBMKLCI YTD Chg			-1.50

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	16.0	35.8
Local Institution	52.1	208.6
Foreign Investors	31.9	-244.4

## Top Gainers

	Close	Change+/-	(+/- %)
UNITED PLANT	27.36	0.76	2.86
HARTALEGA	8.84	0.22	2.55
NCB HOLDINGS	3.32	0.22	7.10

## Top Losers

	Close	Change+/-	(+/- %)
BAT	60.12	-0.98	-1.60
LYSAGHT	3.78	-0.22	-5.50
PANASONIC	22.00	-0.20	-0.90

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,039.37	38.97	0.22
NASDAQ	5,082.51	5.82	0.11
S&P 500	2,108.86	3.66	0.17
FTSE 100	6,846.74	16.47	0.24
DAX	11,332.78	67.39	0.60
Nikkei 225	20,382.97	336.61	1.68
HSI	26,907.85	220.21	0.83
KOSPI	2,056.61	5.29	0.26
STI	3,347.67	21.90	0.66
KLCI Futures	1,728.50	(1.00)	(0.00)
USDMYR 3M	10.39	0.05	0.00
USDMYR 6M	10.36	0.04	0.00
USDMYR 12M	10.34	0.03	0.00

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	61	-0.2	-0.4%
Brent (USD/bbl)	65.1	-0.6	-0.9%
Gold(USD/ounce)	1,182	0.1	0.0%
Coal (USD/mt)	60.4	0.9	1.5%
CPO (RM/mt)	2,292	1.0	0.0%
Rubber	189	1.0	0.5%
RM/USD	3.74	0.0102	-0.27%
EUR/USD	0.89	0.001	0.11%
YEN/USD	123.52	0.1	-0.08%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average gained 38.97 points to 18,039.37, S&P 500 up 3.66 points to 2,108.86. Nasdaq soared by 5.82 points to 5,082.51. Stocks closed slightly higher Thursday, extending the prior day's rebound, as negative news out of Greece counterbalanced a good retail sales report.
- In midmorning trade the International Monetary Fund spokesman said there were "major differences" with Greece on aid negotiations and that the IMF team has left Brussels, where the talks were held, Reuters said.

### The Local Market

- FBMKLCI shed marginally 0.87 points to finish at 1,734.76 dragged by selected heavyweights counters. There were 289 gainers and 468 decliners in total value traded of RM1.66 billion.
- Among the losers on Bursa Malaysia were British American Tobacco declined 98 cent to RM60.12, Lysaght Galvanize dropped 22 cent to RM3.78, Panasonic and Air Asia plunged 20 cent to RM22.00 and RM1.82 respectively.

### Strategy

- **"Wall Street Turns Skywards Driven by Encouraging Economic Data"**  
Wall Street continued to gain traction boosted by steady economic data as investors brushed aside the Greek drama. S&P 500 and DJIA added 3.66 (0.17%) and 38.97 (0.22%) points to end at 2,108.86 and 18,039.37 respectively. US month of May retail sales gained by 1.2% after increasing an upwardly revised 0.2% in April, beating expectation of 1.1% gain. The jump in retails was broad based including auto and agriculture, boosting confidence that the US economy is humming steadily. As of yesterday, Greece was still negotiating with its creditors and nothing pans out just yet. The International Monetary Fund said its team negotiating with Greece left Brussels after failing to make progress on a debt deal. Meanwhile, European Union President Donald Tusk told Greece Prime Minister Alexis Tsipras to stop maneuvering and decide whether to accept the conditions on financial aid. At this moment, the clock for 19th June debt deadline is ticking fast and we think any solution to this may reach only at the 11th hour and hence, continued nervousness in the broader market. As for next week, the Greece's 19th June debt deadline along with FOMC meeting will be the highlight of the week, of which both may cause jitteriness among investors. We think that sentiment will continue to be wobbly and hence, thin risk taking measures as a result.
- 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

### **Berjaya Auto, BUY (TP: RM4.41): Q4 earnings rise 14.89% on higher Mazda sales**

Berjaya Auto Bhd saw its net profit increase almost 15% to RM55.26 million for the fourth quarter ended April 30, 2015 from RM48.10 million in the previous corresponding period, buoyed by a double-digit growth in sales volume of Mazda vehicles. Fourth-quarter revenue went up 7.44% from RM394.98 million to RM424.34 million. Berjaya Auto has proposed to declare an interim dividend of 2.75 sen and a special dividend of 3.25 sen per share. It said in a statement that the lower priced new Mazda2 had contributed significantly to the sales volume growth. However, it acknowledged that it will be a challenging year for the financial year ending April 30, 2016 due to the Goods and Services Tax implementation and an inventory overhang as a result of excess production capacity. (Source: The Sun Daily)

### **Alam Maritim, HOLD (TP: RM0.56): Secures RM49m FLNG offshore works from Petronas**

Alam Maritim Resources Bhd has been awarded a RM49 million subcontract works for the engineering, procurement, installation and related activities for the floating liquefied natural gas (FLNG) offshore works by Petroliaam Nasional Berhad (Petronas). In a filing with Bursa Malaysia today, the oil and gas services provider said it recently entered into a subcontract form of agreement with Petronas Floating LNG 1 (L) Ltd (PFLL), a wholly owned subsidiary of Petronas, for the FLNG offshore works – mooring system installation (package no. 1). The job is expected to run from 20 May, 2015 until Sept 15, 2015. “The contract is expected to contribute positively to the earnings and net tangible assets of Alam Maritim for the financial year ending Dec 31, 2015 and beyond. (Source: The Edge)

### **FGV, BUY (TP: RM2.15): Said to seek buyer for \$150 million North American assets**

Felda Global Ventures Holdings Bhd the world’s largest producer of crude palm oil, is seeking a buyer for peripheral assets in North America, people with knowledge of the matter said. The Malaysian company has invited offers for its crushing and refining businesses in the U.S. and Canada, the people said. Suitors have submitted first-round bids for the operations, which could fetch about \$150 million, they said, asking not to be identified as the information is private. Felda said earlier this year it will sell some assets as it seeks to increase its core palm oil plantation business, expand trading operations and develop new markets. (Source: The Edge)

### **FGV, BUY (TP: RM2.15): To buy into Indonesian planter, stock suspended pending announcement**

Felda Global Ventures Holdings Bhd (FGV) is set to acquire a stake in an Indonesian oil palm company, expanding the group’s plantation assets in the republic, even as it seeks to exit refining business in North America. Sources

told *StarBiz* that FGV was proposing to purchase a substantial stake in Jakarta Stock Exchange-listed Eagle High Plantations Tbk at 800 rupiah a share. The transaction values the Indonesian planter nearly twice as much as its current market capitalisation of 13.9 trillion rupiah (US\$1.04bil or RM3.89bil). (Source: *The Star*)

**Sunsuria (CP: RM1.94): Eyes RM1b property sales per year**

Sunsuria Bhd is targeting to enjoy RM1 billion property sales per year moving forward. Its executive director Kong Wai Seng said the group is targetting to record sales of about RM900 million for the current financial year ending Sept 30, 2016 (FY16). The property developer has changed its financial year-end from March to September. "Put aside the consideration of changing financial year-end, total launches of the group would worth about RM1 billion in the next 12 months," Kong told a press conference after the group's extraordinary general meeting today. Kong said the bulk of the launches will be coming from the group's township development around the Xiamen University Malaysia campus in Bandar Kota Warisan, Sepang, Selangor, which measures 331.27 acres, with a gross development value (GDV) of RM6.4 billion. (Source: *The Edge*)

**Protasco (CP: RM1.80): Eyeing strategic investment or joint ventures**

Protasco Bhd is cautious of the uncertainties surrounding the international and local markets, and is looking to source for other business opportunities via strategic investment or joint ventures. Protasco independent non-executive director Datuk Mohd Hanif Bin Sher Mohamed said the company is prepared to brace the expectation that the Malaysian economy is expected to grow between 4.5% and 5.5%. "With our healthy financial position, we are able to source for other business opportunities either through strategic investment or joint ventures," he added. In a statement today, Protasco executive vice chairman and group managing director Datuk Seri Chong Ket Pen said the company recorded a turnover of RM1.06 billion for financial year ended December 2014, a first for the company. (Source: *The Edge*)

**Barakah (CP: RM0.92): To get Norwegian partner for deep water technology**

Barakah Offshore Petroleum Group Bhd is close to signing a "smart partnership" with a Norwegian company to be the exclusive agent for this region. After the company's AGM on Thursday, its deputy executive chairman and founder Nik Hamdan Daud told reporters that it was in talks with the foreign company that would provide technology related to deep water installation facilities. On top of that, it has diversified its markets by tendering for overseas jobs. Of its RM2bil tenderbook, about 30% are from international markets such as Middle East, Indonesia and Vietnam. Its executive director Azman Shah Mohd Zakaria who oversees the overseas operations expected income from international jobs to flow from third quarter onwards. He estimated about 5% revenue contribution from overseas markets to the group's topline. (Source: *The Star*)

**Scomi (CP: RM0.22): Secures contract worth RM266.44m**

Scomi Energy Services Bhd's Oilfield Services division has secured contract worth US\$1.4 million (RM266.44 million) in the first five months of 2015, with Oman and Thailand markets contributing US\$33 million (RM123.14 million) each. The rest of the contracts were from Australia, Indonesia, Russia and Pakistan,

Scomi Energy said in a statement today. "These contracts involve the provision of drilling waste management equipment and services as well as drilling fluids solutions to its clients in the Middle East, Asia Pacific and Europe," Scomi Energy said in a statement. The company remains optimistic that the results of other tenders will be positive especially in the core markets such as Myanmar and Indonesia, its President, Market Units, Oilfield Services Wan Ruzlan Iskandar said. (Source: *Business Times*)

**Lysaght (CP: RM3.91): rejects nominations for director from two shareholders ahead of AGM**

Lysaght Galvanised Steel announced today that its board of directors have rejected nomination notices for the election as directors that were submitted by two shareholders ahead of its annual general meeting (AGM) on June 22. In an announcement with Bursa Malaysia today, Lysaght (fundamental: 1.95; valuation: 2.4) said the board had received the notices of nomination from the two shareholders on June 9 and June 10 and after deliberating them at a special board meeting yesterday, decided to reject them. The board wishes to announce that following the deliberation and taking into consideration a legal opinion which has expressed that the notices submitted by the two shareholders were not valid, the board has rejected the said two notices," the filing read. (Source: *The Edge*)

**Sunway (CP: RM3.38): Ties up with Japan's top homebuilder**

Malaysia's property-construction powerhouse, Sunway Bhd has partnered with Japan's top pre-fabricated homebuilder, Daiwa House Industry Co. Ltd (DHICL) to develop the first 100 units of high quality pre-frabricated landed homes in Sunway Iskandar, Johor. The deal sees Sunway Iskandar Sdn Bhd (SISB), a subsidiary of Sunway Bhd transfer the lease of its 13-acre RM63mil land in Sunway Iskandar to the joint venture company, where DHICL's Malaysian based unit Daiwa House Malaysia Sdn Bhd has 70% stake and SISB 30%. The RM210mil gross development value (GDV) project to be built in Sunway Iskandar's Lakeview Precinct is expected to be launched in early 2016 and targeted to attract Malaysians, Singaporeans and the Japanese. (Source: *The Star*)

**Puncak Niaga (CP: RM2.62): Threatens to call off water deal**

Puncak Niaga Holding Bhd (PNHB) has threatened to terminate the Selangor water deal after it received a request yesterday from Pengurusan Air Selangor Sdn Bhd for a sixth extension to the sale and purchase agreement (SPA) involving the two. In a strongly worded statement, PNHB's executive chairman and managing director Tan Sri Rozali Ismail said the group sincerely hopes there will be no more extensions beyond the fasting month that will begin on June 18, as it "will be left with no choice but to invoke its legal rights to rescind the SPA and sue the state to recover its debt. In May, Minister of Energy, Green Technology and Water Datuk Seri Maximus Ongkili had said that the federal and state governments had agreed to resolve matters within 60 days. That timeline should be up about the same time as Rozali's ultimatum. (Source: *The Sun*)

**Sumatec (CP: RM0.19): Upbeat on second half performance**

Upstream oil and gas player Sumatec Resources Bhd expects to establish a steady revenue stream in the second half of the year on increased drilling



activities. Sumatec's first-quarter net profit ended March 31, 2015 jumped more than fourfold to RM19.44 million from RM4.47 million in the previous corresponding period. He noted the drilling works for newly acquired Buzachi fields in Kazakhstan will start by year-end. However, Dalton explained that it would still depend on the rights issue exercise, which is awaiting approval from Bank Negara Malaysia. The rights issue is expected to raise up to RM1.1 billion for Sumatec, to partly fund the RM1.02 billion acquisition of the Buzachi fields, which was given the green light by its shareholders two months ago. (Source: *The Sun*)

#### ECONOMIC UPDATES

##### **Malaysia: April factory output up 4.0 pct y/y, in line with forecast**

Malaysia's industrial production in April rose 4.0 percent from a year earlier, in line with market expectations, data from the Statistics Department showed on Thursday. The index for March was revised upwards to 7.1 percent from 6.9 previously. A *Reuter's* poll had forecast factory output to increase at a slower pace of 4.0 percent from a year ago, after registering stronger-than-expected growth a month earlier. The department's data earlier showed that exports for April fell 8.8 percent from a year earlier, worse than expected, as lower gas prices affected shipments. (Source: *The Edge*)

##### **China: Jan-May property investment growth slows to 5.1 pct y/y**

Growth in China's real estate investment slowed to 5.1 percent in the first five months from a year earlier, while the floor area of property sold dropped 0.2 percent from the year-earlier period, data showed on Thursday. The rise in investment, reported by the National Bureau of Statistics (NBS), compared with an increase of 6 percent in the first four months of 2015. The drop in sales area compares with a 4.8 percent annual fall for January to April. A cooling property market has weighed heavily on the economy over the past year. Real estate investment, which directly affects about 40 other business sectors in China, is considered to be a crucial driver of activity. While home sales have picked up recently and prices show signs of levelling off in bigger cities, economists say the sector will continue to drag on broader growth until high inventories of unsold homes are cleared, investment resumes and construction picks up. (Source: *The Edge*)

##### **Indonesia: Removes luxury tax for most goods**

Indonesia is exempting most goods from a luxury tax in a bid to boost household consumption and revive faltering economic growth, the finance minister said on Thursday. Growth in Southeast Asia's largest economy has slipped to its most sluggish pace since 2009, and in the first quarter consumption languished at 5 percent, the slowest for nearly four years, as disposable incomes were squeezed. There is an abundance of evidence that consumption, which accounts for about 55 percent of gross domestic product (GDP), remains weak and retailers are expecting a slow Ramadan this year. (Source: *The Edge*)

##### **South Korea: Cuts interest rates to record low**

South Korea's central bank cut its policy rate by 25 basis points to a record-low 1.50 percent on Thursday, as policymakers sought to shield a tottering economy

from an outbreak of a deadly respiratory disease. Nine people have died since the outbreak of the Middle East Respiratory Syndrome (MERS) was first reported in late May, fuelling public anxiety and hitting spending, with thousands in quarantine and hundreds of schools closed. Policymakers were already under pressure to adopt more stimulus measures as weak global demand and a strong won dented South Korean exports, while an uncertain outlook discouraged spending from consumers and companies. (Source: *The Star*)

#### **Greece: IMF's 'never again' experience in Greece may get worse**

For the International Monetary Fund, five years of playing junior partner in European bailouts for Greece has been a "never again" experience, and the worst may be yet to come. The global lender has lent far more to Athens than to any other borrower, contributing nearly one-third of the total 240 billion euros, with the rest coming from euro zone governments and the bloc's rescue fund. But it has sat uncomfortably in the side-car of the Greek rescue. Called in by EU paymaster Germany to try to keep the European institutions and the Greeks honest, the Washington-based IMF has never had control of the programme. Now Greece may be about to become the first European nation to default on the IMF, putting it in exclusive company with Zimbabwe and Argentina. (Source: *The Edge*)

#### **IMF quits Greek talks; EU tells Tsipras to stop gambling**

The International Monetary Fund dramatically raised the stakes in Greece's stalled debt talks on Thursday, announcing that its delegation had left negotiations in Brussels and flown home because of major differences with Athens. The surprise IMF move came as the European Union told Greek Prime Minister Alexis Tsipras to stop gambling with his cash-strapped country's future and take the crucial decisions needed to avert a devastating default. A Greek source told Reuters that the entire Greek delegation that had been negotiating a cash-for-reform deal had also left for home on Thursday, citing continuing disagreements. (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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