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Monday, July 13, 2015

## Report of The Day

**Sector Update:** Plantation (Neutral), MPOB June 2015 - "June's Palm Oil Stocks Contracted 4.3% m-o-m"

**Company Update:** Eco World Development, (TP: TBD) – "Brewing storm in Greece could weigh on Eco World International Projects"

**Strategy Report:** 3Q15 Japan Economic Outlook – "Same Old Same Old"

**Strategy Report:** Construction (Overweight) – "Higher Tone and Still Solid"

## At a Glance

FBMKLCI gained 14.04 points to finish at 1,715.58 lifted by bank stocks .....(See full report next page)

## Strategy

**"European Leaders Still Deliberating Amid Market Opening in Asia"**

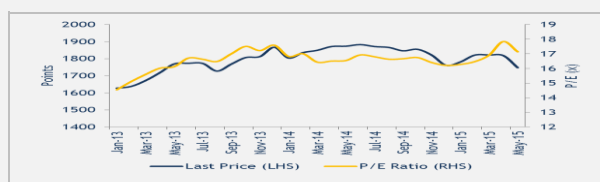
As for this week, the holiday shorten week along with status quo on Greece may continue to cap risk taking .....(See full report next page)

## Corporate Highlights

- **Maybank, BUY (TP: RM10.70):** Moody's assigns A3 to Maybank's S\$50m debt notes
- **Astro HOLD (TP: RM3.24):** Kantar Media launch new audience measurement system
- **IHH, SELL (TP: RM5.19):** In acquisition mode

## Economic Update

- **Malaysia:** May industrial output picks up pace, exceeds forecast
- **Singapore:** Q2 GDP growth seen hit by weak global demand, production
- **China:** Fear factor.



| KEY ECONOMIC RELEASE |           |            |                               |          |          |
|----------------------|-----------|------------|-------------------------------|----------|----------|
|                      | Date      | Local Time | Event                         | Survey   | Prior    |
| CN                   | 10-15 Jul | -          | New Yuan Loans CNY            | 10.50B   | 900.8B   |
| CN                   | 10-15 Jul | -          | Money Supply M2 YoY           | 0.1      | 0.1      |
| CN                   | 13-Jul    | -          | Trade Balance                 | \$56.35B | \$59.49B |
| CN                   | 13-Jul    | -          | Export YoY                    | 1.0%     | -2.5%    |
| CN                   | 13-Jul    | -          | Import YoY                    | -15.0%   | -17.6%   |
| JP                   | 13-Jul    | 12:30 PM   | Industrial Production MoM     | -        | -2.2%    |
| JP                   | 13-Jul    | 12:30 PM   | Capacity Utilization MoM      | -        | -4.0%    |
| JP                   | 13-Jul    | 12:30 PM   | Industrial Production SA MoM  | -        | -0.1%    |
| EU                   | 14-Jul    | 5:00 PM    | Retail Sales Advance MoM      | -        | 1.2%     |
| US                   | 14-Jul    | 8:30 PM    | Retail Sales Ex Auto MoM      | 0.3%     | 1.0%     |
| US                   | 14-Jul    | 8:30 PM    | Retail Sales Ex Auto and Gas  | 0.5%     | 0.7%     |
| US                   | 15-Jul    | 7:00 PM    | MBA Mortgage Applications     | 4.6%     | 4.6%     |
| US                   | 15-Jul    | 8:30 PM    | PPI Final Demand MoM          | 0.2%     | 0.5%     |
| US                   | 15-Jul    | 8:30 PM    | PPI Ex Food and Energy MoM    | 0.1%     | -0.1%    |
| US                   | 15-Jul    | 9:15 PM    | Industrial Production MoM     | 0.2%     | -0.2%    |
| US                   | 15-Jul    | 9:15 PM    | Capacity Utilization          | 78.1%    | 78.1%    |
| CN                   | 15-Jul    | 10:00 AM   | Retail Sales YoY              | 10.2%    | 10.1%    |
| CN                   | 15-Jul    | 10:00 AM   | Retail Sales YTD YoY          | 10.3%    | 10.4%    |
| CN                   | 15-Jul    | 10:00 AM   | Industrial Production YoY     | 6.0%     | -        |
| CN                   | 15-Jul    | 10:00 AM   | Industrial Production YTD YoY | 6.2%     | -        |
| CN                   | 15-Jul    | 10:00 AM   | GDP YoY                       | 6.8%     | 7.0%     |
| CN                   | 15-Jul    | 10:00 AM   | GDP YTD YoY                   | 6.9%     | 7.0%     |
| MY                   | 15-Jul    | 12:00 PM   | CPI YoY                       | -        | 2.1%     |
| EU                   | 16-Jul    | 5:00 PM    | CPI MoM                       | -        | 0.2%     |
| EU                   | 16-Jul    | 5:00 PM    | CPI YoY                       | -        | 0.2%     |
| EU                   | 16-Jul    | 7:45 PM    | ECB Main Refinancing Rate     | -        | 0.1%     |
| EU                   | 16-Jul    | 7:45 PM    | ECB Deposit Facility Rate     | -        | -0.2%    |
| EU                   | 16-Jul    | 7:45 PM    | ECB Marginal Lending Facility | -        | 0.3%     |
| US                   | 16-Jul    | 8:30 PM    | Initial Jobless Claims        | -        | -        |
| US                   | 16-Jul    | 8:30 PM    | Continuing Claims             | -        | -        |
| US                   | 17-Jul    | 8:30 PM    | Housing Starts                | 1100K    | 1034K    |
| US                   | 17-Jul    | 8:30 PM    | Building Permits              | 1104K    | 1275K    |
| US                   | 17-Jul    | 8:30 PM    | CPI MoM                       | 0.3%     | 0.4%     |
| US                   | 17-Jul    | 8:30 PM    | CPI Ex Food and Energy MoM    | 0.2%     | 0.1%     |
| US                   | 17-Jul    | 8:30 PM    | CPI YoY                       | 0.1%     | 0.0%     |
| US                   | 17-Jul    | 10:00 PM   | U. of Mich. Sentiment         | 96.5     | 96.1     |

## Bursa Malaysia

|                 | Close     | Change+/- | (+/- %) |
|-----------------|-----------|-----------|---------|
| FBMKLCI         | 1,715.58  | 14.04     | 0.83    |
| FBMEMAS         | 11,802.08 | 96.07     | 0.82    |
| FBMEMAS SHA     | 12,278.07 | 77.64     | 0.64    |
| FBM100          | 11,496.65 | 93.83     | 0.82    |
| Volume (mn)     | 1,673.79  | -143.57   | -7.90   |
| Value (RMmn)    | 1,659.70  | -167.71   | -9.18   |
| FBMKLCI YTD Chg |           |           | -2.59   |

## Daily Trading Position (RM'mn)

|                   | Participation (%) | Net(RMm) |
|-------------------|-------------------|----------|
| Local Retail      | 22.1              | -39.7    |
| Local Institution | 56.2              | 5.1      |
| Foreign Investors | 21.7              | 34.6     |

## Top Gainers

|                 | Close | Change+/- | (+/- %) |
|-----------------|-------|-----------|---------|
| BAT             | 62.70 | 0.70      | 1.13    |
| AEON CREDIT SER | 12.82 | 0.40      | 3.22    |
| UNITED PLANTAT  | 27.24 | 0.34      | 1.26    |

## Top Losers

|                | Close | Change+/- | (+/- %) |
|----------------|-------|-----------|---------|
| TOP GLOVE CORP | 7.11  | -0.26     | -3.53   |
| KHIND HOLDINGS | 2.10  | -0.18     | -7.89   |
| BOUSTEAD HEAVY | 1.71  | -0.12     | -6.56   |

## World Indices

|              | Close     | Change+/- | (+/- %) |
|--------------|-----------|-----------|---------|
| DJIA         | 17,760.41 | 211.79    | 1.21    |
| NASDAQ       | 4,997.70  | 75.30     | 1.53    |
| S&P 500      | 2,076.62  | 25.31     | 1.23    |
| FTSE 100     | 6,673.38  | 91.75     | 1.39    |
| DAX          | 11,315.63 | 319.22    | 2.90    |
| Nikkei 225   | 19,779.83 | -75.67    | -0.38   |
| HSI          | 24,901.28 | 508.49    | 2.08    |
| KOSPI        | 2,031.17  | 3.36      | 0.17    |
| STI          | 3,279.88  | 12.48     | 0.38    |
| KLCI Futures | 1,700.00  | 12.50     | 0.01    |
| USDMYR 3M    | 10.45     | (0.02)    | (0.00)  |
| USDMYR 6M    | 10.46     | (0.00)    | (0.00)  |
| USDMYR 12M   | 10.51     | 0.01      | 0.00    |

## Other Key Economics Data

|                 | Close  | Change+/- | (+/- %) |
|-----------------|--------|-----------|---------|
| WTI (USD/bbl)   | 52     | -0.7      | -1.3%   |
| Brent (USD/bbl) | 58.0   | -0.7      | -1.2%   |
| Gold(USD/ounce) | 1,163  | -1.0      | -0.1%   |
| Coal (USD/mt)   | 60.3   | 0.3       | 0.4%    |
| CPO (RM/mt)     | 2,194  | 7.0       | 0.3%    |
| Rubber          | 164    | 0.0       | 0.0%    |
| RM/USD          | 3.79   | -0.0012   | 0.03%   |
| EUR/USD         | 0.90   | 0.0012    | 0.13%   |
| YEN/USD         | 122.54 | -0.24     | 0.20%   |

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average gained 211.79 points to 17,760.41; S&P 500 up 25.31 points to 2,076.62. Nasdaq soared by 75.30 points to 4,929.70. U.S. stocks closed broadly higher on Friday, with major indexes ending up more than 1 percent on hopes Greece would be able to secure fresh funding at an upcoming meeting, which would allow it to avert bankruptcy and remain in the euro zone.
- Investors have long expected a rate hike in 2015, though opinions have been split on whether it would come in September or December. Yellen gave no direct hint about whether the U.S. central bank would raise rates more than once over the course of its four remaining meetings in 2015.

### The Local Market

- FBMKLCI gained 14.04 points to finish at 1,715.58 lifted by bank stocks. There were 537 gainers and 283 decliners in total value traded of RM1.65 billion.
- Among the gainers on Bursa Malaysia were BAT gain 70 cent to RM62.70, Aeon Credit Services jumped 40 cent to RM12.82, United Plantation up 34 cent RM27.24, and Cycle & Carr Bin soared 32 cent to RM2.87.

### Strategy

- **“European Leaders Still Deliberating Amid Market Opening in Asia”**  
Wall Street jumped higher last Friday boosted by hopes that Greece will be able to get a new bailout deal. At the time of writing, European leaders are still deliberating on Greece with few options on the plate. S&P 500 and DJIA added 28.50 (1.40%) and 234.00 (1.34%) points to end at 2,069 and 17,669 respectively. Few options for Greece weigh heavily on European leaders mind including giving Greece temporary reprieve from being Eurozone member or Greece must give guarantee that it will stick to bailout measures or else get booted out. Either way, we think Greece will not be able to meet the strict new bailout measures as the latest one is more onerous than the previous one and hence, not palatable in our view. Note that this will be Greece 3<sup>rd</sup> bailout in 5 years and there is no guarantee that it will stick to it, if at all. Human suffering which can rock the social fabric of Greece will be the main deal breaker in our view. Another 30% wage cuts ahead of the 30% previously with no potential growth in GDP is just insane. Our stretch view is that Greece may throw in the towel in some point of time and the market will be able to absorb it by then. There will be knock on effect, no doubt, but the market will be ready to withstand the tremor that will ensue. As for this week, the holiday shorten week along with status quo on Greece may continue to cap risk taking. Unless and until something concrete decision comes out from Greece, investors may want to stay at the sideline.

- 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

##### **Maybank, BUY (TP: RM10.70): Moody's assigns A3 to Maybank's S\$50m debt notes**

Moody's Investors Service has assigned an A3 long-term foreign currency senior unsecured debt rating to Malayan Banking Bhd's S\$50mil notes. The international ratings agency said on Friday the notes were issued under the bank's US\$5bil multi-currency medium term note programme. "The notes bear a fixed rate coupon of 1.32% per annum, and mature on July 11, 2016. The outlook on the A3 debt rating is positive, in line with the positive outlook on Maybank's A3 deposit ratings and Malaysia's A3 sovereign rating," it said. Moody's said the A3 rating assigned to the Singapore dollar notes was in line the bank's A3 foreign currency deposit rating. Maybank is the largest bank in Malaysia with consolidated assets of RM660bil at March 31, 2015. (Source: The Star)

##### **Astro HOLD (TP; RM3.24): Kantar Media launch new audience measurement system**

Astro Malaysia Holdings Bhd has with partnered Kantar Media to set up a dynamic television audience measurement (DTAM) system, to capture and collate viewing data from Astro's 4.5 million households across peninsular and east Malaysia. The viewing of content worldwide and in Malaysia has changed dramatically. Content consumption has moved beyond traditional TV (television) to include recorded and on demand viewing across multi-screens, whether at home or on the go," Astro's COO Henry Tan said in statement last Friday. DTAM's large panel size enables us to accurately capture the rich viewing habits of Malaysians," he added. He said DTAM's targeted panel size of 5,000 is able to accurately represent viewing behaviour of linear channels and high-definition (HD) channels, recorded and on demand viewing, which will also be able to track viewership of advertising spots across all Astro channels.

##### **IHH, SELL (TP: RM5.19): In acquisition mode**

HAVING courted many suitors to explore possible acquisitions, IHH Healthcare Bhd is still looking for the right one. Competition has increased for healthcare assets in the region but we think there is always value to be found. Our scale and strong financial position means many investment opportunities come our way but we are always very prudent and stringent in our approach, managing director and chief executive officer Dr Tan See Leng tells *StarBizWeek*. IHH's strong financial muscle with a net debt-to-equity ratio of 0.11 times, retained earnings of RM2.43bil and a market capitalisation of RM48.5bil gives the company the visibility, bargaining power and leverage it needs to negotiate potential deals. (Source: The Star)

**Eco World (CP: RM1.47): Boosts London housing**

ECO WORLD Investment Co Ltd (EWI), a private vehicle controlled by Tan Sri Liew Kee Sin, is boosting London's housing capacity with three new projects that will add 2,773 units as the city strives to meet growing demand. The units will include 2,463 private housing and 310 affordable homes developed by Eco World Ballymore, a 75:25 joint-venture company between EWI and UK-based Ballymore group. EWI will have the majority stake. The three projects – London City Island, Embassy Gardens and Wardian London – will be launched within the next two years with a total gross development value of £2.257bil (RM13.33bil). (Source: The Star)

**Ewein (CP: RM0.79): Gets nod for RM800mil project**

Ewein Bhd's subsidiary Ewin Zenith Sdn Bhd has secured a contract for the development of "City of Dreams" project with a gross development value (GDV) of RM800mil after obtaining the advertising permit and developer licence. The company said the proposed 110-acre development would comprise residential and commercial properties. The proposed development is located at Bandar Tanjong Pinang next to Gurney Drive in Penang. (Source: The Star)

**Uzma (CP: RM2.41): Unit wins Petronas job**

Uzma Engineering Sdn Bhd has secured a five-year contract worth RM350mil to RM400mil from Petronas Carigali Sdn Bhd. Uzma Engineering is a wholly-owned subsidiary of Uzma Bhd. Uzma said the contract, starting from March 31, 2016, was for leasing, operation and maintenance of the D18 water injection facility for Petronas Carigali. (Source: The Star)

**IRCB (CP: RM0.87): To exit PN17**

According to a filing with Bursa Malaysia, with the completion of IRCB's regularisation plan, the company has regularised its financial condition and no longer triggers any of the PN17 criteria. According to the listing requirements, it needed to chalk up two consecutive quarters of net profit to exit PN17 after having completed its regularisation plan in early-November last year. IRCB chairman Lim Boon Huat, when contacted, said that IRCB has turned around and is now on better financial footing. Perak-based IRCB, which manufactures and sells powdered and powder-free natural rubber latex and nitrile examination gloves, made a net profit of RM4.09mil in its first quarter ended April 30. This is a 14-fold increase from the RM286,000 achieved in the same quarter a year earlier. Its business has also expanded, with revenue having risen close to 45% to RM52.58mil. The company is also close to being debt-free, with only short-term borrowings of RM2.09mil on its balance sheet, while cash stood at RM9.08mil as at end-April. (Source: The Star)

**Perodua: Axia drives stellar Perodua sales**

Perodua car sales rose 14.8% year-on-year to 108,500 vehicles in the first half of 2015, mainly due to strong demand for the Axia compact car.

The Axia contributed nearly half of Perodua sales, followed by the Myvi and Alza. We estimate our market share is 33.8% for the first six months of the year, based on forecast total industry volume of 321,400 vehicles, said Perodua president and chief executive officer Datuk Aminar Rashid Salleh at a media briefing. Since the Axia's launch in September last year, Perodua has received

134,000 orders for the Axia and delivered 83,700 units. Aminar also said there are plans to export the Axia to Mauritius, Sri Lanka and Fiji this year. On the company's outlook for the second half, Aminar said he expected demand for vehicles to be softer post the goods and services tax implementation. (Source: *The Star*)

#### **Plantation Sector (Neutral): June palm oil stocks decline 4.3% to 2.15mil tonnes**

Malaysia's total palm oil stocks in June 2015 declined 4.33% to 2.15 million tonnes against the 2.25 million tonnes recorded in the previous month. In a statement today, the Malaysian Palm Oil Board (MPOB) stated that crude palm oil (CPO) stock for June decreased 14.55% to 1.10 million tonnes against 1.29 million tonnes previously. Processed palm oil stock grew by 9.42% to 1.05 million tonnes in May. Total CPO production eased 2.58 per cent to 1.76 million tonnes at end-June against 1.81 million tonnes recorded previously. Exports of biodiesel for June were significantly higher at 22,670 tonnes, up 1,625.67 per cent from 1,314 tonnes previously. (Source: *The Star*)

#### **ECONOMIC UPDATES**

##### **Malaysia: May industrial output picks up pace, exceeds forecast**

Malaysia's industrial production index (IPI) in May 2015 expanded by 4.5% from a year ago, as manufacturing picked up, exceeding a survey of a 3.1% increase. The Statistics Department said on Friday the rise in May 2015 was supported by the positive growth in manufacturing (3.2%), mining (9.0%) and electricity (1.2%). As for the IPI in April 2015, it remained unchanged by 4.0% on-year. "In seasonally adjusted terms, the IPI in May 2015 rose 1.5% month-on-month due to the increase in manufacturing (0.4%) and mining (4.0%) indices. The electricity index fell by 1.3%," it said. The department said manufacturing output grew at a slower growth of 3.2% in May 2015 versus 4.2% in April 2015. (Source: *The Star*)

##### **Singapore: Q2 GDP growth seen hit by weak global demand, production**

Singapore's economic growth is expected to have slowed down in the second quarter as sluggish global demand hurt the city-state's manufacturing sector, a *Reuters* poll showed on Friday. Gross domestic product is forecast to have expanded 0.8 percent in April-June from the previous quarter on an annualised and seasonally adjusted basis, according to the median forecast in the survey of 11 economists. That would be well behind the 3.2 percent quarter-on-quarter rate clocked in the first three months of the year. The government is forecasting the trade-reliant economy to grow 2-4 percent for 2015. Singapore's industrial production in April and May fell more than expected from a year earlier. (Source: *Reuters*)

##### **China: Fear factor.**

Just when sentiment is already dented as Greece's future hangs in the balance, the world wakes up to yet another and potentially bigger risk due to China's recent stock-market meltdown. The concern is palpable, for in less than one month – between mid-June and early this week – China's stock markets had lost



about 32%, wiping out US\$3.9 trillion (RM14.8 trillion) in value – that's equivalent to the size of Germany's entire economy, or about 17 times that of Malaysia. While China equities have rebounded over the last two days, somewhat soothing nerves, the question remains as to whether the rapid decline of China's previously booming stock markets is a sign of underlying troubles in the world's second-largest economy or merely an ordinary correction after a year of huge gains. *(Source: The Star)*

**Eurozone: Demands more from Greece, delays decision on aid**

Sceptical euro zone finance ministers demanded on Saturday that Greece go beyond painful austerity measures accepted by Prime Minister Alexis Tsipras if he wants them to open negotiations on a third bailout for his bankrupt country to keep it in the euro. The ministers postponed until Sunday a decision on whether to recommend starting talks on a new loan for Athens and sought further commitments first on product market liberalisation, labour laws, privatisation, state reform and more defence cuts, plus a promise to pass key laws next week, officials said. The Eurogroup session will resume on Sunday, hours before heads of state and government of the 19-nation currency area are due to meet to decide on Greece's fate in the euro area. *(Source: The Star)*

**U.S.: Yellen says expects rate hike this year, but cites labour weakness**

Federal Reserve chair Janet Yellen on Friday said she expects the Fed to raise interest rates at some point this year, but pointed strongly to her concerns that U.S. labor markets remain weak and that more workers could be encouraged back into the job market with stronger growth. In her speech Yellen gave no direct hint about whether she anticipates more than one rate hike over the Fed's four remaining meetings of 2015. But her focus on domestic economic developments looked beyond recent market turbulence over Greece and China, and keeps the Fed's plans on track. She said she expects the economy should grow steadily for the remainder of the year, allowing the Fed to move ahead with its first rate hike in nearly a decade. *(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](http://www.mnaonline.com.my)

Head Of Research



Rosnani Rasul  
M&A Securities