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Monday, August 10, 2015

Report of the Day

Results Review: Petronas Chemicals 2Q15-"Murky Outlook Ahead"

At a Glance

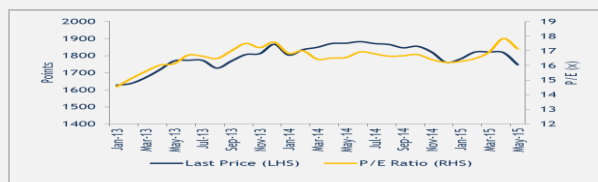
FBMKLCI declined 11.99 points to finish at 1,682.65 due to the concern on continuous weakness in Ringgit.....(See full report next page)

Corporate Highlights

- **Petronas Chemicals, HOLD (TP: RM6.18):** Q2 earnings slightly higher at RM557m
- **FGV (TP: TBD):** Still in midst of due diligence on Eagle High
- **SP Setia (TP: TBD):** Upbeat on maiden Aussie project

Economic Update

- **U.S.:** Solid U.S. jobs report bolsters case for Fed rate hike
- **China:** Forex reserves fall by US\$42.5b in July
- **China:** July exports fall 8.3% on-year



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
JP	10-Aug	7:50 AM	BOP Current Account Balance	-	¥1880.9B
CN	10-15 Aug	-	New Yuan Loans CNY	725.0B	1279.1B
CN	10-15 Aug	-	Money Supply M2 YoY	11.7%	11.8%
MY	10-Aug	12:00 PM	Industrial Production YoY	-	4.5%
MY	10-Aug	12:00 PM	Manufacturing Sales Value YoY	-	-4.2%
US	11-Aug	8:30 PM	Nonfarm Productivity	1.4%	-3.1%
US	11-Aug	9:45 PM	Wholesale Inventories MoM	0.3%	0.8%
EU	12-Aug	5:00 PM	Industrial Production SA MoM	-	-0.4%
EU	12-Aug	5:00 PM	Industrial Production WDA YOY	-	1.6%
US	12-Aug	7:00 PM	MBA Mortgage Applications	-	4.7%
JP	12-Aug	7:50 AM	PPI MoM	-	-0.2%
JP	12-Aug	7:50 AM	PPI YoY	-	-2.4%
JP	12-Aug	12:30 PM	Industrial Production MoM	-	0.8%
JP	12-Aug	12:30 PM	Industrial Production YoY	-	2.0%
JP	12-Aug	12:30 PM	Capacity Utilization MoM	-	-3.0%
CN	12-Aug	1:30 PM	Retail Sales YoY	-	0.20%
CN	12-Aug	1:30 PM	Retail Sales YTD YoY	-	2.4%
CN	12-Aug	1:30 PM	Industrial Production YoY	6.6%	6.8%
CN	12-Aug	1:30 PM	Industrial Production YTD YoY	6.4%	6.3%
US	13-Aug	8:30 PM	Retail Sales Advance MoM	0.4%	-0.3
US	13-Aug	8:30 PM	Retail Sales Ex Auto MoM	0.5%	-0.1
US	13-Aug	8:30 PM	Retail Sales Ex Auto and Gas	-	-0.2%
US	13-Aug	8:30 PM	Initial Jobless Claims	-	-
US	13-Aug	8:30 PM	Continuing Claims	-	-
MY	13-Aug	12:00 PM	GDP YoY	-	5.6%
MY	13-Aug	6:00 PM	BOP Current Account Balance	-	10.0B
EU	14-Aug	5:00 PM	GDP SA QoQ	-	0.4%
EU	14-Aug	5:00 PM	GDP SA YoY	-	1.0%
EU	14-Aug	5:00 PM	CPI MoM	-	0.0%
EU	14-Aug	5:00 PM	CPI YoY	-	0.2%
EU	14-Aug	5:00 PM	CPI Core YoY	-	1.0%
US	14-Aug	8:30 PM	PPI Final Demand MoM	0.1%	0.4%
US	14-Aug	8:30 PM	PPI Ex Food and Energy MoM	0.1%	0.3%
US	14-Aug	8:30 PM	PPI Final Demand YoY	-0.9%	-0.7%
US	14-Aug	8:30 PM	PPI Ex Food and Energy YoY	0.5%	0.8%
US	14-Aug	9:15 PM	Industrial Production MoM	0.3%	0.3%
US	14-Aug	10:00 PM	U of Mich. Sentiment	94.0	93.1

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,682.65	-11.99	-0.71
FBMEMAS	11,575.92	-102.03	-0.87
FBMEMAS SHA	12,003.35	-131.22	-1.08
FBM100	11,268.27	-94.51	-0.83
Volume (mn)	1,861.31	208.66	12.63
Value (RMmn)	1,797.13	-224.10	-11.09
FBMKLCI YTD Chg			-4.46

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	21.4	42.9
Local Institution	52.5	235.8
Foreign Investors	26.1	-278.7

Top Gainers

	Close	Change+/-	(+/- %)
UNITED PLANT	27.18	0.50	1.87
BLD PLANTATION	8.45	0.21	2.55
UMS HLDGS	2.70	0.19	7.57

Top Losers

	Close	Change+/-	(+/- %)
TAHPS GROUP	7.10	-0.30	-4.05
PETRONAS GAS	21.80	-0.30	-1.36
CYCLE & CARR BIN	2.96	-0.23	-7.21

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,373.38	-46.37	-0.27
NASDAQ	5,043.54	-12.90	-0.26
S&P 500	2,077.57	-5.99	-0.29
FTSE 100	6,718.49	-28.60	-0.42
DAX	11,490.83	-94.27	-0.81
Nikkei 225	20,724.56	60.12	0.29
HSI	24,552.47	177.19	0.73
KOSPI	2,010.23	-3.06	-0.15
STI	3,196.66	5.27	0.17
KLCI Futures	1,659.00	(1.50)	(0.00)
USDMYR 3M	12.61	(0.04)	(0.00)
USDMYR 6M	12.58	(0.02)	(0.00)
USDMYR 12M	12.72	(0.01)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	44	-0.3	-0.7%
Brent (USD/bbl)	48.4	-0.3	-0.5%
Gold(USD/ounce)	1,092	-1.9	-0.2%
Coal (USD/mt)	60.1	-0.3	-0.5%
CPO (RM/mt)	2,042	-3.0	-0.1%
Rubber	155	-0.8	-0.5%
RM/USD	3.93	0.014	-0.36%
EUR/USD	0.91	0.0004	0.04%
YEN/USD	124.30	0.06	-0.05%

What To Expect

U.S. Market

- The Dow Jones Industrials Average tumbled 46.37 points to 17,373.38, S&P 500 plunged 5.99 points to 2,077.57. Nasdaq declined by 12.90 points to 5,043.54. U.S. stocks ended lower on Friday after solid job growth data for July pried the door open a little wider for a potential interest rate hike by the Federal Reserve in September.
- U.S. nonfarm payrolls increased 215,000 last month, less than the 223,000 forecast by economists, but the unemployment rate held at a seven-year low of 5.3 percent.

The Local Market

- FBMKLCI declined 11.99 points to finish at 1,682.65 due to the concern on continuous weakness in Ringgit. There were 187 gainers and 722 decliners in total value traded of RM1.79 billion.
- Among the losers on Bursa Malaysia were TAHPS Group down 30 cent to RM7.10, Petronas Gas dropped 30 cent to RM21.80, Cycle & Carr slipped 23 cent to RM2.96 and BAT slid 22 cent to RM64.00.

Strategy

- 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 Chemicals, HOLD (TP: RM6.18): Q2 earnings slightly higher at RM557m

Petronas Chemicals Group Bhd (PetChem) posted slightly higher earnings of RM557mil in the second quarter ended June 30, 2015 from the RM555mil a year ago. It said on Friday its revenue dipped 1% to RM3.30bil from RM3.34bil a year ago but higher sales volumes and favourable exchange rate movement offset the impact of lower average product prices. Earnings per share were seven sen. It declared an interim dividend of eight sen a year. Commenting on the financial performance, PetChem said it recorded improved plant utilisation at 78% for the quarter compared to 76% a year ago. (Source: The Star)

FGV (TP: TBD): Still in midst of due diligence on Eagle High

FELDA Global Ventures Holdings Bhd (FGV) released this week a report book on the findings of a working visit to two oil palm plantations owned by PT Eagle High Plantations Tbk in Indonesia last month. The 48-member entourage comprising officials from the Prime Minister's Department, Federal Land Development Authority (Felda), Felda Settlers Consulting Committee (JKPP), Felda Youth Council Malaysia (MBFM) and FGV are split into two groups during the four-day visit to Eagle High's estate operations in Banjarmasin, South Kalimantan and Jayapura, Papua region.

FGV is now in the midst of a due diligence process for its proposed acquisition of a 37% stake in Indonesia stock exchange listed Eagle High Plantations, which is controlled by Rajawali Group business tycoon, Peter Sondakh. *(Source: The Star)*

SP Setia (TP: TBD): Upbeat on maiden Aussie project

The completion of SP Setia's maiden property project in Australia Fulton Lane is expected to contribute a net profit of A\$145mil (RM417.3mil) to the group this year. The A\$470mil Fulton Lane residential twin towers, comprising 804 units of luxury apartments in the central business district of Melbourne, is SP Setia's maiden project in Australia. It is a 100% sold-out project, with the locals making up close to about 50% of the buyers. According to Khor, SP Setia had fully-settled development loans of A\$184mil for Fulton Lane as of July 22. *(Source: The Star)*

Carimin Petroleum (CP: RM0.82): Bags topside maintenance contract

Carimin Petroleum Bhd's unit, Carimin Engineering Services Sdn Bhd, has received a letter of award from Lundin Malaysia B.V. for the provision of topside major maintenance. In a filing to Bursa Malaysia, Carimin Petroleum said the contract value would depend on the actual work orders to be issued by Lundin from time to time during the contract period. The contract, which commenced on July 8, 2015, was effective for two years until 2017, the company said, adding the contract had the option of a further one-year extension. *(Source: The Star)*

Yong Tai (CP: RM0.61): Garment maker Yong banks on property, plas projects worth RM7bil

Garment manufacturer Yong Tai Bhd is growing its presence in the property development market despite the current soft market. It has entered into memorandum of understandings (MoUs) with five vendors to launch property projects with a combined gross development value (GDV) of RM7bil over the next eight years. The proposed projects are in Malacca, the Klang Valley and Johor. Yong Tai, which ventured into property development last year, is banking on property development to turn around its loss-making garment business. The group, which has a market capitalisation of RM74.6mil, intended to acquire more land. *(Source: The Star)*

CCM (CP: RM1.00): To sell Medan plant

Chemical Company of Malaysia Bhd (CCM) is keeping its options open for its facility in Medan, Indonesia. It has two options for the asset – either to sell it as a going concern or pare it down, said group managing director Leonard Ariff Abdul Shatar. There are two options. One is to sell it as a going concern, the other option is to sell the assets down. We were in discussions with a few parties, but at the same time, we are working in parallel. We are also going ahead with an asset sale, so whichever happens first. The facility has been shut down, with an impairment loss of RM36.8mil. *(Source: The Star)*

Prasarana: Hopes to secure two transportation projects in West Asia

Prasarana Malaysia Bhd hopes to secure the operation and maintenance projects of the Jeddah Metro in Saudi Arabia and Doha Metro in Qatar by year-end. Group managing director Datuk Azmi Abdul Aziz said the group had submitted proposals for the two projects in June. The Jeddah Metro aims to increase the public transport commuter share in Jeddah while the Doha Metro in Qatar's capital city is an integral component of the country's rail transit network and part of its preparations to host the 2022 FIFA World Cup. (Source: *The Star*)

ECONOMIC UPDATES**U.S.: Solid U.S. jobs report bolsters case for Fed rate hike**

U.S. employment rose at a solid clip in July and wages rebounded after a surprise stall in the prior month, signs of an improving economy that opened the door wider to a Federal Reserve interest rate increase in September. Nonfarm payrolls increased 215,000 last month as a pickup in construction and manufacturing jobs offset further declines in the mining sector, the Labor Department said on Friday. The unemployment rate held at a seven-year low of 5.3 percent. Payrolls data for May and June were revised to show 14,000 more jobs created than previously reported. In addition, the average workweek increased to 34.6 hours, the most since February, from 34.5 hours in June. (Source: *Reuters*)

China: Forex reserves fall by US\$42.5b in July

China's foreign exchange reserves, the world's largest, fell by \$42.5 billion in July to \$3.65 trillion, central bank data showed on Friday, the sharpest monthly drop since March amid signs of capital outflows. China's slowing economic growth and jitters over the stock market turmoil may be behind the bout of capital flight. The central bank shifted to reporting its foreign exchange reserves on a monthly basis in July after adopting the IMF's Special Data Dissemination Standard (SDDS). The bank had previously reported the data on a quarterly basis and published monthly data retrospectively. The reserves dropped by \$36.2 billion in the second quarter to \$3.69 trillion - the fourth consecutive quarter of decline, earlier data showed. (Source: *The Star*)

China: July exports fall 8.3% on-year

Chinese exports fell far more than expected in July, along with imports, reinforcing expectations that the government will roll out more stimulus to support the world's second-largest economy. Exports slumped 8.3 percent from a year earlier, weaker than expectations for a 1 percent decline in a Reuters poll, and reversing a 2.8 percent gain in June. Imports fell 8.1 percent, in line with expectations of an 8 percent drop, after a 6.1 percent decline in June, highlighting soft domestic demand and lower commodity prices. China had a trade surplus of \$43.03 billion for the month, the General Administration of Customs said on Saturday, compared with forecasts of \$53.25 billion. (Source: *The Star*)

Japan: BOJ stands pat, upbeat on economy despite expected Q2 contraction

The Bank of Japan maintained its massive stimulus programme and upbeat economic assessment on Friday, reflecting its conviction that inflation will accelerate toward 2 percent price growth without additional monetary easing. This optimism was despite growing signs the world's third largest economy contracted in the April-June quarter on soft exports and weak household spending. As widely expected, the BOJ reiterated its pledge to increase base money, or cash and deposits at the central bank, at an annual pace of 80 trillion yen (\$641 billion) through purchases of government bonds and risky assets. (Source: The Star)

Indonesia: Urges US Fed to hurry up and raise rates

Indonesia wants the U.S. Federal Reserve to hurry up and raise interest rates because uncertainty over when it will tighten has created downward pressure on the rupiah, the country's chief economics minister said. Sofyan Djalil, coordinating minister for economics, told Reuters that he did not see the rupiah dropping when the U.S. tightening does come because the move has been built into market expectations, and in fact the currency is now undervalued. The Federal Reserve has kept rates at a near-zero level since December 2008 as part of its effort to spur the recovery from the 2007-2009 financial crisis. (Source: The Star)

Vietnam: Sees higher trade volume with Malaysia

The Asean Business Club (ABC) hosted a special dialogue with Vietnam's Prime Minister Nguyen Tan Dung to strengthen trade relations between Vietnam and Malaysia. In terms of investment, Malaysia ranked 8th among the 103 countries and territories investing in Vietnam with about 500 projects with total registered capital of US\$11bil (RM43bil). Among the efforts to further our commitment is the opening of a International Trade and Industry Ministry (Miti) office in Hanoi to augment the efforts of the existing Malaysia External Trade Development Corp (Matrade) office there, said International Trade and Industry Minister," Datuk Seri Mustapa Mohamed.(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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