M&A Securities

Morning Call

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Monday, August 03, 2015

Market Access

Report of the Day

Sector Update: Banking June Statistic (Neutral)- *"Business Loans Gaining Momentum"*

At a Glance

FBMKLCI rose 23.22 points to finish at 1,723.14 lifted by the gain in some heavyweight counters......(See full report next page)

Strategy

"US July Unemployment Rate Due This Week"

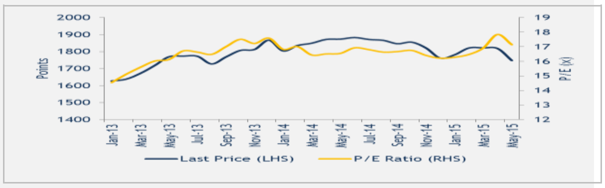
Cautious trading sentiment may take hold in the broader market......(See full report next page)

Corporate Highlights

- **AFG, BUY (TP: RM5.05):** Upbeat about improving financial performance
- **Top Glove, HOLD (TP: RM7.74):** Eyes RM2.5bil revenue this year
- **Westports (CP: RM4.01):** 2Q net profit flat, declares 5.32 sen dividend

Economic Update

- **Global:** Asian imports of Iran oil rise 13% in June
- **Japan:** TPP is not a place to negotiate currencies
- **China:** July factory growth unexpectedly stalls



KEY ECONOMIC RELEASE

	Date	Local Time	Event	Survey	Prior
EU	3-Aug	4:00 PM	Markit Eurozone Manufacturing PMI	-	52.2
US	3-Aug	8:30 PM	Personal Income	0.4%	0.5%
US	3-Aug	8:30 PM	Personal Spending	0.1%	0.9%
US	3-Aug	9:45 PM	Markit US Manufacturing PMI	-	53.8
US	3-Aug	10:00 PM	Construction Spending MoM	0.7%	0.8%
US	3-Aug	10:00 PM	ISM Manufacturing	53.5	53.5
US	3-Aug	9:45 PM	ISM Prices Paid	49.5	49.5
CN	3-Aug	9:45 AM	Caixin China PMI Mfg	48.3	48.2
MY	3-Aug	10:15 PM	Nikkei Malaysia PMI	-	47.6
EU	4-Aug	5:00 PM	PPI MoM	-	0.0%
EU	4-Aug	5:00 AM	PPI YoY	-	-2.0%
US	4-Aug	10:00 PM	Factory Orders	1.6%	-1.0%
JP	4-Aug	7:50 AM	Monetary Base YoY	-	34.2%
EU	5-Aug	4:00 PM	Markit Eurozone Service PMI	-	53.8
EU	5-Aug	4:00 PM	Markit Eurozone Composite PMI		53.7
EU	5-Aug	5:00 PM	Retail Sales MoM	-	0.20%
EU	5-Aug	5:00 PM	Retail Sales YoY	-	2.4%
US	5-Aug	7:00 PM	MBA Mortgage Application	-	0.8%
US	5-Aug	8:15 PM	ADP Employment Change	210K	237K
US	5-Aug	8:30 PM	Trade Balance	$-42.25B	$-41.87B
US	5-Aug	9:45 PM	Markit US Composite PMI	-	55.2
US	5-Aug	9:45 PM	Markit US Service PMI	-	55.2
CN	5-Aug	9:45 AM	Caixin China PMI Composite	-	50.6
CN	5-Aug	9:45 AM	Caixin China PMI Services	-	51.8
MY	5-Aug	12:00 PM	Export YoY	-2.9%	-6.7%
MY	5-Aug	12:00 PM	Import YoY	-5.1%	-7.2%
MY	5-Aug	12:00 PM	Trade Balance MYR	5.25B	5.51B
EU	6-Aug	4:10 PM	Markit Eurozone Retail PMI	-	50.4
US	6-Aug	8:30 PM	Initial Jobless Claims	-	-
US	6-Aug	8:30 PM	Continuing Claims	-	-
JP	6-Aug	1:00 PM	Leading Index CI	-	106.2
JP	6-Aug	1:00 PM	Coincident Index	-	109.0
US	7-Aug	8:30 PM	Change in Nonfarm Payrolls	220K	223K
US	7-Aug	8:30 PM	Change in Manufact. Payrolls	5K	4K
US	7-Aug	8:30 PM	Unemployment Rate	5.3%	5.3%
US	7-Aug	8:30 PM	Labor Force Participation Rate	-	62.6%
MY	7-Aug	-	Foreign Reserves	-	$100.5B

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,723.14	23.22	1.37
FBMEMAS	11,894.13	136.72	1.16
FBMEMAS SHA	12,373.72	117.93	0.96
FBM100	11,569.42	141.12	1.23
Volume (mn)	1,676.30	58.30	3.60
Value (RMmn)	2,013.26	431.05	27.24
FBMKLCI YTD Chg			-2.16

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	18.6	-46.7
Local Institution	50.4	-85.6
Foreign Investors	31.0	132.3

Top Gainers

	Close	Change+/-	(+/- %)
BAT	67.50	1.50	2.27
HONG LEONG FIN	15.86	0.54	3.53
KAF SEAGROATT	2.61	0.53	25.48

Top Losers

	Close	Change+/-	(+/- %)
NESTLE (MALAY)	72.00	-0.52	-0.72
TOP GLOVE	7.62	-0.26	-3.30
WESTPORTS	4.01	-0.17	-4.07

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,689.86	-56.12	-0.32
NASDAQ	5,128.28	-0.50	-0.01
S&P 500	2,103.84	-4.79	-0.23
FTSE 100	6,696.28	27.41	0.41
DAX	11,308.99	51.84	0.46
Nikkei 225	20,585.24	62.41	0.30
HSI	24,636.28	138.30	0.56
KOSPI	2,030.16	11.13	0.55
STI	3,202.50	-47.02	-1.45
KLCI Futures	1,694.00	16.50	0.01
USDMYR 3M	11.06	(0.12)	(0.01)
USDMYR 6M	11.24	(0.09)	(0.01)
USDMYR 12M	11.65	(0.04)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	47	-0.3	-0.7%
Brent (USD/bbl)	51.7	-0.5	-0.9%
Gold(USD/ounce)	1,094	-1.6	-0.1%
Coal (USD/mt)	58.9	-0.1	-0.2%
CPO (RM/mt)	2,120	-4.0	-0.2%
Rubber	158	-0.9	-0.6%
RM/USD	3.83	0.012	-0.31%
EUR/USD	0.91	0.0009	0.10%
YEN/USD	123.99	0.1	-0.08%

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Market Access

What To Expect

U.S. Market

- The Dow Jones Industrials Average shed 56.12 points to 17,689.96, S&P 500 down 4.79 points to 2,103.84. Nasdaq tumble by 0.50 points to 5,128.28. Wall Street ended on a sour note on Friday as a drop in energy stocks eclipsed wage data that supported expectations that the U.S. Federal Reserve might hold off on an interest rate.

- The drop in those stocks, as well as additional declines in crude prices amid oversupply concerns, contributed to a 2.6 percent decline in the energy index, its deepest one-day drop since January.

The Local Market

- FBMKLCI rose 23.22 points to finish at 1,723.14 lifted by the gain in some heavyweight counters. There were 467 gainers and 365 decliners in total value traded of RM2.01 billion.

- Among the gainers on Bursa Malaysia were BAT gained RM1.50 to RM67.50, Hong Leong Financial grew 54 cent to RM15.86, KAF Seagroatt surged 53 cent to RM2.61 and United Plantations soared 50 cent to RM27.50.

Strategy

- **"US July Unemployment Rate Due This Week"**
  Wall Street ended lower last Friday on profit taking activity and weighed by jitteriness caused by US upcoming July unemployment rate due this Friday. **S&P 500** and **DJIA** shed 4.79 (-0.23%) and 56.12 (-0.32%) points to end at **2,103.84** and **17,689.86** respectively. Last Friday, the US released its Employment Cost Index which increased at just 0.2% in the second quarter against consensus of 0.6%, indicating that the US Federal Reserve may want hold for a while the adjustment in interest rate. At this stage, September or December has been speculated as the time for the US first interest rate adjustment in 6 years. Another key indicator would be this Friday's US July unemployment rate. As for market outlook, local wise, we think that the direction of Ringgit and oil will be the decisive factor. The steady weakening of Ringgit, we think, may weigh on sentiment including the depressed price of oil currently. Sentiment may also be affected by this Friday's US unemployment rate release. Hence, cautious trading sentiment may take hold in the broader market.

- 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.

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CORPORATE HIGHLIGHTS

AFG, BUY (TP: RM5.05): Upbeat about improving financial performance

THE challenging operating environment in the banking sector will not dampen Alliance Financial Group Bhd's (AFG) pursuit to put the banking group on a stronger financial footing. The group, which reported a 41% drop in fourth quarter earnings, is upbeat it will be able to improve its financial performance for the current financial year ending March 31, 2016. Chief executive officer Joel Kornreich tells *StarBizWeek* in an email that although there was a decline in earnings for the recent financial year ended March 31, 2015 (FY15), the banking group has reported better-than-industry performance in some core areas namely loans, deposits, current account savings account (CASA) and non-performing loans. *(Source: The Star)*

Top Glove, HOLD (TP: RM7.74): Eyes RM2.5bil revenue this year

Top Glove Corp Bhd, the world's biggest rubber glove manufacturer, is eyeing revenue of RM2.5bil this year, supported by higher sales. Chairman Tan Sri Lim Wee Chai said the group's annual growth rate was about 27% and he was optimistic the target would be achieved. He said the group would continue to invest in automation to increase production capacity. The group will allocate about RM200mil a year as capital expenditure to improve and increase production efficiency, said on the sidelines of the CEO Forum 2015 organised by the Penang Federation of Malaysian Manufacturers. The group also aimed to increase its global market share from 25% now to 30% by 2020. *(Source: The Star)*

Westports (CP: RM4.01): 2Q net profit flat, declares 5.32 sen dividend

Westports Holdings Bhd posted a marginal drop of 0.3% in its second-quarter net profit, on lower revenue. The port operator's net profit fell to RM122.09 million or 3.58 sen per share in the three months ended June 30, 2015 (2QFY15) from RM122.49 million or 3.59 sen per share a year ago. Quarterly revenue also fell 0.9% to RM405.28 million from RM409.03 million in 2QFY14. However, container throughput increased 3% to 2.16 million TEUs (20-foot equivalent units) from 2.09 million TEUs for the period under review. Westports also declared a first interim dividend of 5.32 sen per share amounting to RM181 million for the financial year ending Dec 31, 2015 (FY15), payable on Aug 26, 2015. *(Source: The Edge)*

MAHB (CP: RM5.93): 1H results in line with expectations, says Moody's

Moody's Investors Service says Malaysia Airports Holdings Bhd's (MAHB) first half (1H) 2015 results are in line with expectations, and will have no impact on its A3 issuer rating. "The rating outlook remains positive, reflecting the outlook for the Malaysian sovereign (A3 positive) as well as MAHB's important policy role and contributions to the country's tourism, export and aviation industries," it said in a statement on Friday. Moody's vice president and senior analyst Ray Tay said: "Despite flat passenger volumes for MAHB's operations in Malaysia, the performance for 1H 2015 was in line with Moody's expectations, and we expect passenger growth within the next 12 to 18 months, as well as improvements in its Turkish operations, to support its A3 rating." *(Source: The Star)*

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Unimech (CP: RM1.36): Delivers vales and pumps worth RM120mil

Unimech Group Bhd's has delivered valves and pumps with an estimated market value of over RM120mil for the first six months of 2015. Group managing director Datuk Lim Cheah Chooi told *StarBiz* that about 50% of the products was delivered to Asean countries and Australia. The remainder is delivered to the domestic market, which has remained stable despite the present economic and political uncertainties. We have secured orders for our valves and pumps to be fitted in new manufacturing facilities to be set up by multinational corporations in Penang, Kuala Lumpur, and Johor, which will contribute positively to our revenue this year," Lim said. The delivery for the first six months of 2015 is projected to improve over the performance of last year's corresponding period in terms of revenue and bottom-line. *(Source: The Star)*

AirAsia (CP: RM1.36): Demands $107 million in damages from KL airport operator

AirAsia Bhd., Southeast Asia's largest budget carrier by market value, is asking the Kuala Lumpur airport operator for 409 million ringgit ($107 million) to cover losses and damages the airline says it suffered using the new and old budget terminals. AirAsia sent a letter Friday demanding payment from Malaysia Airports Holdings Bhd. and a subsidiary, claiming they breached their duties at the airport. The letter claims problems at the new klia2 terminal have hurt the airline's reputation, "as the public perception is that the failings of the facilities are within the control of AirAsia" as klia2's largest user. The 4 billion ringgit terminal, which opened in May 2014, is sinking, causing cracks in the taxiways and pools of water that planes must drive through, Bloomberg News has reported. *(Source: The Edge)*

REDtone (CP: RM0.72): Pre-tax profit increases to RM14.48m

REDtone International Bhd's pre-tax profit was up by RM2.11 million to RM14.48 million for the financial year ended May 31, 2015 from RM12.37 million registered in the previous financial year. Revenue was also higher at RM150.37 million from RM141.76 million previously. In a statement, the telecommunications solutions provider attributed the better performance to its value-added services which include data centre and disaster recovery services, healthcare solutions, Internet of Things services, as well as, cloud services and applications for businesses. On prospects, REDtone expected a bullish performance for the 2016 financial year driven by strong recurring revenues from on-going projects, a healthy book order of about RM110 million and new revenue streams. *(Source: The Star)*

Tradewinds Corp: Buys land near ex-Istana Negara for RM258m

Tradewinds Corporation Bhd has purchased 12.2 acres of land at Jalan Belfield in the vicinity of the former Istana Negara for RM258mil, which will be the lauch site for its maiden mixed-use development. The company said on Friday the development of the first parcel of 9.3 acres with a gross development value (GDV) of RM3.8bil would comprise of high-quality residences centered on a niche eco-friendly retail component. Tradewinds Corp, whose core businesses are hospitality and property development, said the land purchase was internally financed. *(Source: The Star)*

Automobile Sector (Overweight): Can automotive industry's million-unit vehicle target be met by 2020?

The Malaysian automotive industry can still hit a total industry volume (TIV) of one million units by 2020 – with the right economic fundamentals and proper incentives in place. Speaking at a press conference last week, Malaysian Automotive Association (MAA) president Datuk Aishah Ahmad said this target, which was set by the Government, could be difficult to achieve if the annual sales growth continues to taper. Achieving one million units by 2020 is a little bit on the high side. But it will depend if there are initiatives such as a scrapping policy or good incentives that can boost sales, she said. In 2011 quoting Malaysia Automotive Institute (MAI) chief executive officer Madani Sahari, had reported that TIV could hit one million units by 2020, if certain factors are met. *(Source: The Star)*

ECONOMIC UPDATES

Global: Asian imports of Iran oil rise 13% in June

Asian imports of Iranian crude oil rose from a year ago in June, the last month before a landmark agreement that will eventually lead to more exports from the country was reached on Tehran's disputed nuclear programme. Imports by Iran's four biggest buyers - China, India, Japan and South Korea - totalled 1.17 million barrels per day (bpd) last month, up more than 13% from a year earlier, government and tanker-tracking data showed. Iran is keen to recover market share that evaporated under US and European Union sanctions designed to keep its exports at around 1 million bpd, down from 2.5 million bpd in 2011. *(Source: The Star)*

Japan: TPP is not a place to negotiate currencies

Japanese Finance Minister Taro Aso dismissed on Friday, a call to set up a forum within the Pacific free trade negotiations to stop countries from manipulating exchange rates. Aso's comments follow remarks from Australia's trade minister earlier this stating week that countries involved in the Trans-Pacific Partnership (TPP) free trade talks are considering a U.S. proposal for finance ministers to discuss currency questions. The move falls short of calls by U.S. automakers such as Ford Motor Co and some U.S. lawmakers to include sanctions against currency manipulation in the trade deal. *(Source: Reuters)*

China: July factory growth unexpectedly stalls

Growth at China's big manufacturing companies unexpectedly stalled in July as demand at home and abroad weakened, an official survey showed on Saturday, reinforcing views that the economy needs more stimulus as it faces fresh risks from a stock market slump. The official Purchasing Managers' Index (PMI) stood at 50.0 in July, compared to the previous month's 50.2. The 50-point mark separates growth from contraction on a monthly basis. Analysts polled by Reuters had predicted another tepid reading of 50.2, pointing to expansion, albeit a sluggish one. However, both export and domestic orders shrank for the large firms covered by the survey, and in response they continued to cut jobs. *(Source: The Star)*

U.S.: Job market set for more than just some attention

Now that U.S. Federal Reserve chief Janet Yellen has made it clear she's looking out for "some" improvement in the job market before voting for the first Fed interest rate rise in nearly a decade, so is everyone else. The challenge is that the U.S. economy is generating very little inflation - not to mention disinflation coming from China and nearly no inflation in Europe - leaving many questioning whether the Fed even should be considering a rate rise. The U.S. economy only grew by 1.5 percent in the first half of the year, slower than the average 2 percent pace over the previous three years and less than half the speed of past boom times in 2004-2005. *(Source: The Star)*

U.S.: Don't bank on strong U.S. jobs gain in July

The Fed last week indicated it will raise interest rates "when it has seen some further improvement in the labor market." Loosely translated, the central bank hopes and expects to see 200,000-plus increases in monthly employment in both July and August, paving the way for policy makers to jack up a key short-term rate at a mid-September meeting. Wall Street is singing the same tune. Economists polled by MarketWatch, for example, predict a 223,000 gain in nonfarm payrolls in July after a preliminary 223,000 in June. The unemployment rate is likely to hold steady at 5.3%. A repeat performance in August would pretty much seal the deal for a Fed rate hike in September. But investors should have learned by now it's a mistake to expect the expected, especially when it comes to the Fed. The central bank has repeatedly raised the prospect of an imminent rate hike over the past few years, only to pull back when the economic recovery appeared to wane. *(Source: MSN Money)*

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STOCK RECOMMENDATIONS

BUY — *Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY — *Share price is expected to be ≥+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 ≥-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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