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Friday, August 07, 2015

## Report of the Day

**Results Review: Petronas Dagangan 2Q15 – “Efficient Cost Control”**

## At a Glance

FBMKLCI declined 30.92 points to finish at 1,694.64 due to selling pressure on some heavyweight counters.....(See full report next page)

## Strategy

## “Wall Street on 6th Day Losing Streak”

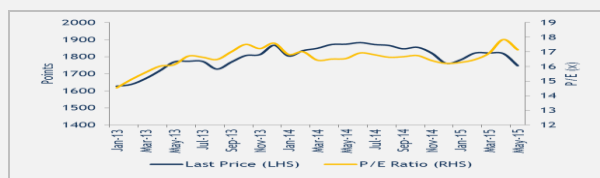
We don't expect much excitement on trading sentiment today due to that large overhang in the market.....(See full report next page)

## Corporate Highlights

- **Petronas Dagangan, HOLD (TP: RM19.71):** Earnings rise 47% on improved prices and margins
- **Public Bank, BUY (TP: RM21.70):** Teh honoured with William Seidman Lifetime award
- **IHH, SELL (TP: RM5.19):** Acquisition of stake in India's Global Hospital still in discussion stage

## Economic Update

- **Malaysia:** MTIB eyes up to RM22 Bil from timber & timber products export this year
- **China:** July economic data seen downbeat after signs of hope in June
- **Thailand:** Consumer mood worsens as economy continues to stumble



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 PM	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	1,694.64	-30.92	-1.79
FBMEMAS	11,677.95	-204.90	-1.72
FBMEMAS SHA	12,134.57	-244.26	-1.97
FBM100	11,362.78	-203.33	-1.76
Volume (mn)	1,652.65	429.34	35.10
Value (RMmn)	2,021.22	626.47	44.92
FBMKLCI YTD Chg			-3.78

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	16.6	15.5
Local Institution	55.5	245.8
Foreign Investors	27.9	-261.3

## Top Gainers

	Close	Change+/-	(+/- %)
ORIENTAL FOOD	6.50	0.34	5.52
COCOALAND	2.72	0.25	10.12
SCIENTEX	7.50	0.20	2.74

## Top Losers

	Close	Change+/-	(+/- %)
BAT	64.22	-1.80	-2.73
PETRONAS GAS	22.10	-0.42	-1.87
NESTLE	72.50	-0.40	-0.55

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,419.75	-120.72	-0.69
NASDAQ	5,056.44	-83.51	-1.62
S&P 500	2,083.56	-16.28	-0.78
FTSE 100	6,747.09	-5.32	-0.08
DAX	11,585.10	-51.20	-0.44
Nikkei 225	20,664.44	50.38	0.24
HSI	24,375.28	-138.88	-0.57
KOSPI	2,013.29	-16.47	-0.81
STI	3,193.58	2.19	0.07
KLCI Futures	1,663.00	(36.00)	(0.02)
USDMYR 3M	11.48	(0.17)	(0.01)
USDMYR 6M	11.68	(0.09)	(0.01)
USDMYR 12M	11.94	(0.06)	(0.01)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	45	0.2	0.3%
Brent (USD/bbl)	49.5	-0.1	-0.1%
Gold(USD/ounce)	1,090	0.2	0.0%
Coal (USD/mt)	60.4	0.4	0.7%
CPO (RM/mt)	2,045	8.0	0.4%
Rubber	155	-0.8	-0.5%
RM/USD	3.91	0.0348	-0.89%
EUR/USD	0.92	-0.0001	-0.01%
YEN/USD	124.68	-0.06	0.05%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average tumbled 120.72 points to 17,419.75, S&P 500 plunged 16.28 points to 2,083.56. Nasdaq declined by 83.51 points to 5,056.44. Stocks closed lower Thursday, with the Nasdaq off 1.6 percent, as investors weighed declines in oil and disappointing earnings ahead of Friday's key employment report.
- There's nervousness among momentum investors caused by some of the outperforming names either missing or giving cautious comments in earnings reports.

### The Local Market

- FBMKLCI declined 30.92 points to finish at 1,694.64 due to selling pressure on some heavyweight counters. There were 187 gainers and 686 decliners in total value traded of RM2.02 billion.
- Among the losers on Bursa Malaysia were BAT down RM1.80 to RM64.22, Petronas Gas dropped 42 cent to RM22.10, Nestle slipped 40 cent to RM72.50 and Tenaga slid 40 cent to RM11.38.

### Strategy

- **"Wall Street on 6th Day Losing Streak"**

Wall Street was pounded again as sentiment was injured by nervousness caused by the upcoming US July unemployment rate. S&P 500 and DJIA erased 16.28 (-0.78%) and 120.72 (-0.06%) points to finish at 2,083.56 and 17,419.75 respectively. As mentioned previously, today's release of US July unemployment rate has caused quite a rattle as nervousness sipped in. In brief, today's release will be a major determinant factor as to when the US will adjust its interest rate later in the year. The side effect with the latter adjustment will be greater currency volatility against the USD, the potential dip in equity market (note: potential loss in bond and sukuk price) and will further weigh on global commodity prices. We don't expect much excitement on trading sentiment today due to that large overhang in the 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.

## CORPORATE HIGHLIGHTS

**Petronas Dagangan, HOLD (TP: RM19.71): Earnings rise 47% on improved prices and margins**

Petronas Dagangan Bhd (PetDag) posted earnings of RM273.21mil for the second quarter (Q2) ended June 30, 2015, a 47.2% jump from a year earlier, due to the higher fuel price in June and margin improvement. This was despite its revenue for the quarter falling 22.4% to RM6.49bil, which was mainly due to a 17% drop in average selling price coupled with a 6% decrease in sales volume. The company, Petrolia Nasional Bhd's 69.9% owned domestic marketing arm, said both its retail and commercial segments saw an improvement in operating profit in the quarter under review. The retail profit rose 45% to RM208.1mil while the commercial profit soared 64.4% to RM159.5mil. (Source: The Star)

**Public Bank, BUY (TP: RM21.70): Teh honoured with William Seidman Lifetime award**

Public Bank founder and chairman Tan Sri Teh Hong Piow (*pic*) has been honoured with the prestigious William "Bill" Seidman Lifetime Achievement in Financial Service Industry 2015 award by The Asian Banker. The Asian Banker chairman and CEO Emmanuel Daniel, who presented the award to Teh on July 28, said the award was to recognise his achievements in developing Public Bank and the Public Bank Group into a leading financial institution. The award recognises individuals who have reshaped not only the institutions that they worked for, but the financial services industry in their respective countries and regions. (Source: The Star)

**IHH, SELL (TP: RM5.19): Acquisition of stake in India's Global Hospital still in discussion stage - IHH**

IHH Healthcare Bhd is in discussions with certain shareholders of the India-based Ravindranath GE Medical Associates Pte Ltd, the holding company of Global Hospitals Group, for a potential acquisition. IHH said it was constantly evaluating growth opportunities in selected geographies in Asia but has not entered into a share purchase agreement or such definitive agreements, with any of the shareholders, in this regard. In a filing with Bursa Malaysia on Thursday, IHH said it was unable to comment, or provide guidance, at this stage, whether such acquisition would be completed. The healthcare group was clarifying news reports saying it had acquired 74% cent stake worth RM1.09bil in the Hyderabad-based Global Hospitals Group. (Source: The Star)

**MBSB (CP: RM1.72): Q2 earnings down sharply on loan impairment losses**

Malaysia Building Society Bhd's (MBSB) net profit fell 63.2% to RM85.55mil in the second quarter ended June 30 mainly due to allowance for loan impairments. The non-conventional bank said on Thursday the impairment for Q2, 2015 was RM134.25mil compared with a writeback of RM15.19mil a year ago. This resulted in a sharp fall in its earnings in Q2 FY15 compared with earnings of RM232.85mil a year ago. MBSB said the higher allowances were for impairment losses on loans, advances and financing with the continuation of the impairment programme initiated by the group in the fourth quarter of the previous year. (Source: The Star)

**Boustead Heavy Industries (CP: RM1.84): Higher costs, losses by associates eat into BHIC's 2Q earnings**

Boustead Heavy Industries Corporation Bhd's net profit for the second quarter ended June 30, 2015 (2QFY15) fell 18% to RM9.16 million, from RM11.17 million a year ago, mainly due to higher operating cost and higher losses posted by associates. Its latest quarterly revenue, however, gained 13% to RM75.15 million, from RM66.47 million in 2QFY14, due to higher revenue from defence-related maintenance, repair and overhaul (MRO) activities, as well as Belum Topside oil and gas project. In its cumulative six months (1HFY15), its net profit jumped 47% to RM17.58 million, from RM11.95 million a year ago, mainly due to higher percentage of completion for the Belum Topside project and higher share of profit from joint venture companies. (Source: *The Edge*)

**Westports (CP: RM4.24): Westport and NCB set to gain from tariff hike**

Westports Holdings Bhd and NCB Holdings Bhd, the two main container terminals in Port Klang, are likely to experience gradual benefits from the newly announced container tariff hike due to the locked-in nature of terminal handling fee agreements with most of their customers. It is understood that the tariff hike can only be incorporated when the agreements expire. The agreements' life span varies between two months and three years. The Transport Ministry has finally approved a container tariff revision, to be implemented in two phases with an average increase of 15% in each. Phase one of the revision is to be effective by Sept 1, and the second, from Sept 1, 2018. The revised tariff covers container terminal handling charges for import, export, transshipment, shifting and restowing, storage charges for containers and handling charges for conventional cargo. (Source: *The Star*)

**Century (CP: RM1.01): Gets RM22mil letter of demand from Nestle**

Century Logistics Holdings Bhd has been slapped with an RM21.6mil letter of demand from Nestle Products Sdn Bhd for purported losses and damages. Century said its wholly owned subsidiary – Century Total Logistics Sdn Bhd (CTL) – received the letter at 6.30pm yesterday. Century currently manages about two million sq ft of warehousing space. It has two warehousing facilities in Port Klang and four more in Port of Tanjung Pelepas. Integrated logistics is its main contributor, making up for more than 70% of earnings. It is also involved in oil logistics, providing ship-to-ship transfer for both fuel and crude oil in mid-sea. It said in a filing with Bursa Malaysia that the demand from Nestle was “baseless and unsubstantiated”. (Source: *The Star*)

**Hibiscus (CP: RMxx): To buy North Sea Anasuria Cluster oilfield stake for RM199mil**

Hibiscus Petroleum Bhd has entered into a sale and purchase agreement to acquire a 50% stake in the producing fields of the Anasuria Cluster oil and gas fields, in the North Sea, for US\$52.5mil (RM199.1mil). The acquisition includes a floating production storage and offloading (FPSO) facility. Hibiscus, an independent oil and gas exploration and production (E&P) company, is buying the fields via its wholly-owned unit, Anasuria Hibiscus UK Ltd. The remaining 50% stake will be taken up by Ping Petroleum Ltd. Bermuda-incorporated Ping Petroleum is an independent upstream company that focuses on shallow water

offshore production and development opportunities in South-East Asia. It has operating offices in Malaysia and Texas, the United States. *(Source: The Star)*

**RCE Capital (CP: RM0.34): To give special 105% dividend**

RCE Capital Bhd, whose net profit in the financial year ended March 31, 2015 almost tripled to RM36.2mil, has announced a special dividend of 105% for the current year. In May the financial services provider had announced a final (and only) ordinary share dividend of 15% (1.5 sen) with respect to the last financial year. That was equal to the preceding year's dividend. RCE, in which chairman Tan Sri Azman Hashim holds a 57% indirect interest, told Bursa Malaysia on Thursday that the special interim dividend of 10.5 sen involved a payout amounting to RM133.47mil. The 105% dividend, with ex-date of Sept 22, has been approved by the directors and is payable on Oct 8. *(Source: The Star)*

**Hibiscus Petroleum (CP: Suspended): Buying 50% stake in Anasurai cluster for nearly RM200m**

Hibiscus Petroleum Bhd's indirect unit, Anasuria Hibiscus UK Ltd has proposed to acquire a 50% interest in the Anasuria cluster in the North Sea for US\$52.5mil (RM199.1mil) cash. Hibiscus Petroleum, the country's first SPAC, said Anasuria Hibiscus, together with Ping Petroleum UK Ltd had signed the conditional sale and purchase agreements in relation to the proposed acquisition with Shell U.K. Ltd and Shell EP Offshore Ventures Ltd as well as Esso Exploration and Production UK Ltd. The proposed acquisition involves Anasuria Hibiscus acquiring a 50% interest in the Anasuria Cluster. Concurrently, Ping Petroleum UK Ltd will be acquiring the remaining 50% interest. *(Source: The Star)*

**AirAsia (CP: RM1.34): No reply from MAHB yet on RM409m klia2 lawsuit**

AirAsia Bhd said it has yet to hear from Malaysia Airports Holdings Bhd (MAHB), following its demand for RM409 million in compensation for losses and damages arising from the budget airline's operations at klia2. "We haven't heard anything from MAHB as yet, so we'll just have to see how it goes. She added that issues related to its operation in klia2 have been brought up since the low cost carrier first moved to the new airport. She cited the recent aircraft rollback incident on July 17, which led to the aircraft having to be grounded for 8 hours during peak period, as an example. *(Source: The Edge)*

**Tanah Makmur inks deals to build biogas plant in Pahang for RM11 mil**

Tanah Makmur Bhd's unit, Sri Jelutung Palm Oil Mill Sdn Bhd (SJPOM), has inked three separate agreements today to build a biogas plant in Pahang for an estimated RM11 million. The three agreements are shareholders agreement; a build, own, operate and transfer (BOOT) biogas plant agreement; and a land lease agreement, according to Tanah Makmur's statement today. Tanah Makmur said the agreements were entered into in relation to the expansion of SJPOM's palm oil mill processing capacity from 30 tonnes per hour (tph) to 45 tph. *(Source: The Edge)*



## ECONOMIC UPDATES

**Malaysia: MTIB eyes up to RM22 Bil from timber & timber products export this year**

The Malaysian Timber Industry Board (MTIB) is eyeing up to RM22 billion from the export of timber and timber products this year, said Director-General Dr Jalaluddin Harun. He said from January to May 2015, the total export revenue recorded a 0.6 per cent growth to RM8 billion compared with the corresponding period last year. "Normally from mid-year to September, the figure will rise. So, we feel that the target of RM20 billion to RM22 billion is within our reach. Last year, the exports of timber and timber products recorded a higher revenue of RM20.5 billion from RM19.3 billion in 2013. The top five destinations for export last year were Japan, the United States, the European Union, India and Australia. (Source: *Bernama*)

**China: July economic data seen downbeat after signs of hope in June**

China's economy likely showed renewed signs of weakness in July after a brief pick-up in June, Reuters polls showed, reinforcing expectations that Beijing will need to roll out more policy support to meet its full-year growth target. Panic selling in the country's stock markets early in the month also likely chilled consumer and business confidence, though unprecedented government support measures appear to have stemmed the rout for now. A raft of data this weekend and next week is expected to show domestic and export demand remained sluggish, weighing on factory activity, while new loans could fall sharply, possibly as Beijing pressed banks to support the stock market. (Source: *The Star*)

**Thailand: Consumer mood worsens as economy continues to stumble**

Thai consumer confidence fell to a 14-month low in July, dented by slow economic growth, contracting exports and low commodity prices, a university survey showed on Thursday. The consumer confidence index of the University of the Thai Chamber of Commerce dropped to 73.4 in July from 74.4 in June, its seventh consecutive monthly decline. The reading was the lowest since May 2014, when the army seized power to end political unrest. The university projected economic growth of 2.5%-2.9% this year but said expansion could quicken if the government undertakes short-term economic stimulus measures. (Source: *The Star*)

**U.K.: Bank of England signals early 2016 interest rate hike after sterling climb**

The Bank of England pointed to a possible rise in interest rates early next year as just one of its top policymakers backed an immediate move and it said the strength of sterling meant inflation would only pick up slowly. The pound fell sharply and investors briefly pushed back their bets on a first rate hike until June next year, before BoE Governor Mark Carney said the Bank was getting closer to beginning to undo its stimulus for Britain's economy. The BoE slashed interest rates to 0.5 percent in the depths of the financial crisis in 2009 and has kept them there since. With the economy now recovering strongly and wages finally rising more quickly, speculation is growing about when it might start to wean Britain off low rates, mirroring the debate at the U.S. Federal Reserve. (Source: *The Star*)

**U.S.: Jobless claims edge up, but labor market still solid**

The number of Americans filing new applications for unemployment benefits rose less than expected last week, suggesting labor market conditions are continuing to tighten. Initial claims for state unemployment benefits increased 3,000 to a seasonally adjusted 270,000 for the week ended Aug. 1, the Labor Department said on Thursday. It was the 22nd consecutive week that claims held below the 300,000 threshold, which is associated with a strengthening labor market. The unemployment claims are consistent with continued solid job creation and a reduction in labor market slack over time. *(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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