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Wednesday, August 05, 2015

Report of the Day

Results Review: Petronas Gas 2Q15, HOLD (TP: RM23.20) – “Boosted By Tax Allowance”

Results Review: Hartalega 1Q16, HOLD (TP: RM7.98) – “Promising Start For FY16”

At a Glance

FBMKLCI declined 20.46 points to finish at 1,723.73 due to profit taking activities.....(See full report next page)

Strategy

“Wall Street on 3rd Consecutive Day Decline”

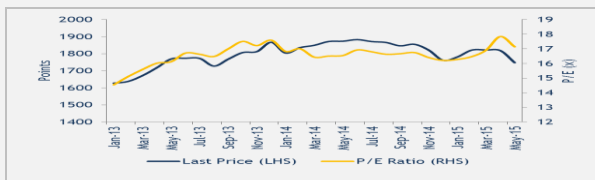
In the absence of solid catalyst ahead, we expect the market to continue to be jittery.....(See full report next page)

Corporate Highlights

- **Petronas Gas, HOLD (TP: RM23.20):** Q2 earnings up 87.9% to RM818m
- **Hartalega, HOLD (TP: RM7.98):** Q1 earnings up nearly 10% to RM62.68m
- **FGVH, TBA (TP: TBA):** Stake buy on track, no fallout in Eagle High deal

Economic Update

- **India:** Keeps interest rates unchanged
- **Australia:** RBA cuts rates to record low
- **Thailand:** Central bank expected to keep policy rate steady



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	-	47.4
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%
US	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 Manuf. 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	1,723.73	-20.46	-1.17
FBMEMAS	11,864.57	-124.31	-1.04
FBMEMAS SHA	12,341.73	-197.62	-1.58
FBM100	11,551.83	-121.07	-1.04
Volume (mn)	1,335.84	20.22	1.54
Value (RMmn)	1,528.71	279.53	22.38
FBMKLCI YTD Chg			-2.13

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	19.1	24.6
Local Institution	53.1	-45.8
Foreign Investors	27.8	21.2

Top Gainers

	Close	Change+/-	(+/- %)
MISC	8.20	0.42	5.40
TOP GLOVE	7.90	0.20	2.60
SAM ENGINEER	5.57	0.12	2.20

Top Losers

	Close	Change+/-	(+/- %)
UMW HLDG	10.08	-0.64	-5.97
MAXIS	6.59	-0.61	-8.47
BAT	66.70	-0.60	-0.89

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,550.69	-47.51	-0.27
NASDAQ	5,105.55	-9.84	-0.19
S&P 500	2,093.32	-4.72	-0.22
FTSE 100	6,686.57	-2.05	-0.03
DAX	11,456.07	12.35	0.11
Nikkei 225	20,520.36	-27.75	-0.14
HSI	24,406.12	-5.30	-0.02
KOSPI	2,027.99	19.50	0.97
STI	3,188.19	-4.60	-0.14
KLCI Futures	1,695.00	(10.50)	(0.01)
USDMYR 3M	11.60	0.04	0.00
USDMYR 6M	11.65	0.01	0.00
USDMYR 12M	11.81	0.02	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	46	0.1	0.3%
Brent (USD/bbl)	50.0	0.5	0.9%
Gold(USD/ounce)	1,087	-0.8	-0.1%
Coal (USD/mt)	59.2	0.5	0.9%
CPO (RM/mt)	2,062	8.0	0.4%
Rubber	156	-0.2	-0.1%
RM/USD	3.85	0.0006	-0.02%
EUR/USD	0.92	-0.0008	-0.09%
YEN/USD	124.30	-0.08	0.06%

What To Expect

U.S. Market

- The Dow Jones Industrials Average down 47.51 points to 17,550.69, S&P 500 tumbled 4.72 points to 2,093.32 while Nasdaq declined by 9.84 points to 5,105.55. Stocks closed lower Tuesday as investors eyed further declines in Apple's stock and slight recovery in oil prices, amid continued focus on the timing of a rate hike.
- Meanwhile, oil output by the Organization of the Petroleum Exporting Countries (OPEC) reached the highest monthly level in recent history in July, and production could rise further if Iran achieves a plan to raise output by 500,000 barrels per day (bpd) as soon as sanctions are lifted.

The Local Market

- FBMKLCI declined 20.46 points to finish at 1,723.73 due to profit taking activities. There were 261 gainers and 549 decliners in total value traded of RM1.53 billion.
- Among the losers on Bursa Malaysia were UMW Holdings dropped 64 cent to RM10.08, Maxis slipped 61 cent to RM6.59, BAT down 60 cent to RM66.70 and VS Industry slid 60 cent to RM5.77.

Strategy

- **“Wall Street on 3rd Consecutive Day Decline”**
Wall Street maintained its losing stretch on Tuesday at the back of no catalyst that could lift sentiment despite improving oil prices trajectory. **S&P 500** and **DJIA** lost **4.72 (-0.22%)** and **47.51 (-0.27 %)** points to end at **2,093.32** and **17,550.269** respectively. Market participants refused to raise their bets in the equity market despite the slightly improving oil prices with Brent gaining by about 1% since the day before. We note the fact that the US Friday unemployment rate data release is the major deal breaker for some and we expect nervous sentiment to prevail. In the absence of solid catalyst ahead, we expect the market to continue to be jittery until the largest overhang is removed, as in the US July unemployment rate release.
- 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

Petronas Gas, HOLD (TP: RM23.20): Q2 earnings up 87.9% to RM818m

Petronas Gas Bhd reported an 87.9% increase in its earnings at RM818.04mil in the second quarter ended June 30, 2015 mainly due to lower tax expense and investment tax allowance. In its announcement to Bursa Malaysia on Tuesday, it said the tax expenses and allowance helped it report higher earnings compared with the RM435.26mil a year ago. Petronas Gas said its revenue, however, declined by just 1.7% to RM1.083bil from RM1.102bil a year ago. The decline was mainly due to lower utilities revenue arising from the electricity tariff rebate effective March 1, 2015. (Source: The Star)

Hartalega, HOLD (TP: RM7.98): Q1 earnings up nearly 10% to RM62.68m

Export-driven glove maker Hartalega Holdings Bhd's earnings rose 9.8% to RM62.68mil in the first quarter ended June 30, 2015 as it benefited from the stronger US dollar. It said on Tuesday the earnings were higher compared with the RM57.08mil a year ago. Revenue rose 14.8% to RM320.51mil from RM279.19mil. Hartalega's earnings per share were 7.65 sen compared with 7.55 sen. It announced a dividend of four sen a share. The increase in revenue is basically due to increase in sales volume of 15.4%. The strengthening of the US dollar has mitigated the effect of lower average selling price from declining raw material prices and more competitive selling price. (Source: The Star)

FGVH, TBA (TP: TBA): Stake buy on track, no fallout in Eagle High deal

Felda Global Ventures Holdings Bhd (FGV) has quashed speculation of a fallout in its acquisition of a 37% stake in PT Eagle High Plantations Tbk. Group president and chief executive officer Datuk Mohd Emir Mavani Abdullah maintained that the due diligence exercise on the Indonesian planter was on track and would likely be concluded by the end of this month. "So far, 75% of the due diligence report has been completed and we still have a bit more to finish," he added. It is believed that FGV will likely hold an EGM as early as September to seek approval from its shareholders and relevant authorities on the FGV-Eagle High deal. (Source: The Star)

MISC (CP: RM8.20): Records sharply higher pre-tax profit In 2Q15

The national shipping line, MISC Bhd recorded sharply a higher pre-tax profit of RM772.57 million in the second quarter ended June 30, 2015 from RM344.56 million in the same period last year. Revenue rose 2.4 per cent to RM2.60 billion from RM2.54 billion previously. The increase in group revenue was mainly due to improved freight rates in petroleum business, and revenue recognised from an engineering, procurement and construction projects in the current quarter. It is also attributed to finance lease income contribution of a floating, production, storage and offloading unit which commenced in September 2014, MISC said in a filing to Bursa Malaysia on Tuesday. (Source: Bernama)

F&N (CP: RM18.40): Q3 net profit up 37%

Fraser & Neave Holdings Bhd's (F&N) net profit for the third quarter ended June 30, 2015 rose 37.3% to RM82.93 million from RM60.38 million a year ago, contributed by the soft drinks and Dairies Thailand segments. F&N said all three operating units of soft drinks, Dairies Malaysia and Dairies

Thailand recorded improved profit. It saw revenue increase 10.8% to RM1.08 billion compared with RM971.13 million in the previous year corresponding quarter. For the nine months period, F&N's net profit jumped 13.2% to RM223.35 million from RM197.23 million, while revenue increased 6.9% to RM3.05 billion compared with RM2.85 billion in the previous year corresponding period, supported mainly by strong growth in revenue from Dairies Thailand. *(Source: The Sun)*

MAHB (CP: RM5.63): Determining validity of AirAsia's claim

Malaysia Airports Holdings Bhd told regulator Bursa Securities it is currently obtaining legal advice on the validity of AirAsia Bhd's RM409.4 million suit, its legal rights and remedies, which includes its right to "set-off as well counterclaim against the budget airline". The airport operator sees no financial impact arising from the suit, as the claim represents less than 5% of the group's net assets. Last Thursday, AirAsia served a letter of demand on MAHB and its wholly-owned subsidiary Malaysia Airports (Sepang) Sdn Bhd for alleged breaches of its contractual duties and duty of care incurred while operating from klia2 and from the low-cost carrier terminal (LCCT). *(Source: The Sun)*

AirAsia (CP: RM1.37): Inks deals with Thai, Indonesian units on payments

In a move to enhance the disclosures in the services provided by AirAsia Bhd to its subsidiaries in Indonesia and Thailand, the low-cost carrier entered into an agreement that clearly spells out the terms between the parties, including the payments. According to AsiaAsia, its wholly-owned unit, AirAsia Global Shared Services Sdn Bhd (AGSS), inked a deal with Pt Indonesia AirAsia Extra (IAAX) and Thai AirAsia X Co Ltd (TAAX) for the service levels to be provided in the two countries for the next three years. AirAsia said AGSS was requested by IAAX and TAAX to lend operation support services in relation to finance and accounting, people department, information and technology, sourcing and procurement as well as innovation, commercial and technology. *(Source: The Star)*

Hibiscus Petroleum (CP: RM0.86): Bags Egypt concession

Hibiscus Petroleum Bhd wholly-owned subsidiary, Gulf Hibiscus Ltd, has been awarded an offshore oil exploration concession located in the southern Gulf of Suez, the most prolific petroleum province in Egypt. The South East Ras El Ush concession (Block 2) was awarded by the Ganoub El-Wadi Petroleum Holding Company (Ganope), an entity of Egypt's Ministry of Petroleum. In a filing with Bursa Malaysia yesterday, the company said the award was made after the successful submission of a bid by Gulf Hibiscus together with its partner and concession operator Pacific Oil Ltd, for a joint equal ownership of the concession. *(Source: The Sun)*

Hunza Properties (CP: RM2.63): Hunza's controlling shareholder revises privatisation offer price to RM2.90 a share

Khor Teng Tong Holdings Sdn Bhd, which controls 32.3% equity stake in Hunza Properties Bhd has revised its offer price for the proposed privatisation of the Penang-based property firm to RM2.90 a share, from RM 2.50 previously. In its filing with Bursa Malaysia today, Hunza said it had received a letter from Khor Teng Tong Holdings to revise the offer price for the proposed selective capital reduction and repayment (SCR) to RM2.90 for each existing Hunza share held by

the entitled shareholders, or RM267.6 million in total, up from RM230.7 million previously. The offer price of RM2.90 per share represents a 10.3% premium to Hunza's prevailing market price of RM2.63. Hunza's share price had surged as much 13.3% to a high of RM 2.38 on April 2, following the news on the privatisation offer. (Source: The Edge)

Xin Hwa (CP: RM1.27): Bags RM1.8m logistic contracts from MMHE

Newly listed Xin Hwa Holdings Bhd has clinched two logistic contracts with a collective value of RM1.8 million from Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE). In a filing with Bursa Malaysia, the integrated logistic services provider said the two contracts were secured through its unit Xin Hwa Trading & Transport Sdn Bhd. The first contract has an estimated value of RM1.2 million and Xin Hwa said it is for the transportation of spent copper slag from MMHE's yard to the site of the latter's customers. The second contract, awarded by MMHE subsidiary Techno Indah Sdn Bhd (TEIN), is valued at RM600,000. (Source: The Edge)

REDTone (CP: RM0.71): Launches CitiAct app for public to engage with councils

Integrated telecommunications solutions provider Redtone International Bhd launched its first Internet of Things (IoT) application called CitiAct, a new mobile application for the public to engage with the local councils. With the new app, Redtone said on Tuesday the public could report cases and track issues sent to the councils to respond effectively. Managing director Datuk Wei Chuan Beng said this new managed value added services would be the real future of REDtone's growth. "We believe that the new app would make up at least 5% to the group's revenue in the next three years," said Wei at the launch of CitiAct and its portal called CitiSense. (Source: The Star)

ECONOMIC UPDATES

India: Keeps interest rates unchanged

India's central bank kept its key interest rate on hold Tuesday as analysts had expected, resisting government pressure for a fourth cut of the year. The Reserve Bank of India (RBI) said the benchmark repo rate - the level at which it lends to commercial banks - would remain at 7.25%. "It is prudent to keep the policy rate unchanged at the current juncture while maintaining the accommodative stance of monetary policy," RBI governor Raghuram Rajan said in a statement following the bank's monetary policy review meeting in Mumbai. Rajan had already snipped rates three times this year to aid India's economy, which at 7.5% growth outperformed China's for the first three months of 2015. (Source: The Star)

Australia: RBA cuts rates to record low

Australia's central bank cut its cash rate to an all-time trough of 2.25 percent on Tuesday, breaking an 18-month hiatus on stimulus as it seeks to spur a sluggish economy while keeping downward pressure on the local dollar. The currency AUD=D4 duly sank more than a full U.S. cent after the Reserve Bank of Australia (RBA) ended its first policy meeting of the year by announcing the

quarter point cut. "Overall, the Bank's assessment is that output growth will probably remain a little below trend for somewhat longer, and the rate of unemployment peak a little higher, than earlier expected," said RBA Governor Glenn Stevens in a brief statement. *(Source: Reuters)*

Thailand: Central bank expected to keep policy rate steady

Thailand's central bank is expected to leave its policy interest rate steady again on Wednesday even though the economy continues to stumble more than a year after the military took power in a bid to end political unrest. Twenty of 23 economists in a Reuters poll predict the monetary policy committee (MPC) will leave the one-day repurchase rate at 1.50% for a second straight meeting following surprise cuts in March and April. The other three expect a 25 basis point cut to 1.25%, which would match the record low set in April 2009, during the global financial crisis. At its last meeting in June, the MPC voted 7-0 to hold the rate. It is hoping a weaker baht will lift exports, a key economic engine that is expected to contract for a third straight year in 2015. *(Source: The Star)*

Greece: Says expects bailout deal by Aug.18

Greece expects to conclude a bailout deal with international lenders by Aug. 18, with the drafting of the accord starting on Wednesday, government spokeswoman Olga Gerovasili said on Tuesday. The first phase of negotiations ends today and the second phase starts, which really contains the details of drafting (the deal). The drafting of the accord would start on Wednesday, she said. If the terms of the (EU) summit are met, I think that we will have a deal by the 18th of this month. *(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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