

PP14767/09/2012(030761)

Wednesday, June 17, 2015

## Report of the Day

**Results Review:** Astro 1Q16, HOLD (RM3.24) – “TV and Radio Lift Earnings”

### At a Glance

FBMKLCI recovered marginally 0.08 points to finish at 1,722.24 due to easing pressure in blue-chip counters.....(See full report next page)

### Strategy

**“Wall Street Up on Technical Rebound as Fatigue on Greece Looming”**

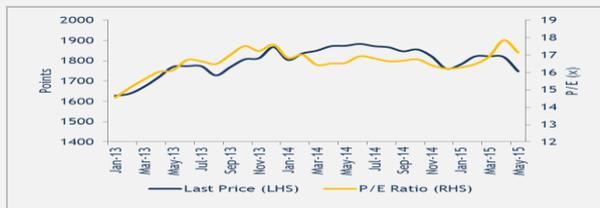
The steady performance in Wall Street may likely to influence the risk taking in local and regional market today.....(See full reports next page)

### Corporate Highlights

- **Astro (TBA):** Net profit rises 31.1%
- **FGV, BUY (TP: RM2.15):** To decide on Eagle High deal by August
- **SapuraKencana, BUY (TP: RM2.95):** Aims RM6bil to maintain top, bottomline

### Economic Update

- **Malaysia:** Attracts RM3b investments in SSO sector
- **U.S.:** Building permits near eight-year high; starts pull back
- **Indonesia:** Seeks legal route for bauxite miners to resume exports



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	-	¥-53.4B
JP	17-Jun	7:50 AM	Trade Balance Adjusted	-	¥-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	1,722.24	0.08	0.00
FBMEMAS	11,899.09	-15.73	-0.13
FBMEMAS SHA	12,419.04	-7.37	-0.06
FBM100	11,596.86	-15.14	-0.13
Volume (mn)	1,526.89	-20.36	-1.32
Value (RMmn)	1,525.78	7.99	0.53
FBMKLCI YTD Chg			-2.21

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	19.8	15.2
Local Institution	57.5	37.8
Foreign Investors	22.7	-53.0

## Top Gainers

	Close	Change+/-	(+/- %)
GRAND HOOVER	0.75	0.23	42.86
ENRA GROUP BHD	2.30	0.22	10.58
UNITED PLANT	26.80	0.20	0.75

## Top Losers

	Close	Change+/-	(+/- %)
ALLIANZ	11.60	-0.40	-3.33
AMWAY	10.60	-0.30	-2.75
SYARIKAT TKFL	3.95	-0.22	-5.28

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,904.48	113.31	0.64
NASDAQ	5,055.55	25.58	0.51
S&P 500	2,096.29	11.86	0.57
FTSE 100	6,710.10	-0.42	-0.01
DAX	11,044.01	59.04	0.54
Nikkei 225	20,257.94	-129.85	-0.64
HSI	26,566.70	-295.11	-1.10
KOSPI	2,028.72	-13.60	-0.67
STI	3,300.36	-22.77	-0.69
KLCI Futures	1,710.00	-	-
USDMYR 3M	10.24	(0.01)	(0.00)
USDMYR 6M	10.21	(0.02)	(0.00)
USDMYR 12M	10.21	0.01	0.00

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	60	0.0	0.0%
Brent (USD/bbl)	63.7	-0.3	-0.4%
Gold(USD/ounce)	1,182	-0.4	0.0%
Coal (USD/mt)	60.4	0.1	0.2%
CPO (RM/mt)	2,291	25.0	1.1%
Rubber	1,707	-10.0	-0.6%
RM/USD	3.75	-0.008	0.21%
EUR/USD	0.89	0.0003	0.03%
YEN/USD	123.42	0.06	-0.05%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average rose 113.31 points to 17,904.48, S&P 500 surged 11.86 points to 2,096.29. Nasdaq grew by 25.58 points to 5,055.55. Stocks closed higher on Tuesday as the Federal Reserve's began a two-day meeting and investors attempted to shake off worries about the Greece debt talks.
- Meanwhile, May housing starts showed a 11.1 percent decline, missing expectations, while building permits increased 11.8 percent month-over-month. The data follow Monday's National Association of Home Builders sentiment survey, which showed confidence rising to its highest level in nine months.

### The Local Market

- FBMKLCI recovered marginally 0.08 points to finish at 1,722.24 due to easing pressure in blue-chip counters. There were 334 gainers and 500 decliners in total value traded of RM1.52 billion.
- Among the gainers on Bursa Malaysia were Grand Hoover added 23 cent to RM0.75, Enra Group grew 22 cent to RM2.30, United Plantation rose 23 cent to RM26.80 and Oriental Food raised 19 cent to RM5.59.

### Strategy

- **“Wall Street Up on Technical Rebound as Fatigue on Greece Looming”**  
Wall Street managed to recover some lost ground thanks to technical rebound as investors embraced fatigue caused by Greece. **S&P 500** and **DJIA** gained 11.86 (0.57%) and 113.31 (0.64%) points to end at **2,096.29** and **17,904.48** respectively. As mentioned, it was just too much to chew off late on Greece and hence, investors brushed aside the brewing storm emanating from the country. This is at the back of ECB holding a policy meeting tomorrow where it could announce a change to Emergency Liquidity Assistance (ELA) on Greece. Note that Greece has been granted the ELA amounting to €83 billion by the ECB. Things are status quo for now with Greece fast approaching its first debt repayment on the 19<sup>th</sup> of June totaling €1.6 billion and another due on 30<sup>th</sup> June amounting to €1.5 billion. Investors were also cool on the fact that the US Federal Reserve will likely issue a strong hint on the first rate hike in its policy statement tomorrow, widely predicted to be in September, quite likely to reach 50 basis points this year in two rate hikes. Nonetheless, the steady performance in Wall Street may likely to influence the risk taking in local and regional market today.
- 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

#### **Astro, HOLD (TP: RM3.24): Net profit rises 31.1%**

Astro Malaysia's net profit rose 31.1% to RM168.30mil for the first quarter ended April 31, 2015, from RM128.33mil a year ago due to an increase in its earnings as well as decrease in amortisation of software and net financial costs. In a filing to Bursa Malaysia, the company said the increase in its earnings accounted to RM31.3mil and the decrease in amortisation of software and net financial costs amounted to RM4.4mil and RM7mil respectively. Meanwhile, its revenue for the quarter increased 6.1% to RM1.33bil compared to RM1.25bil a year ago due to an increase in subscription, advertising and other revenue of RM33.4mil, RM14mil, and RM28.8mil respectively. *(Source: The Star)*

#### **FGV, BUY (TP: RM2.15): To decide on Eagle High deal by August**

Felda Global Ventures Holdings Bhd (FGV) will decide by August on whether to proceed with the acquisition of PT Eagle High Plantations (EHP) or otherwise. Chief Executive Officer Datuk Mohd Emir Mavani Abdullah said the deal's fate rested on the satisfactory completion of the due diligence being undertaken and shareholders' approval at an extraordinary general meeting slated for August. The due diligence on the potential acquisition will be completed in a month's time," he told a press conference after FGV's annual general meeting on Tuesday. FGV, on June 12, proposed to acquire a 37% stake in EHP, the third largest oil palm company in Indonesia, from the Rajawali Group for about US\$680mil. The deal has since received much negative feedback from the market and taken a toll on the company's share price. *(Source: The Star)*

#### **SapuraKencana, BUY (TP: RM2.95): Aims RM6bil to maintain top, bottomline**

SapuraKencana Petroleum Bhd aims to secure RM6bil this year in order to maintain its top and bottomline. Its president and group CEO Tan Sri Shahril Shamsuddin said it would need that kind of job replenishment to maintain its financial numbers. Its tenderbook now is just under RM25bil while orderbook is at RM24bil. He conceded that charter rates have come down but it would resort to cost cutting measures internally to preserve the margins. He said it's not done provisions for its assets in Brazil as the income flow from there is still sustainable. On top of that, the company has just secured a US\$280mil in Mumbai, India. As for yard utilisation, it stands at about 80% now. Some of the structures will be delivered in September and October. By then the utilisation rate would decline to about 30% if they don't get new jobs. *(Source: The Star)*

#### **MBM Resources, BUY (TP: RM4.17): Sees meaningful contributions from new investments**

MBM Resources Bhd (MBMR) expects meaningful contributions from its investments in upgrading its service centres from this year onwards. MBMR group managing director Looi Kok Loon said on Tuesday the decision to add capacity by upgrading existing service centres enabled it to tap into the after-sales business. The after-sales business, he said, "continues to be highly

lucrative recurring income generator". "It also helped us diversify our income stream by lessening the dependence on vehicle sales," he said in a statement. MBM Resources, Looi said, was entering a period of steady and sustainable growth that would enable it to deliver consistent returns to shareholders. Its five-year annual average shareholders' return of 19.1% far surpasses the FBM Kuala Lumpur Composite Index's 9.8%. *(Source: The Star)*

**Mudajaya (CP: RM1.25): Plans to sell power assets in India, Malaysia**

Mudajaya Group Bhd, which is involved in construction, engineering and running power plants, is looking to dispose of its power generation assets – power plants in India and Malaysia. According to sources, Mudajaya intends to focus on its construction and property development segments. Mudajaya's main power generation asset is via a 26% holding in RKM Powergen Pte Ltd, which it acquired in 2006. RKM Powergen in turn has been building a 1,440MW coal-fired IPP project in Chhattisgarh, India. The project comprises four generating units with a nominal capacity of 360MW each. *(Source: The Star)*

**Allianz (CP: RM11.60): Not much impact on insurance sector from GST,**

The implementation of the goods and services tax (GST) since April this year has not much impact on the general insurance business as far as Allianz General Insurance Co (M) Bhd is concerned. Its chief sales officer, Horst H. Habbig, said so far the company has yet to see any apparent influence of the tax on its sales nationwide. He said the exemption of Langkawi from the GST would not necessarily guaranteed the company of an increase in business here. "Whether the tax is charged in Langkawi or not it should not have too much influence on the business," he said. Habbig said the company would be investing about RM1.5 million to set up three new branch offices nationwide this year. *(Source: The Star)*

**Boustead Plantations (CP: RM4.17): Expects RM122m gain from Kulaijaya land sale**

Boustead Plantations Bhd expects a gain of RM122mil from the sale of 247 hectares of land in Kulaijaya, Johor for RM143mil. It said on Tuesday the sale included selling 88 ha of land in Kulaijaya to Seng Hong Quarry Sdn Bhd and Bentara Gemilang Industries Sdn Bhd, which was recently announced in May 2015. Following this, Boustead Plantations and its unit Boustead Sungai Manar Sdn Bhd have entered into sale and purchase agreements with Sanggul Suria Sdn Bhd and Hanson Quarry Products (Segamat) Sdn Bhd to dispose of 57 ha and 102 ha respectively. Boustead Plantations vice chairman Tan Sri Lodin Wok Kamaruddin said the proposed disposals would enable the group to unlock and realise further value in its investments, in line with its strategic plans. *(Source: The Star)*

**Press Metal (CP: RM2.64): Executes amended agreement with Sesco**

Press Metal Bhd has executed an amended and restated power purchase agreement (PPA) with Syarikat Sesco Bhd for the supply and delivery of 500MW power in one stage by the last quarter of 2015. The entire proposed phase three smelter was expected to come into operation by the last quarter of 2015, the company said in a filing with Bursa Malaysia on Tuesday. On a separate note, Press Metal also announced that its subsidiary, Press Metal Bintulu Sdn Bhd,

had commenced ramp-up operations for the Samalaju Smelter on June 8. (Source: *The Star*)

**Century Logistics (CP: RM0.84): Gets five-year investment tax allowance**

Century Logistics Holdings Bhd's unit Century Total Logistics Sdn Bhd (CTL) has received approval for a special incentive package from the Malaysian Industrial Development Authority. The supply chain solutions provider told Bursa Malaysia that it would enable CTL to qualify for income tax exemption (ITA) via investment tax allowance of 60% of qualifying capital expenditure within a five-year period from the year of assessment 2015. The ITA can then be used to deduct up to 70% of the statutory income for each year of assessment. (Source: *The Star*)

**Brahim (CP: RM0.92): To reduce revenue dependency from airline catering**

Brahim's Holdings Bhd will reduce its revenue dependency from the airline catering business up to 50% within the next three years from over 90% of the company's topline. Chairman Datuk Seri Ibrahim Ahmad Badawi said the company is aggressively pursuing non-airline catering business following the conclusion of the new agreement with Malaysia Airlines Bhd (MAS). "The agreement allows us to pursue non-airline catering business. This was not allowed previously," he told reporters after the company's annual general meeting here on Tuesday. Ibrahim said the company recently secured two non-airline catering contracts, namely to provide catering to Emirates lounge at the KL International Airport and Mahsa College campus. (Source: *The Star*)

**EP Manufacturing (CP: RM0.78): Gears up for better FY15, FY16 as it diversifies**

Tier-one automotive systems and components manufacturer EP Manufacturing Bhd (EPMB) expects its outlook for financial years (FY) 2015 and 2016 to remain bright as the company diversifies and expands its facilities. Proton and Perodua will continue to be EPMBs key customers with revenue contribution of 39.3% and 36.9% respectively, while we welcome Honda and Mazda to our customer base. Honda Malaysia sales have contributed 12.6% to EPMBs revenue, becoming a significant third highest contributor to our current revenue stream, Executive Chairman Hamidon Abdullah told reporters after the groups 19th annual general meeting here on Tuesday. EPMB will invest about RM60 million for a new production factory on 40 acres (16 ha.) of freehold industrial land in Alor Gajah, Melaka, in part to build a dedicated facility, to be commissioned in early 2017, for the Honda business, said Hamidon. (Source: *The Star*)

**ECONOMIC UPDATES**

**Malaysia: Attracts RM3b investments in SSO sector**

Malaysia attracts over RM3 billion of new investments in the shared services and outsourcing (SSO) industry to date since January. Multimedia Development Corp Sdn Bhd vice-president of global business services, Michael Warren, said the tremendous growth was driven by the expansion in Asean region. Warren said the weakening ringgit has also attracted global companies to invest in Malaysia amid its talent pool. Meanwhile, InvestPenang's director, Datuk Lee Kah Choon, said the growing trend of SSO in Malaysia was also fueled by global

companies eyeing growth potentials in the Asean Economic Community which has a population of 600 million people. (Source: *The Star*)

#### **U.S.: Building permits near eight-year high; starts pull back**

U.S. permits for future home construction surged to a near eight-year high in May, suggesting a building up of momentum in housing and the broader economy after a dismal performance at the start of the year. While housing starts fell last month, that followed a robust gain in April and groundbreaking remained at levels consistent with a strengthening housing market. Housing's improving fortunes, marked by rising home prices and sales, are likely to be acknowledged by Federal Reserve officials, who were preparing to gather for a two-day policy meeting on Tuesday. Policymakers have repeatedly singled out housing as one of the weak spots in the economy. The U.S. central bank is expected to raise interest rates later this year. It has kept its short-term lending rate near zero since December 2008. (Source: *Reuters*)

#### **Indonesia: Seeks legal route for bauxite miners to resume exports**

Indonesia's government is discussing legal avenues to allow a resumption of bauxite exports to help kickstart stalled smelter projects, top officials said, as Southeast Asia's largest economy tries to promote infrastructure development. Indonesia imposed restrictions on exports of unprocessed metal ores in early 2014 in an effort force firms to develop smelters that would add value to the country's resources and create jobs. However, many firms including bauxite miners said building smelters was unfeasible in the absence of supporting infrastructure and export revenue, and the country's revenue from mining has plummeted. (Source: *The Star*)

#### **Greece: Greek PM says wants deal, sees problems on debt restructuring**

Greek Prime Minister Alexis Tsipras said on Tuesday Athens was seeking a viable, long-term deal that would pull the country out of economic crisis but faced a deadlock with creditors over debt restructuring. It is crucial that we strike a viable deal," Tsipras told the leader of the centrist To Potami party ahead of their meeting. "It is crucial to end this vicious cycle and to not be forced to go to a deal which, in six months' time, will bring us back to the same point." Tsipras said the main factor blocking a deal was difference between its European and IMF creditors over debt restructuring. (Source: *The Edge*)

#### **India: Trade deficit narrows to three-month low, exports contract**

India's trade deficit narrowed to a three-month low in May, helped by lower gold imports, bolstering the outlook for its current account balance. But in a worrying sign, weak global demand as well as persistent domestic bottlenecks led to a sixth straight annual fall in merchandise exports. Exports account for about a fifth of India's \$2 trillion economy. The trade deficit shrank to \$10.41 billion last month, its lowest since February, from \$10.99 billion in April, data released by the trade ministry showed on Tuesday. The data comes days after India's current account deficit, the broadest measure of its trade with the rest of the world, narrowed to a one-year-low of 0.2 percent of gross domestic product in the January-March quarter. (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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