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Wednesday, July 29, 2015

Report of the Day

Results Review: MMHE 2Q15, HOLD (TP: RM1.20) – “Prospects Remain Challenging”

At a Glance

FBMKLCI tumbled by 10.06 points to finish at 1,699.70 derailed by off guarded news off cabinet reshuffling.....(See full report next page)

Strategy

“Wall Street Reverse on Steady China Market”

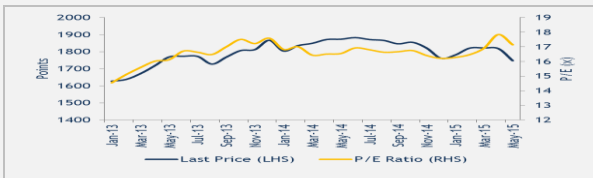
No bad news can weigh on the market and hence, better risk taking expected later...(See full report next page)

Corporate Highlights

- **MMHE, HOLD (TP: RM1.20):** Q2 earnings halved as offshore business slumps
- **Alam Maritim, HOLD (TP: RM0.56):** Clinches Petronas Carigali contract
- **BAT (CP: RM65.60):** Q2 profit and revenue slip

Economic Update

- **U.S.:** Consumer mood darkens, home price growth stalls
- **Greece:** Starts Bailout Talks With Dispute on Upfront Actions
- **Singapore:** Central Bank seen keeping policy steady in Oct, small minority expect easing



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	27-Jul	4:00 PM	M3 Money Supply YoY	-	5.0%
US	27-Jul	8:30 PM	Durable Good Orders	2.5%	-1.8%
US	27-Jul	8:30 PM	Durable Ex Transportation	0.5%	0.5%
US	27-Jul	8:30 PM	Dallas Fed Manuf. Activity	-4.0%	-7.0%
US	28-Jul	9:00 PM	S&P/CS Composite-20 YoY	5.35%	4.91%
US	28-Jul	9:45 PM	Markit US Composite PMI	-	54.6
US	28-Jul	9:45 PM	Markit US Services PMI	-	54.8
US	28-Jul	10:00 PM	Consumer Confidence Index	100.0	101.4
US	29-Jul	7:00 PM	MBA Mortgage Applications	-	0.1%
US	29-Jul	10:00 PM	Pending Home Sales MoM	1.0%	0.9%
JP	29-Jul	7:50 AM	Retail Trade YoY	-	3.0%
JP	29-Jul	7:50 AM	Retail Sales MoM	-	1.7%
EU	30-Jul	5:00 PM	Business Climate Indicator	-	0.14
EU	30-Jul	5:00 PM	Industrial Confidence	-	-3.4
EU	30-Jul	5:00 PM	Consumer Confidence	-	-
US	30-Jul	2:00 AM	FOMC Rate Decision (Upper Body)	0.25%	0.25%
US	30-Jul	8:30 PM	GDP Annualized QoQ	2.5%	-0.2%
US	30-Jul	8:30 PM	Personal Consumption	2.7%	2.1%
US	30-Jul	8:30 PM	Initial Jobless Claims	-	-
US	30-Jul	8:30 PM	Continuing Claims	-	-
JP	30-Jul	7:50 AM	Industrial Production MoM	-	-2.1%
US	30-Jul	8:30 PM	Industrial Production YoY	-	-3.9%
EU	31-Jul	5:00 PM	Unemployment Rate	-	11.1%
EU	31-Jul	5:00 PM	CPI Estimate YoY	-	0.2%
EU	31-Jul	5:00 PM	CPI Core YoY	-	0.8%
US	31-Jul	9:45 PM	Chicago Purchasing Manager	50.8	49.4
US	31-Jul	10:00 PM	U. of Mich. Sentiment	94.0	93.3
JP	31-Jul	7:30 AM	Jobless Rate	-	3.3%
JP	31-Jul	1:00 PM	Housing Starts YoY	-	5.8%
JP	31-Jul	1:00 PM	Annualized Housing Starts	-	0.912M
JP	31-Jul	1:00 PM	Construction Orders YoY	-	-7.4%
NY	31-Jul	6:00 PM	Money Supply M3 YoY	-	5.7%

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,699.70	-10.06	-0.59
FBMEMAS	11,738.02	-89.39	-0.76
FBMEMAS SHA	12,204.17	-109.82	-0.89
FBM100	11,415.69	-80.81	-0.70
Volume (mn)	2,119.85	-96.76	-4.37
Value (RMmn)	2,237.77	458.26	25.75
FBMKLCI YTD Chg			-3.49

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	22.3	-31.4
Local Institution	53.4	320.3
Foreign Investors	24.3	-288.9

Top Gainers

	Close	Change+/-	(+/- %)
KAREX BHD	3.59	0.26	7.81
MALAYSIAN PAC	6.70	0.19	2.92
LAFARGE	9.10	0.15	1.68

Top Losers

	Close	Change+/-	(+/- %)
KLK	21.58	-0.54	-2.44
TOP GLOVE	7.55	-0.35	-4.43
LATITUDE TREE HL	6.93	-0.34	-4.68

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,630.27	189.68	1.09
NASDAQ	5,089.21	49.43	0.98
S&P 500	2,093.25	25.61	1.24
FTSE 100	6,555.28	50.15	0.77
DAX	11,173.91	117.51	1.06
Nikkei 225	20,328.89	-21.21	-0.10
HSI	24,503.94	151.98	0.62
KOSPI	2,039.10	0.29	0.01
STI	3,281.09	-32.33	-0.98
KLCI Futures	1,671.00	(12.50)	(0.01)
USDMYR 3M	9.99	0.01	0.00
USDMYR 6M	10.26	(0.00)	(0.00)
USDMYR 12M	10.49	(0.01)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	48	-0.3	-0.5%
Brent (USD/bbl)	53.3	-0.2	-0.3%
Gold(USD/ounce)	1,096	0.3	0.0%
Coal (USD/mt)	60.3	-0.1	-0.2%
CPO (RM/mt)	2,131	-9.0	-0.4%
Rubber	159	0.5	0.3%
RM/USD	3.82	-0.005	0.13%
EUR/USD	0.90	-0.0005	-0.06%
YEN/USD	123.57	0.01	-0.01%

What To Expect

U.S. Market

- The Dow Jones Industrials Average gained 189.68 points to 17,630.27, S&P 500 up 25.61 points to 2,093.25. Nasdaq soared by 49.43 points to 5,089.21. Stocks closed higher by nearly 1 percent or more on Tuesday as investors found encouragement from some recovery in Chinese stocks and oil prices, amid mixed earnings and the beginning of the Federal Reserve's two-day meeting.
- In economic news, U.S. consumer confidence for July came in at 90.9, missing expectations and posting a decline from June's read of 99.8. The Case-Shiller 20-city home price index rose 4.9 percent in May from the same period last month, matching April's pace.

The Local Market

- FBMKLCI tumbled by 10.06 points to finish at 1,699.70 derailed by off guarded news off cabinet reshuffling. There were 197 gainers and 726 decliners in total value traded of RM2.23 billion.
- Among the losers on Bursa Malaysia were Kuala Lumpur Kepong tumbled 54 cent to RM21.58, Top Glove plunged 35 cent to RM7.55, Latitude Tree dropped 34 cent to RM6.93 and Hong Leong Finance declined 32 cent to RM15.22.

Strategy

- **"Wall Street Reverse on Steady China Market"**
Wall Street made a comeback driven by steadier China equity market and the possibility of US rate hike in December. **S&P 500** and **DJIA** gained **25.61 (1.24%)** and **189.68 (1.09%)** points to finish at **2,093.25** and **17,630.27** respectively. It appears that China's equity market recent rout has dissipated with the bellwether index there closed only 1%+ lower yesterday. This has calmed the regional market along with Wall Street, leading to improving trading appetite and hence, higher market closing. Apart from improving China market, trading momentum was also shored up by brewing news that the US first rate hike will be in December, with no hike expected this week. As of now, it is merely a speculation and we would be able to gauge any possibility later today when the FOMC releases its policy statement. At this junction, no bad news can weigh on the market and hence, better risk taking expected later.
- 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

MMHE, HOLD (TP: RM1.20): Q2 earnings halved as offshore business slumps

Malaysia Marine and Heavy Engineering Holdings Bhd (MMHE) saw a 54.6% fall in earnings in the second quarter ended June 30, 2015 as its offshore business slumped to the plunge in crude oil prices. It said on Tuesday revenue fell 40.6% to RM582.14mil from RM980.91mil a year ago. Earning per share were 1.1 sen compared with 2.5 sen. The offshore segment registered lower revenue and operating profit as most projects have been completed while the newly secured projects were still at the early stage of its project lifecycle. Additional provision for cost to complete was also made for Malikai TL Project, of which it was pursuing compensation and claims from the client to recover the cost incurred on the project. (Source: The Star)

Alam Maritim, HOLD (TP: RM0.56): Clinches Petronas Carigali contract

Alam Maritim Resources Bhd has received a letter of award from Petronas Carigali Sdn Bhd to provide splash zone structural repair and maintenance. The marine transportation/construction service provider told Bursa Malaysia on Tuesday that its unit Alam Maritim (M) Sdn Bhd, which mainly provides ship managing and chartering services, won the contract with an estimated value of RM6mil. The contract is for a period of two years effective from June 8, 2015, with an extension option of one year (up to June 7, 2018). (Source: The Star)

BAT (CP: RM65.60): Q2 profit and revenue slip

British American Tobacco (M) Bhd's (BAT) pre-tax profit for the second quarter ended June 30, 2015 slipped to RM286.88mil from RM330.41mil in the same quarter last year. Revenue declined to RM1.09bil from RM1.23bil previously. In a filing with Bursa Malaysia, the tobacco company attributed the subdued financial results to due to weaker market sentiment after the implementation of the goods and services tax (GST) on April 1 this year. However, the group's market share in the first half of the year increased by 0.5 percentage point to 61.7% as compared with full-year 2014. The growth was mainly contributed from the aspirational premium brands, namely Peter Stuyvesant, it said. (Source: The Star)

Perstima (CP: RM4.70): Profit rises 63% on higher margin, sales volume

Perusahaan Sadur Timah Malaysia (Perstima) Bhd recorded a 62.9% jump in net profit to RM9.311mil for the first quarter (Q1) ended June 30, 2015, compared with a year earlier, thanks to a better profit margin coupled with a higher sales volume. The tinsplate and tin-free steel producer told Bursa Malaysia that it was achieved on a 6.4% year-on-year growth in revenue to RM158.35bil. For both its Malaysian and Vietnamese operations, the company recorded higher revenue and pre-tax profit. While the profit margins for both countries rose year-on-year, the Vietnam operation's profit margin in Q1 was almost double that of Malaysia, at 10%. (Source: The Star)

AirAsia (CP: RM1.36): Names advisors for RM762mil bond issue

AirAsia Bhd has hired investment banks Credit Suisse and CIMB to help the airline raise at least US\$200mil (RM762.6mil) in convertible bonds at its Indonesian and Philippine associates, people familiar with the deal said.

AirAsia's finances have come under scrutiny as amounts owed to it by its loss-making associates in Indonesia and Philippines have steadily risen, burdening AirAsia's balance sheet. The bond issues are part of a capital-raising plan by the regional affiliates of Asia's biggest budget airline and could help alleviate the risk of AirAsia taking writedowns on receivables from the two associates. (Source: The Star)

AirAsia X (CP: RM0.20): Ready to team up with investors with right price

AirAsia X Bhd is ready to team up with potential investors but only if the price is right, its acting chief executive officer, Benyamin Ismail said. He said several carriers, businesses and partners had shown interest in investing in AirAsia X (AAX) over the last few years, but the company never found the right partner. "At the moment we are not closing it (the door). It helps in terms of the profile of the company, assuming there is a big carrier wanting to team up with us," he told reporters after announcing AAX's four times weekly direct flights from Kuala Lumpur to Sapporo, Japan from Oct 1, here yesterday. (Source: The Star)

Only World Group (CP: RM2.76): Expands into adventure games

Only World Group Bhd (OWG), a leisure and hospitality services provider, is expanding into adventure games through the purchase of a 60% stake in Escaperoom Holdings Sdn Bhd for RM5.4mil. OWG said on Tuesday it has signed a conditional share sale agreement with Datuk Ong Kee Seng, Datuk Victor Lo Tung Ho and Datuk Jason Leung Chak Sum to buy the 60% stake. It said Escaperoom Holdings owned the Escape Room brand and that its core business was the provision of real-life physical adventure games/puzzle concept. As at July 21, Escape Room was available in seven outlets throughout Malaysia and one outlet each in Australia, Estonia, India, Romania, Thailand, the United. (Source: The Star)

Astino (CP: RM0.69): To invest RM100mil in new facility

Astino Bhd plans to invest over RM100mil in a new multi-system agro-house production facility in Nibong Tebal by the end of the year. Group managing director Ng Back Teng told StarBiz the group had identified a 10-acre project site in Nibong Tebal where the group already has an existing agro-house production facility. Astino also has similar agro-house facilities in Bukit Beruntung in Selangor, Malacca and Pahang. The agro-house business is expected to generate about RM60mil or 15% of group turnover for the 2015 fiscal year ending July 31. (Source: The Star)

Fajarbaru Builder (CP: RM0.425): Plans RM728m property projects

Construction player Fajarbaru Builder Group Bhd plans to undertake three property projects in the country with a gross development value (GDV) of RM728mil. The three are a condominium project in Puchong with a GDV of RM400mil, and serviced apartments in Sentul (RM250mil) and Malacca (RM78mil). Property division manager Yau Tuck Wai said the company would launch the Puchong project by year-end, the Sentul project in the first quarter of 2016 and the Malacca project in the third quarter of 2016. Fajarbaru is also undertaking its first overseas project in Melbourne, Australia, via its 51% owned Fajarbaru-Beulah (Melbourne) Pty Ltd. (Source: The Star)

Managepay System (CP: RM0.29): Upbeat on its new payment solution

Managepay Systems Bhd (MPay) is looking to capture 10% to 15% of the 1.2 million card acceptance devices to be installed over the next five years, with its new Chip & Pin technology solution, making it the first MyClear certified contact and contactless chip & pin card host and terminal solution to be launched in Malaysia. MyClear, which builds and operates payment systems and financial market infrastructure, is a wholly-owned subsidiary of Bank Negara. In pushing Malaysia into a cashless society, the central bank is looking to increase card terminals from 220,000 at present to 800,000 over the next five years. (Source: *The Star*)

ECONOMIC UPDATES**U.S.: Consumer mood darkens, home price growth stalls**

U.S. consumer confidence suffered its biggest blow in four years in July on a less upbeat jobs outlook, while home appreciation in major cities stalled in May, suggesting a spring pause in housing demand. The disappointing data comes as Federal Reserve policymakers meet to consider whether the U.S. economy is strong enough to warrant an end to the Fed's near zero interest rate policy, perhaps as soon as September. The Federal Open Market Committee, the U.S. central bank's policy-setting group, is meeting on Tuesday and Wednesday. The Conference Board, an industry group, said on Tuesday its index of consumer attitudes fell to 90.9 this month from a downwardly revised 99.8 in June. It fell far short of a forecast reading of 100.0. (Source: *Reuters*)

Greece: Starts Bailout Talks With Dispute on Upfront Actions

Greece's latest cycle of talks with its creditors started with a quarrel, as officials argued over what upfront commitments the government has yet to implement in order to tap emergency loans next month. Technical experts from the European Central Bank, the International Monetary Fund, the European Stability Mechanism and the European Commission are in Athens to negotiate with their Greek counterparts on the list of policies that must be legislated over the next three years in exchange for a lifeline of as much as 86 billion euros (\$95 billion). A so-called Memorandum of Understanding would need to be agreed upon in the next two weeks, so that a bailout can be in place before a payment on bonds held by the ECB comes due on August 20. Failure to do that might force another bridge loan to avert default, which may also come with strings attached. (Source: *Bloomberg*)

Singapore: Central Bank seen keeping policy steady in Oct, small minority expect easing

Singapore's central bank will probably hold off from further monetary easing at its next policy review in October, a *Reuters* poll showed, with headline and core inflation expected to pick-up next year. Most analysts see the central bank keeping policy steady, even after the economy shrank unexpectedly in the second quarter and headline consumer prices in June fell from a year earlier for the eighth straight month, according to the survey. Fourteen of 16 analysts polled by *Reuters* said they expect the Monetary Authority of Singapore to leave

its policy settings unchanged in October, when it holds its last scheduled policy review for 2015. (Source: *The Edge*)

Indonesia: Changes export tax system for palm oil

Indonesia has issued a regulation that changes the way export taxes are calculated for crude palm oil and other palm products, a finance ministry official said on Tuesday, and they will now be expressed in dollars rather than a percentage of the palm price. This is to make it simpler," Suahasil Nazara, head of fiscal policy office told reporters. Under the old system, crude palm oil exports were subject to an escalating tax rate of between 7.5 percent and 22.5 percent when prices exceeded \$750 per tonne. Now they will be subject to a dollar tax rate running from \$3 to \$200 per tonne, again when prices exceed \$750. (Source: *The Edge*)

Thailand: Cuts 2015 GDP forecast to 3 pct, admits exports will fall

Thailand's finance ministry on Tuesday cut its economic growth forecast for the third time this year as a poor performance from the export sector slowed expansion in the trade-dependent economy. The government of Prime Minister Prayuth Chan-ocha is coming under increasing public pressure to deal with the country's stubbornly weak economy. Prayuth hinted on Monday at a cabinet change in September. The finance ministry now expects Southeast Asia's second-largest economy to grow 3.0 percent this year, down from the 3.7 percent forecast three months ago. A year ago, shortly after Prayuth led a military coup, the ministry forecast 5.0 percent growth for 2015. Since then, growth targets have been steadily cut due to weak external markets for Thai exports and slow demand at home as Thai consumers try to pay down record household debt. (Source: *The Edge*)

U.K.: Growth Accelerates to 0.7% as Services, Oil Surge

U.K. economic growth accelerated in the second quarter as business services and finance strengthened and North Sea output surged. The 0.7 percent increase in gross domestic product marked a 10th straight expansion and followed a 0.4 percent advance in the previous three months. The report suggests the recovery remains lopsided and led by the dominant services industry, where growth accelerated to 0.7 percent. While oil and gas helped industrial output rise 1 percent on the quarter, the most since the end of 2010, manufacturing declined 0.3 percent. Construction was unchanged. With the U.K. economy in its longest period of continuous growth since before falling into recession in 2008 and unemployment falling. (Source: *Bloomberg*)

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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