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Tuesday, June 16, 2015

Report of the Day

Results Review: SapuraKencana 1Q16 (BUY, TP: RM2.95) - "Remains Optimistic Despite Challenging FY16"

Company Update: FGVH (TBD) - "Spreading Wings in Indonesia"

At a Glance

FBMKLCI plunged 12.21 points to finish at 1,722.16 dragged by nervousness of Greece failure to settle its US\$1.7 billion.....(See full report next page)

Strategy

"Tears from Greece and Fears from FOMC Meeting"

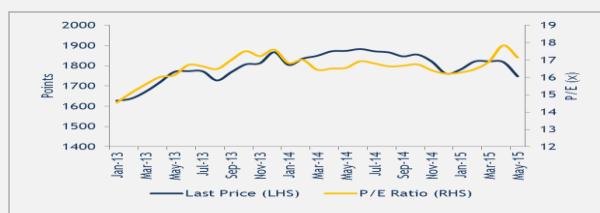
Another source of tension emanates from the FOMC policy statement due tomorrow afternoon of which further hints on rate increase may be on the plate.....(See full reports next page)

Corporate Highlights

- **SapuraKencana, BUY (TP: RM2.95):** Q1 earnings at nearly RM261m
- **IHH, SELL (TP: RM5.19):** Adequately shielded in Turkey
- **MMHE, BUY (TP: RM1.33):** Bags RM324mil contracts worth RM324mil

Economic Update

- **Greece:** Greece, creditors dig in after debt talks founder
- **U.S.:** Manufacturing, mining drag U.S. industrial production
- **U.S.:** U.S. Treasuries, Yields fall on weak data, Greek debt talks collapse



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
US	15-Jun	9:15 PM	Industrial Production MoM	0.3%	-0.3%
US	15-Jun	9:15 PM	Capacity Utilization	78.3%	78.2%
CN	10-15 Jun	-	Money Supply M1 YoY	4.0%	3.7%
CN	10-15 Jun	-	Money Supply M2 YoY	10.4%	10.1%
US	16-Jun	8:30 PM	Housing Starts	1100K	1135K
US	16-Jun	8:30 PM	Building Permits	1100K	1143K
EU	17-Jun	5:00 PM	CPI MoM	-	0.2%
EU	17-Jun	5:00 PM	CPI YoY	-	0.3%
EU	17-Jun	5:00 PM	CPI Core YoY	-	0.9%
JP	17-Jun	7:50 AM	Trade Balance	-	Y-53.4B
JP	17-Jun	7:50 AM	Trade Balance Adjusted	-	Y-208.7B
JP	17-Jun	7:50 AM	Export YoY	-	8.0
JP	17-Jun	7:50 AM	Import YoY	-	-4.2
MY	17-Jun	12:00 PM	CPI YoY	-	1.8%
US	17-Jun	7:00 PM	MBA Mortgage Application	-	8.4%
US	18-Jun	2:00 AM	FOMC Rate Decision (Upper Bound)	0.3%	0.3%
US	18-Jun	8:30 PM	Current Account Balance	\$-116.4B	\$-113.5B
US	18-Jun	8:30 PM	CPI MoM	0.5%	0.1%
US	18-Jun	8:30 PM	CPI Ex Food and Energy MoM	0.2%	0.3%
US	18-Jun	8:30 PM	CPI YoY	0.0%	-0.2%
US	18-Jun	8:30 PM	Initial Jobless Claims	-	-
US	18-Jun	8:30 PM	Continuing Claims	-	-
US	18-Jun	8:30 PM	Leading Index	0.4%	0.7%
JP	19-Jun	1:00 PM	Leading Index C1	-	107.2
JP	19-Jun	1:00 PM	Coincident Index	-	111.1

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,722.16	-12.21	-0.70
FBMEMAS	11,914.59	-107.88	-0.90
FBMEMAS SHA	12,426.01	-121.21	-0.97
FBM100	11,612.00	-95.04	-0.81
Volume (mn)	1,527.17	383.20	33.50
Value (RMmn)	1,504.63	314.61	26.44
FBMKLCI YTD Chg			-2.22

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	21.2	-1.1
Local Institution	58.8	84.4
Foreign Investors	20.0	-83.3

Top Gainers

	Close	Change+/-	(+/- %)
NESTLE	71.78	0.72	1.01
AMWAY	10.90	0.34	3.22
HUAT LAI	3.30	0.20	6.45

Top Losers

	Close	Change+/-	(+/- %)
UNITED PLANT	26.60	-0.90	-3.27
BAT	59.00	-0.84	-1.40
DUTCH LADY MILK	45.34	-0.66	-1.43

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,791.17	-107.67	-0.60
NASDAQ	5,029.97	-21.13	-0.42
S&P 500	2,084.43	-9.68	-0.46
FTSE 100	6,710.52	-74.40	-1.10
DAX	10,984.97	-211.52	-1.89
Nikkei 225	20,387.79	-19.29	-0.09
HSI	26,861.81	-418.73	-1.53
KOSPI	2,042.32	-9.85	-0.48
STI	3,353.85	-33.41	-1.00
KLCI Futures	1,712.00	(13.00)	(0.01)
USDMYR 3M	10.36	0.06	0.01
USDMYR 6M	10.32	0.06	0.01
USDMYR 12M	10.32	0.07	0.01

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	60	0.0	0.1%
Brent (USD/bbl)	64.0	-0.7	-1.1%
Gold(USD/ounce)	1,186	-0.3	0.0%
Coal (USD/mt)	60.3	0.3	0.5%
CPO (RM/mt)	2,266	-11.0	-0.5%
Rubber	184	-1.4	-0.8%
RM/USD	3.76	-0.002	0.05%
EUR/USD	0.89	0.0006	0.07%
YEN/USD	123.42	0	0.00%

What To Expect

U.S. Market

- The Dow Jones Industrials Average dropped 107.67 points to 17,791.17, S&P 500 down 9.68 points to 2,084.43. Nasdaq declined by 21.13 points to 5,029.97. Stocks closed lower on Monday as investors remained anxious over stalled Greece debt negotiations and the upcoming two-day Federal Reserve meeting.
- European Central Bank President Mario Draghi also said on Monday that the ECB would continue approving emergency funding for Greek banks as long as they have enough cash and collateral to operate.

The Local Market

- FBMKLCI plunged 12.21 points to finish at 1,722.16 dragged by nervousness of Greece failure to settle its US\$1.7 billion. There were 150 gainers and 777 decliners in total value traded of RM1.50 billion.
- Among the losers on Bursa Malaysia were United Plantation declined 90 cent to RM26.60, BAT dropped 84 cent to RM59.00, Dutch Lady tumbled 66 cent to RM45.34, PPB Group shed 38 cent to RM14.90.

Strategy

- **“Tears from Greece and Fears from FOMC Meeting”**

Wall Street was shaken again caused by predictable suspects: Greece and FOMC Wednesday policy statement. **S&P 500** and **DJIA** lost 9.68 (-0.46%) and 107.67 (-0.60%) points to end at **2,084.43** and **17,791.17** respectively. Investors were rattled caused by the collapse talk between Greece and its creditors at the back of fast approaching Greece first debt deadline: 19th June. Note that Greece has debt repayment totaling €3.1 billion this June in the forms of treasury bills and IMF bailout followed by €6.8 billion this July (bonds, short term treasury bills and IMF bailouts) and €5.6 billion for August (bonds, short term treasury bills and IMF bailouts). In sum, Greece negotiation with its multiple creditors will not be easy and will be a source of great stress for the global equity market. Although Greece do have €83 billion under the Emergency Liquidity Assistance set up by ECB but it will not be easy as it be accompanied by choking wages and pension cuts, an option highly unpopular and hence, political suicide by Athens. Another source of tension emanates from the FOMC policy statement due tomorrow afternoon of which further hints on rate increase may be on the plate. All in all, until and unless both these issues see some light of closure, the global equity market has no reason to be upbeat.

- 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

SapuraKencana, BUY (TP: RM2.95): Q1 earnings at nearly RM261m

SapuraKencana Petroleum Bhd's earnings fell 48.8% to RM260.69mil in the first quarter ended April 30, 2015 from RM509.42mil a year ago due to lower earnings from the energy division as oil prices plunged. The oil and gas services heavyweight said on Monday its revenue slipped 7.5% to RM2.258bil from RM2.443bil mainly due to lower revenue from the energy division. Earnings per share were 4.37 sen compared with 8.5 sen. It declared an interim dividend of 1.25 sen a share, lower than the 2.35 sen a share a year ago. SKPetro said the decrease in the current quarter operating profit was mainly due to the energy division whilst the operating profit derived from the services divisions namely engineering and construction (E&C) and drilling remained similar to a year ago. (Source: The Star)

IHH, SELL (TP: RM5.19): Adequately shielded in Turkey

IHH Healthcare Bhd's chief financial officer Tan See Haw said the group is adequately hedged against its foreign currency exposure in Turkey. The company's Turkish 60%-owned subsidiary hospital chain, Acibadem Holdings has debts denominated in the US Dollar and the Euro. However, Tan said at a press conference today that the exposure is partly offsetted with the medical tourism receipts which are denominated in the US Dollar as well. "In the first quarter we had US\$300mil worth of debt and at the same time we had about US\$50mil worth of cash which can be used to service the interest and repayment when it is due," he said. "Over and above that we have roughly US\$70mil worth of medical receipts every year. So this is how we effectively try to hedge off these foreign currency loan exposures," he added. (Source: The Star)

MMHE, BUY (TP: RM1.33): Bags RM324mil contracts worth RM324mil

Malaysia Marine and Heavy Engineering Holdings Bhd's (MMHE) wholly-owned unit, Malaysia Marine and Heavy Engineering Sdn Bhd, has secured RM324mil worth of contracts from Petronas Carigali Sdn Bhd, Hyundai Heavy Industries Co Ltd, MISC Bhd and EA Technique (M) Bhd. The contracts are for offshore structural component fabrication work, hook up and commissioning and related topside construction work for facilities improvement project as well as for marine repair and conversion works. MMHE managing director and chief executive officer Abu Fitri Abdul Jalil said the company had already secured close to RM400mil worth of projects year-to-date. (Source: The Star)

Maybank, BUY (TP: RM10.70): Upbeat about Thailand

Despite falling government spending and weaker consumer sentiment, Maybank Investment Bank Bhd chief executive officer John Chong believes that opportunities still abound in Thailand. Although South-East Asia's second-largest economy, faces headwinds such as political uncertainties and high household debt, the country's location, especially as a gateway to the Greater Mekong subregion, makes it a compelling investment destination. The subregion, which

groups countries that share the Mekong River, has a combined gross domestic product of almost US\$1 trillion and a population of 330 million. The Thai operations contributes 25% to Maybank Kim Eng's income. (Source: *The Star*)

SP Setia (TP: TBD): Lowers 2015 sales target amid uncertain environment

SP Setia Bhd, whose net profit for the first half-year to April 30 nearly doubled to RM328.5mil from a year earlier, expects to continue to do well in the second half thanks to its massive unbilled sales of RM11bil. However, the uncertainty around the UK housing market - where its Battersea Power Station joint-venture project is located - as well as tighter lending from banks have led the company to revise downward its sales target for the 2015 financial year from RM4.6bil to RM4.0bil, it told Bursa Malaysia in its latest quarterly report. "While sales from the Malaysian projects registered an improvement in the second quarter, its international projects posted weaker sales largely due to the uncertainty surrounding the United Kingdom housing market prior to the general election having an impact on sales in Battersea Power Station," SP Setia said. Total group sales for the first seven months of its current financial year amounted to RM2.0bil, it noted. (Source: *The Star*)

Puncak Niaga (CP: RM2.58): Gives Air Selangor another month to seal the deal

Puncak Niaga Holdings Bhd (PNHB) has given Pengurusan Air Selangor Sdn Bhd until July 13, 2015 to fulfill conditions stated in a sale and purchase agreement dated Nov 11, 2014 to take over its water assets for RM1.55 billion, warning that it may be the last extension. This is the sixth extension given to the Selangor state government to complete the purchase of its water assets. In a statement released last week, PNHB said any further delay may see it rescinding on the deal and continuing with suits to recover outstanding debt, which had been put on hold pending the completion of the restructuring exercise. (Source: *The Sun*)

Berjaya Food (CP: RM2.59): Q4 net profit up 22%

Berjaya Food Bhd's (BFood) net profit for the fourth quarter ended April 30, 2015 rose 21.5% to RM6.41 million from RM5.28 million a year ago, mainly from the contribution of Berjaya Starbucks Coffee Company Sdn Bhd (BStarbucks). Its revenue jumped 253% to RM128.92 million compared with RM36.55 million, mainly due to the full effect of consolidation of the newly acquired wholly-owned subsidiary, BStarbucks. For the financial year ended April 30, 2015 (FY15), BFood's net profit increased over eight folds to RM184.66 million from RM22.67 million a year ago, mainly attributed to the consolidation of the improved results of BStarbucks and the contribution of the Brunei Starbucks operations. (Source: *The Sun*)

Masteel (CP: Suspended) Special auditor completes review on company's financials

Malaysia Steel Works (KL) Bhd (Masteel) said special auditor UHY Advisory (KL) Sdn Bhd has today completed the independent and comprehensive special audit report on the various issues raised pertaining to the classification, validity and recoverability of various transactions carried out by the company for the financial year ended Dec 31, 2014 (FY14), which was raised by its external auditors, Messrs Nexia SSY. In a filing with Bursa Malaysia today, Masteel said it

will make the relevant announcement on the audited financial statements for FY14 by this coming Friday. (Source: The Edge)

Brahim's Holdings (CP: RM0.91): Enters MoU with Nippon Express to establish Halal Logistics services

Brahim's Holdings Bhd has entered into a Memorandum of Understanding (MoU) with Nippon Express (Malaysia) Sdn Bhd (NEM) to establish an integrity and reliability of world class Halal Logistics services. According to its filing with Bursa Malaysia today, Brahim's expects it to benefit from the MoU by tapping into NEM's global supply chain. "The MoU is to draw on the parties core competencies to enable Brahim's to benefit from NEM's global supply chain for cost efficiencies, reliability and integrity of its supply chain," it added. NEM is part of the Nippon Express Group, an international freight forwarding and global logistics service provider, and have taken steps to develop dedicated transportation services that comply with the requirements of the Halal Logistics. (Source: The Edge)

Muhibbah (CP: RM2.31): JV files RM581m counter claim against Australia's Wiggins Island

Muhibbah Engineering (M) Bhd's joint-venture company is filing a counterclaim totalling A\$200mil (RM581mil) against Australia's Wiggins Island Coal Export Terminal Pty Ltd (WICET) over a payment dispute. It said on Monday that Monadelphous Muhibbah Marine JV (MMM) -- a joint venture with Monadelphous Engineering Pty Ltd -- took the legal action following the claim lodged by WICET. The legal dispute arose from the construction of the approach jetty and ship berth and shiploader for the Wiggins Island Coal Export Terminal at Gladstone, Queensland. MMM had completed the contracts and it had received up to A\$90mil and was expecting to submit further claims under the Building and Construction Industry Payment Act 2004 (Qld) (BCIPA). (Source: The Star)

Handal (CP: RM0.34): Optimistic of future prospects

Integrated offshore crane services provider and fabricator Handal Resources Bhd, is optimistic over future prospects, backed by its substantial order book and business development initiatives. Group managing director and chief executive officer Mallek Rizal Mohsin said the improving outlook in the oil and gas sector, aided by recovering crude oil prices, presents a tremendous opportunity for support service providers such as Handal to expand its business. "The fact that we now have two American Petroleum Institute-2C yards in Terengganu effectively increases our capacity to undertake more jobs for the oil and gas majors," he said in a statement. Mallek said the company is working very hard to increase its orders in hand, while tendering for RM277 million worth of contracts across various crane services. (Source: The Star)

Benalec (CP: RM0.56): To forge ahead with Tanjung Piai reclamation project

Benalec Holdings Bhd is going ahead with the reclamation of about 1,000 acres off the coast of Tanjung Piai despite the expiry of the binding tripartite term sheet signed with The State Secretary, Johor (Inc) and 1MY Strategic Oil Terminal Sdn Bhd. However, Benalec told Bursa Malaysia on Monday that it would seek other buyers for the land. Earlier, the land was reportedly slated for

1MY to build a crude oil and petroleum storage facility in a RM21bil joint-venture with the United Arab Emirates. Benalec was represented by Spektrum Kukuh Sdn Bhd, a 70% owned subsidiary of its unit Tanjung Piai Maritime Industries Sdn Bhd. In the latest announcement, Benalec said it had always been the group's intention to realise its plans of reclaiming the 1,000 acres irrespective of the ultimate outcome of the said term sheet. "To this end the group is targeting the commencement of reclamation works in Tanjung Piai to take place sometime in August 2015," it said. *(Source: The Star)*

Petronas: Cuts first steel for PFLNG2 facility

Petronas is ready to start the mega construction phase of the hull and topsides of the Petronas Floating LNG2 (PFLNG2) following the steel cutting ceremony in Geoje Island, Korea. The official steel cutting of its second floating liquefied natural gas facility was held at the Samsung Heavy Industries Shipyard. The PFLNG2, with a collective weight of 152,000 tonnage, will make possible the liquefaction, production and offloading processing of natural gas in the Rotan field, 130 kilometers offshore Sabah. Vice president and venture director of LNG Projects Domestic, Datuk Abdullah Karim said Petronas made a bold decision in January last year to make its final investment decision for the PFLNG2 project. *(Source: The Star)*

Petronas: Sells maritime unit to MISC

National oil company Petrolia Nasional Bhd (Petronas) is selling its entire equity interest in Petronas Maritime Services Sdn Bhd to MISC Bhd for RM54.11 million cash. MISC, a 62.67% subsidiary of Petronas, said the purchase would enable the buyer to expand its maritime operations, which included shipping. "The acquisition will enable MISC to become a one-stop maritime services to Petronas Group and become its centre of maritime excellence," MISC said in a statement to Bursa Malaysia today. MISC said the company and Petronas had signed the sale and purchase agreement for the Petronas Maritime transaction. The principal activities of Petronas Maritime include maritime services, consultancy and audit. *(Source: The Edge)*

ECONOMIC UPDATES

Greece: Greece, creditors dig in after debt talks founder

Greece and its creditors stuck to their positions on Monday, after the collapse of talks aimed at preventing a default and possible euro exit, while Germany's EU commissioner said it was time to prepare for a "state of emergency". Prime Minister Alexis Tsipras ignored pleas from European leaders to act fast. Instead he blamed creditors for the collapse of the cash-for-reform talks on Sunday, the biggest setback in long-running negotiations to secure more aid for Greece. Germany and other major creditor countries demanded that the Athens government come to its senses and offer new proposals. *(Source: Reuters)*

U.S.: Manufacturing, mining drag U.S. industrial production

U.S. industrial production unexpectedly fell in May, likely as a strong dollar and energy spending cuts continued to weigh on manufacturing and mining output, bucking signs of an acceleration in the broader economy. Industrial output fell

0.2 percent after a revised 0.5 percent drop in April, the Federal Reserve said on Monday. The production side of the economy continues to struggle against the lingering effects of dollar strength and deep spending cuts in the energy sector in response to a sharp decline in crude oil prices. Economists polled by *Reuters* had forecast industrial production rising 0.2 percent last month, after a previously reported 0.3 percent fall in April. (Source: *Reuters*)

U.S.: U.S. Treasuries, Yields fall on weak data, Greek debt talks collapse

U.S. Treasury yields dropped after New York manufacturing data disappointed and on concerns that Greece might default on loans due in two weeks and be ejected from the European currency, after talks between the nation and its creditors collapsed. Manufacturing in New York State slowed in June, dropping to its weakest level in more than two years as new orders fell, according to a New York Federal Reserve survey. The New York Fed's Empire State general business conditions index fell from 3.09 in May to -1.98 in June, hitting its lowest level since January 2013. (Source: *Reuters*)

Singapore: Job market remains tight

Singapore's labour market remained tight in the first quarter of 2015 as the unemployment rate trended lower amid fewer redundancies and job openings, said the Ministry of Manpower and Statistics Department in the "Labour Market, First Quarter 2015: Report. After five years of strong increases, it said employment contracted in the first quarter of 2015, amid seasonal declines and sharper moderation in employment growth in the manufacturing and construction sectors, retail trade, real estate services and accommodation and food services. Reflecting seasonal declines and sharper moderation in employment growth in sectors with less favourable business conditions, employment contracted by 6,100 in the first quarter of 2015. (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