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Wednesday, July 08, 2015

## Report of The Day

**Strategy Report:** Malaysia 3Q15 Equity Outlook – “Smokes Get in Your Eyes”

**Strategy Report:** 3Q15 Global Economic Outlook – “Embrace Protracted Volatility”

## At a Glance

FBM KLCI shed 4.75 points to finish at 1,712.30 in tandem with the mixed regional markets .....(See full report next page)

## Strategy

## “Wall Street Up on Technical Rebound”

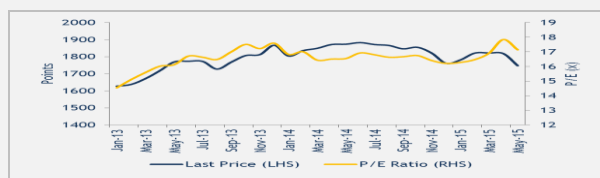
Although some quarters may pick up beaten down share price but we expect cautious mode to take center stage .....(See full report next page)

## Corporate Highlights

- **Bumi Armada, BUY (TP: RM1.32):** Unit clinches US\$755mil financing facility
- **FGV, TBA (TP: TBA):** To halt acquisition spree, consolidate investments
- **AirAsia (CP: RM1.49):** Indonesia AirAsia gets letter on positive equity position

## Economic Update

- **Australia:** RBA holds rates steady, still angling for lower Aussie
- **China:** Economic uncertainty a potential risk for US chipmakers
- **Greece:** Faces last chance to stay in euro as cash runs out



## KEY ECONOMIC RELEASE

	Date	Local Time	Event	Survey	Prior
EU	6-Jul	4:10 PM	Markit Eurozone Retail PMI	-	51.4
US	6-Jul	9:45 PM	Markit US Composite PMI	-	54.6
US	6-Jul	9:45 PM	Markit US Services PMI	-	54.8
US	6-Jul	10:00 PM	ISM Non-Manuf. Composite	56.0	55.7
US	7-Jul	8:30 PM	Trade Balance	\$-42.00B	\$-40.90B
MY	7-Jul	-	Foreign Reserves	-	\$105.3B
US	8-Jul	7:00 PM	MBA Mortgage Applications	-	-4.7%
JP	8-Jul	7:50 AM	BoP Current Account Balance	-	¥1326.4B
US	9-Jul	8:30 PM	Initial Jobless Claims	-	-
US	9-Jul	8:30 PM	Continuing Claims	-	-
JP	9-Jul	7:50 AM	Machine Orders MoM	-	3.8%
JP	9-Jul	7:50 AM	Machine Orders YoY	-	3.0%
CN	9-Jul	9:30 AM	CPI YoY	1.4%	1.2%
CN	9-Jul	9:30 AM	PPI YoY	-4.6%	-4.6%
MY	9-Jul	6:00 PM	BNM Overnight Policy Rate	3.25%	3.25%
US	10-Jul	10:00 PM	Wholesale Inventories MoM	0.2%	0.4%
JP	10-Jul	7:50 AM	PPI YoY	-	-2.1%
CN	10-15 Jul	-	Money Supply M2 YoY	11.0%	10.8%
MY	10-Jul	12:00 PM	Industrial Production YoY	-	4.0%

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBM KLCI	1,712.30	-4.75	-0.28
FBMEMAS	11,794.93	-37.03	-0.31
FBMEMAS SHA	12,245.66	-45.81	-0.37
FBM100	11,485.49	-35.86	-0.31
Volume (mn)	1,692.19	148.75	9.64
Value (RMmn)	1,729.60	320.87	22.78
FBM KLCI YTD Chg			-2.78

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	18.9	-12.3
Local Institution	53.8	137.1
Foreign Investors	27.3	-124.8

## Top Gainers

	Close	Change+/-	(+/- %)
BAT	63.70	0.68	1.08
UNITED PLANTAT	27.18	0.52	1.95
SAM ENGINEERIN	5.63	0.31	5.83

## Top Losers

	Close	Change+/-	(+/- %)
PCHEM	6.07	-0.33	-5.16
AEON CREDIT SER	13.12	-0.32	-2.38
PANASONIC MAN	22.50	-0.32	-1.40

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,776.91	93.33	0.53
NASDAQ	4,997.46	5.52	0.11
S&P 500	2,081.34	12.58	0.61
FTSE 100	6,432.21	-103.47	-1.58
DAX	10,676.78	-213.85	-1.96
Nikkei 225	20,376.59	264.47	1.31
HSI	24,975.31	-260.97	-1.03
KOSPI	2,040.29	-13.64	-0.66
STI	3,340.93	7.99	0.24
KLCI Futures	1,684.00	(11.50)	(0.01)
USDMYR 3M	10.78	0.01	0.00
USDMYR 6M	10.70	0.00	0.00
USDMYR 12M	10.76	-	-

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	53	0.5	0.9%
Brent (USD/bbl)	56.9	0.3	0.5%
Gold(USD/ounce)	1,155	-0.2	0.0%
Coal (USD/mt)	59.5	-0.6	-1.0%
CPO (RM/mt)	2,209	-26.0	-1.2%
Rubber	167	-0.3	-0.2%
RM/USD	3.81	-0.0019	0.05%
EUR/USD	0.91	0.0003	0.03%
YEN/USD	122.53	-0.01	0.01%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average gained 93.33 points to 17,776.91; S&P 500 up 12.58 points to 2,081.34. Nasdaq soared by 5.52 points to 4,997.46. Stocks closed higher Tuesday after a choppy trading session as investors eyed developments in the Greece debt crisis and the start of corporate earnings season.
- The IMF reiterated that the Federal Reserve should not raise interest rates until 2016 on Tuesday. Eurozone leaders held an emergency summit in Brussels to discuss Greece. The European Union later said all 28 of its heads of state will convene to discuss Greece's situation on Sunday.

### The Local Market

- FBMKLCI shed 4.75 points to finish at 1,712.30 in tandem with the mixed regional markets. There were 314 gainers and 466 decliners in total value traded of RM1.72 billion.
- Among the losers on Bursa Malaysia were PetChem shed 33 cent to RM6.07, Aeon Credit and Panasonic Manufacture dropped 32 cent each to RM13.12 and RM22.50, and UMW Holding erased 22 cent to RM10.02.

### Strategy

- **“Wall Street Up on Technical Rebound”**

Wall Street recovered some points on Tuesday, lifted by technical rebound and also IMF suggestion to the US Federal Reserve on its policy outlook. S&P 500 and DJIA **gained 12.58 (0.61%)** and **93.33 (0.53%)** points to end at **2,081.34** and **17,776.91** respectively. As penned above, Wall Street had picked up beaten down share price amid IMF suggestion for the Fed to delay hiking its policy rate into 2016. This is a welcome development as there is seemingly no pressing factor that could justify the Fed to adjust its policy rate in 2H15 given uneven economic growth, still recovering housing market, tepid inflation and above all the brewing storm in Eurozone. While we don't expect the Fed to make an outright acceptance over this but they may consider this by delaying the hike well into late 2H15, i.e. December 2015. At the moment it is too soon to call the shots as 2H15 had just begun. As for Greece, there was no damaging news just yet at the back of the European Union upcoming meeting on Sunday to discuss on Greece. Note that the clock is ticking for Greece to meet its sizeable payment to IMF this 20<sup>th</sup> July. Greece banks will be opened on Thursday following bank holiday since last week and we expect bank run to take place. At the moment, although some quarters may pick up beaten down share price but we expect cautious mode to take center stage. Hence, big bets may not take place just yet.

- Our 2015 year-end target is **1,660** based on PER of 15.6x. FBMKLCI is a **NEUTRAL**. We have **OVERWEIGHT** call on auto, construction, and telco respectively. We predict Malaysia to grow by

5.0% in 2015.

#### CORPORATE HIGHLIGHTS

##### **Bumi Armada, BUY (TP: RM1.32): Unit clinches US\$755mil financing facility**

Bumi Armada Bhd's unit Armada Kraken Pte Ltd has secured a syndicated term loan facility and a standby letter of credit facility, of a maximum aggregate principal amount of US\$755mil (RM2.88bil). The offshore oilfield services provider told Bursa Malaysia that the facility would be used to refinance an existing bridge loan obtained on March 31 last year to part-finance and reimburse all costs and expenses in relation to the acquisition and conversion of its seventh floating production, storage and offloading vessel (FPSO), Armada Kraken. The Armada Kraken FPSO will be chartered to Enquest Heather Ltd, Enquest ENS Ltd, First Oil and Gas Ltd, Nautical Petroleum Ltd at the Kraken oil field located in the UK sector of the North Sea. *(Source: The Star)*

##### **FGV, TBA (TP: TBA): To halt acquisition spree, consolidate investments**

Malaysian palm plantation firm Felda Global Ventures Holdings Bhd is putting a hold on acquisitions after a three-year, \$2.5 billion spree designed to boost output and will now focus on consolidating investments. The new strategy, disclosed in a statement on Tuesday, comes after the world's third-largest palm plantation operator said last month it planned to buy 37 percent of Indonesia's PT Eagle High Plantations for \$680 million. That deal was slated as being too expensive by analysts and politically motivated by opposition lawmakers, and Felda shares fell as much as 11 percent to all-time lows. Felda defended the transaction on Tuesday, describing the deal as "a game-changer for the palm oil industry." *(Source: The Edge)*

##### **AirAsia (CP: RM1.49): Indonesia AirAsia gets letter on positive equity position**

AirAsia Bhd's 49% affiliate PT Indonesia AirAsia (IAA) has received a letter from Indonesia's Transport Ministry laying out terms for it to ensure a positive equity position by July 31. In a filing with Bursa Malaysia yesterday, the low-cost carrier said it was going through the letter and intended to meet with the ministry. It said the letter had no immediate effect on the Indonesian operations and that the airline would at all times continue to operate within the ambit of Indonesian laws. A recent report by *The Jakarta Post* said 13 airlines in Indonesia had until July 31 to move their balance sheets into positive figures, in order to avoid having their operating permits suspended. *(Source: The Star)*

##### **Yinson (CP: RM3.01): EPF emerges as a major shareholder of Yinson**

The Employees Provident Fund (EPF) has emerged as one of the major shareholders of Yinson Holdings Bhd, after having increased its stake in the company from 4.90% to 10.13%. Through a proposed private placement, EPF took up 60 million shares at RM2.83 per share, in the integrated offshore production and support services provider. "We view EPF as a strong and strategic shareholder for Yinson and believe it will be a long-term shareholder to the group's expansion activities moving forward." *(Source: The Star)*

**Hua Yang (CP: RM1.92): Launches inaugural MyHome project**

Property developer Hua Yang Bhd has launched the first phase of its Seri Andaman homes under the government's MyHome Scheme that was announced in Budget 2014. Hua Yang said interested buyers must fulfil certain criteria set by the Ministry of Urban Wellbeing, Housing and Local Government to receive the RM30,000 subsidy for the homes. It said Seri Andaman was located within the Bandar Universiti Seri Iskandar (BUSI), which is the Group's premier 777-acre township in Perak. Hua Yang said the first phase of Seri Andaman consists of 186 units of 22' x 65' single storey terrace homes, with a built-up area of 850 sq.ft. (square feet) and above. It said each unit comes with three bedrooms and two bathrooms, which are ideal for small families. The price per unit of these leasehold units range from RM180,000 to RM200,000. (Source: *The Edge*)

**Bina Darulaman (CP: RM0.81): Langkawi projects to have GDV of RM1.5bil**

Bina Darulaman Bhd's four projects on Langkawi over the next five to seven years will have an estimated gross development value (GDV) of RM1.5bil. Managing Director Datuk Izham Yusoff said the projects include a mixed property development in Pekan Kuah, an Eco Tourism Project and upgrading of the Kuah jetty, which are expected to begin next year. In respect of the company's focus over the next two years, Izham said Bina Darulaman is trying to build more affordable houses, particularly in Kedah. (Source: *The Star*)

**TMC Life Sciences (CP: RM0.56): Johor Crown Prince is TMC substantial shareholder**

Johor Crown Prince Tunku Ismail Sultan Ibrahim (*pic*) has emerged as a substantial shareholder in healthcare operator TMC Life Sciences Bhd, holding a 7.67% stake or 133 million shares. TMC is controlled by Singaporean tycoon Peter Lim Eng Hock, who owns 70.5% of the company. The shares were allotted to Tunku Ismail as a result of the completion of the sale and purchase agreement entered into between Best Blend Sdn Bhd and TMC. Best Blend is 70%-owned by Lim and 30% by the Crown Prince. (Source: *The Star*)

**HB Global (CP: RM0.14): Bursa queries HB Global after share price spike**

Frozen-food specialist HB Global Ltd has received an unusual market activity (UMA) query from Bursa Malaysia, after its share price spiked in recent days. At 12:30pm yesterday, HB Global's shares spiked 3.5 sen or 37% to 13 sen, with some four million shares traded. The stock had jumped 136% this year, significantly outperforming the FBM KLCI's 3% decline. Last week, HB Global shares rose from 4.5 sen on Monday, to close at six sen on Friday. Today, Bursa Malaysia told HB Global: "We draw your attention to the recent sharp rise in price of your company's shares." Practice Note 17 entity HB Global had not responded to Bursa Malaysia's UMA query, at the time of writing. (Source: *The Edge*)

## ECONOMIC UPDATES

**Australia: RBA holds rates steady, still angling for lower Aussie**

Australia's central bank held interest rates at record lows today as sliding commodity prices, a still-high currency and mounting economic uncertainty in China argue for continued stimulus, and even the chance of more cuts. The Reserve Bank of Australia (RBA) underlined the need for a lower currency after its monthly policy meeting, even though it had only just hit a six-year trough on the US dollar. "Further depreciation seems both likely and necessary, particularly given the significant declines in key commodity prices," said RBA governor Glenn Stevens. On the outlook for policy, a typically guarded Stevens repeated that coming data would "inform" the bank's assessment of whether the current level of rates was most effective. (Source: The Star)

**China: Economic uncertainty a potential risk for US chipmakers**

Tumbling markets and economic uncertainty in China pose a risk to major chipmakers such as Qualcomm Inc that derive a big portion of their sales from the world's second-largest economy. Consumer electronics giant Apple Inc could also be vulnerable - 17% of the company's overall revenue last fiscal year came from China, and in the most recent quarter it sold more iPhones in the country than in the United States for the first time. But the slowing pace of China's economic growth - on top of already weakening demand for mobile devices - could deliver a particularly tough blow to chipmakers, analysts said. Beijing took steps during the weekend to revive shares following a 30% slide in its stock market since mid-June, which raised investors' concerns about the stability of the Chinese economy. (Source: The Star)

**Greece: Faces last chance to stay in euro as cash runs out**

Greece faces a last chance to stay in the euro zone on Tuesday when Prime Minister Alexis Tsipras puts proposals to an emergency euro zone summit after Greek voters resoundingly rejected the austerity terms of a defunct bailout. With Greek banks rapidly running out of cash and the European Central Bank slowly tightening the noose on their funding, Tsipras must persuade the bloc's other 18 leaders, many of whom are exasperated after five years of Greek crisis, to open rapid negotiations for a major new loan to rescue his country. The leaders of Germany and France, the currency area's two main powers, said after conferring on Monday that the door was still open to a deal to save Greece from plunging into economic turmoil and ditching the euro. (Source: Reuters)

**Indonesia: Hopes new tools will boost appeal to foreign Islamic banks**

Indonesian regulators are promoting new sharia-compliant financial tools and considering easing foreign ownership limits for domestic Islamic banks, seeking to make the sector more appealing to foreign lenders. Indonesia is the world's most populous Muslim nation but its Islamic finance sector is domestically focused and still has only niche status, behind neighbouring Malaysia and several Gulf countries. The government wants to change that, and this year the financial regulator, Otoritas Jasa Keuangan (OJK), launched a five-year strategy that aims to triple the sector's market share to 15 percent by 2023. (Source: The Edge)

**South Korea: Finance minister says 2015 economic growth hurt by MERS**

South Korea's finance minister said on Tuesday growth this year would have been better had it not been for an outbreak of the deadly Middle East Respiratory Syndrome (MERS) in late May that hurt consumer and business sentiment. "What's been unfortunate is that if it hadn't been for MERS, growth this year would have been better than last year's 3.3 percent and even better than the country's potential growth rate," Finance Minister Choi Kyung-hwan told reporters. Choi added that low global growth had added to South Korea's list of economic woes and the public should acknowledge that periods of high growth, as in the past, were unlikely to occur again. (Source: *The Edge*)

**U.S.: Trade deficit widens; weakness abroad fuels export drop**

The US trade deficit widened in May, fueled by a drop in exports that could heighten concerns over weak overseas demand and a strong US dollar. The Commerce Department reported on Tuesday that the trade gap grew US\$1.2bil (RM4.6bil) to US\$41.9bil (RM160.5bil). That was less than the US\$42.6bil (RM163.2bil) deficit expected by analysts and suggests Wall Street economists may slightly raise their forecasts for economic growth in the second quarter. But the drop in exports in May highlights a change in the tenor of economic growth since the United States exited the 2007-2009 recession. The economy relied more on export-led industries such as manufacturing early in the recovery, but growth is increasingly coming from domestic drivers like construction and services as the economic cycle matures. (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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