M&A Securities

Morning Call

Market Access

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Thursday, August 13, 2015

At a Glance

FBMKLCI declined 26.78 points to finish at 1,609.93 on the back of China decision to devalued Yuan for second constitutive day…….(See full report next page)

Strategy

"Wall Street Closes Mix; Malaysia 2Q15 GDP Today"

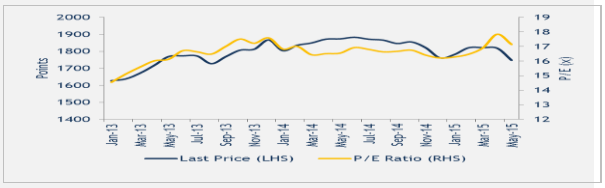
Lower-than-expected GDP against consensus will further weigh on market participants sentiment we opine…….(See full report next page)

Corporate Highlights

- **Nestle, SELL (TP: RM59.30):** Q2 profit up 4.6% on cost-saving initiatives
- **Syarikat Takaful (CP: RM3.82):** Reports dip in Q2 earnings to nearly RM39m
- **Daibochi (CP: RM4.24):** Net profit jumps 15.7%

Economic Update

- **Malaysia**: Q2 growth seen slowest in two years as demand cools
- **Malaysia:** Little cheer for exporters
- **China:** S&P says China's new exchange rate makes economic sense



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	1,609.93	-26.78	-1.64
FBMEMAS	11,016.02	-239.58	-2.13
FBMEMAS SHA	11,452.79	-240.10	-2.05
FBM100	10,750.77	-214.85	-1.96
Volume (mn)	2,490.08	503.02	25.31
Value (RMmn)	2,292.75	221.32	10.68
FBMKLCI YTD Chg			-8.59

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	22.0	22.5
Local Institution	56.3	261.3
Foreign Investors	21.7	-283.8

Top Gainers

	Close	Change+/-	(+/- %)
BAT	62.88	0.86	1.39
WARISAN TC HLD	2.55	0.20	8.51
CHOO BEE METAL	1.68	0.14	9.09

Top Losers

	Close	Change+/-	(+/- %)
DUTCH LADY MILK	46.00	-1.00	-2.13
HONG LEONG FIN	14.38	-0.62	-4.13
PUBLIC BANK BHD	18.20	-0.52	-1.52

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,402.51	-0.33	0.00
NASDAQ	5,044.39	7.60	0.15
S&P 500	2,086.05	1.98	0.10
FTSE 100	6,571.19	-93.35	-1.40
DAX	10,924.61	-369.04	-3.27
Nikkei 225	20,392.77	-327.98	-1.58
HSI	23,916.02	-582.19	-2.38
KOSPI	1,975.47	-11.18	-0.56
STI	3,061.49	-91.57	-2.90
KLCI Futures	1,572.50	(26.50)	(0.02)
USDMYR 3M	14.04	0.09	0.01
USDMYR 6M	13.50	0.02	0.00
USDMYR 12M	13.50	0.01	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	43	0.1	0.3%
Brent (USD/bbl)	49.7	0.5	1.0%
Gold(USD/ounce)	1,124	-0.1	0.0%
Coal (USD/mt)	59.4	-0.5	-0.8%
CPO (RM/mt)	1,995	-45.0	-2.2%
Rubber	149	-2.1	-1.4%
RM/USD	4.03	0.054	-1.34%
EUR/USD	0.90	0.0005	0.06%
YEN/USD	124.24	0.03	-0.02%

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What To Expect

U.S. Market

- The Dow Jones Industrials Average tumbled marginally 0.33 points to 17,402.51, S&P 500 up 1.98 points to 2,086.05. Nasdaq jumped by 7.60 points to 5,044.39. Stocks closed slightly higher Wednesday, recovering from sharp intraday declines as gains in energy offset earlier pressures from growth concerns.

- Stocks plunged for a second day in a row as the yuan declined against the dollar for a second day, increasing negative sentiment on China's economic growth.

The Local Market

- FBMKLCI declined 26.78 points to finish at 1,609.93 on the back of China decision to devalued Yuan for second constitutive day. There were 96 gainers and 973 decliners in total value traded of RM2.29 billion.

- Among the losers on Bursa Malaysia were Dutch Lady down RM1.00 to RM46.00, Hong Leong Finance dropped 62 cent to RM14.38, Public Bank slipped 52 cent to RM18.20 and Pharmaniaga slid 49 cent to RM5.90.

Strategy

- **"Wall Street Closes Mix; Malaysia 2Q15 GDP Today"**
  Wall Street ended mixed on Thursday, backed by steady oil prices. S&P 500 gained 1.98 (0.10%) points to end at 2,086.05 while DJIA erased 0.33 (0.33%) points to finish at 17,402.51 respectively. The gyration in oil prices toned down yesterday although Brent still traded below the critical USD50 per barrel level. It ended at USD49 per barrel while WTI finished at USD42 per barrel. Not much fireworks in the market yesterday although investors were still jittery over the prospects of currency wars no thanks to China's competitive devaluation decision the day before. As for today, we expect market participants to stay at the sideline until Malaysia's 2Q15 GDP is released. It will be known at 12pm. Note that market consensus is expecting 2Q15 GDP to touch 4.5%, deceleration against 1Q15 of 5.6%, as private investment is expected to recoil due to the GST implementation in April this year. Lower-than-expected GDP against consensus will further weigh on market participants sentiment we opine.

- 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

Nestle, SELL (TP: RM59.30): Q2 profit up 4.6% on cost-saving initiatives

Nestle (M) Bhd slashed its cost of sales by almost a fifth in the second quarter (Q2) to June 30, which helped boost its net profit by 4.6% year-on-year to RM123.9mil. This was despite a 10% slide in revenue to RM1.14bil. The food company, whose brands range from *Milo* to *Maggi*, told Bursa Malaysia that the continuous cost-saving initiatives in production along with "favourable trend" in some of the raw materials consumed had contributed to the higher profit. For its first half ended June 30, the group's net profit rose by 3.2% to RM311.8mil. Meanwhile, turnover was impacted due to the lower sales in the second quarter following the goods and services tax (GST) implementation, which led to a marginal drop of 2% in domestic sales. *(Source: The Star)*

Syarikat Takaful (CP: RM3.82): Reports dip in Q2 earnings to nearly RM39m

Syarikat Takaful Malaysia Bhd's net profit fell 8.2% to RM38.95mil in the second quarter ended June 30, 2015, from RM42.44mil a year ago mainly to lower surplus transfer. During the quarter in review, the Islamic insurance provider saw its revenue increase 2.1% to RM433.53mil from RM424.81mil previously, thanks to higher sales generated by its general takaful business and higher net investment income. It said on Wednesday that earnings per share (EPS) fell to 4.78 sen from 5.21 sen previously. Syarikat Takaful said the company would continue its value proposition of rewarding its customers with 15% cash back for general takaful products and establish a strong foothold in the local insurance and takaful arena for 2015. *(Source: The Star)*

Daibochi (CP: RM4.24): Net profit jumps 15.7%

Daibochi Plastic and Packaging Industry Bhd posted 15.7% higher net profit of RM7.2 million for the second quarter ended June 30, 2015 (2Q15) from RM6.2 million a year ago, benefiting from higher export sales and favourable product mix. Revenue for the flexible packaging manufacturer rose 3.1% to RM89.7 million, from RM87 million a year ago with exports contributing 52% of the turnover. Daibochi also benefited from the weaker ringgit, which further enhanced 2Q15 performance on the back of higher export sales. The weaker Malaysian ringgit enhances the competitiveness of export-oriented manufacturers like Daibochi. This is indicated by the steadily rising orders from our clients across Southeast Asia, Australia, and New Zealand. This would also complement our long term plans to enlarge export sales, at the same time taking on a greater role in supporting our clients' aggressive growth plans in the region," managing director Thomas Lim said. *(Source: The Sun)*

MSC (CP: RM2.35): 2Q net loss narrows by 49%

Malaysia Smelting Corp Bhd (MSC) narrowed its losses by 49% to RM14.91 million in the second quarter 2015 (2QFY15), compared with last year's RM28.83 million, as revenue expanded on higher sales of refined tin. Revenue came in at RM452.98 million, up 5% from RM431.71 in the preceding quarter, according to its filing to Bursa Malaysia today. However, it announced a loss before tax from continuing operations of RM19.2 million for 2QFY15, compared with a profit of RM6 million in the same period last year, affected by a significant increase in the non-cash adjustments linked to the unfavourable

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valuation of its Butterworth smelter's closing stock of in-plant inventory. A major portion of this inventory is recirculating stock in the smelting operations; and a downward adjustment in inventory value pegged to lower tin prices has contributed to the bulk of losses in 1HFY15, it said. *(Source: The Edge)*

AirAsia (CP: RM1.22): To stay put at KKIA Terminal 2

AirAsia Bhd is maintaining its decision to continue operations in Kota Kinabalu International Airport's (KKIA) Terminal 2, despite a directive from the government to relocate to Terminal 1. "Kota Kinabalu tourism is right now, fragile. Moving us to Terminal 1 will create heavy congestion. We're not going to move because there's pretty heavy congestion which even MAS agrees with, there are a lot of turboprops there," its group CEO Tan Sri Tony Fernandes told reporters at the announcement of David Foster as the airline's global ambassador yesterday. Fernandes was responding to a statement made by Deputy Transport Minister Datuk Abdul Aziz Kaprawi on Tuesday that all airlines including AirAsia must move to the new terminal to accommodate more passengers. *(Source: The Sun)*

Karex (CP: RM3.09): To buy Medical-Latex for RM13mil

Karex Bhd is proposing to buy the entire equity interest in Medical-Latex (Dua) Sdn Bhd (MLD) from Beiersdorf Aktiengesellschaft for RM13mil. Karex said the acquisition would allow it to build on MLD's reputation as one of the leading premium quality condom manufacturers. It would allow Karex to acquire MLD's own brand manufacturing product, under the Enjoyable Safe Pleasure (ESP) brand. Karex believes that it will complement Karex's existing brands as well as the recent acquired *ONE®* brand in the markets that Karex is going into. Karex believes it can grow ESP further, taking advantage of its current network," it said in its filing with Bursa Malaysia. (Source: The Star)

Frontken (CP: RM0.21): Subsidiary seeks to withdraw Taipei listing

Frontken Corp Bhd's subsidiary Ares Green Technology Corp (AGTC) seeks to withdraw from Taipei Exchange (formerly GreTai Securities Market). Frontken, which provides surface engineering services (thermal spray coating, weld overlay, electroless plating, etc), told Bursa Malaysia that the board of AGTC, its 60% owned subsidiary, felt AGTC's financial position were "consistent and stable" so there was no short-term need to raise funds from the capital market via an initial public offering (IPO). AGTC, first listed on the over-the-counter GreTai Counter in December 2004 as an emerging stock, is applying to the Taiwan Stock Exchange for a withdrawal. *(Source: The Star)*

Sunway Bhd (CP: RM3.40): Secures US$125mil term loan facility

Sunway Bhd's wholly-owned subsidiary Sunway Treasury Sdn Bhd has clinched a term loan facility of US$125mil (RM503.7mil) from HSBC Bank Malaysia Bhd. Sunway told Bursa Malaysia that this was to finance Sunway's Commodity Murabahah Financing-i Facility of US$105mil (RM423.1mil) as well as for the group's capital expenditure and working capital requirements. Sunway Treasury's principal activity is providing financial services within the group. *(Source: The Star)*

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Barakah (CP: RM0.86): Get contract from Petronas Carigali

Barakah Offshore Petroleum Bhd's wholly-owned unit, PBJV Group Sdn Bhd (PBJV), has bagged a contract estimated between RM20 million to RM30 million from Petronas Carigali Sdn Bhd. The contract comprises the supply, refurbishment, and maintenance of cleaning pipeline inspection gauges (pig) and associated services in Sabah and Sarawak. The scope is part of PCSB's yearly operational pigging programme which is an essential element in the maintenance of pipeline system in order to maximize production flow. The two year contract started from June 26, 2015 to June 25, 2017 with one year extension option. *(Source: The Sun)*

Hong Leong Bank (CP: RM12.80): Hong Leong Bank and parent plan rights issue of up to RM4.1b

Hong Leong Bank Bhd (HLB) and its parent, Hong Leong Financial Group Bhd (HLFG) will raise up to RM4.1 billion through rights issues, by the fourth quarter of this year. In separate announcements made to Bursa Malaysia yesterday, Hong Leong Bank said it is looking to raise up to RM3 billion for working capital through a rights issue, while HLFG said it is looking to raise RM1.1 billion through a renounceable rights issue, to subscribe to HLB's issuance. Its holding company, HLFG and its wholly owned unit, Hong Leong Equities Sdn Bhd, have undertaken to subscribe in full their respective entitlements of HLB's rights issue. Based on the aggregate direct shareholdings of HLFG and HLE of about 64.23% in HLB, the capital outlay required to fully subscribe for their entitlements is about RM1.9 billion. *(Source: The Sun)*

AirAsia X (CP: RM0.19): Eyes profitable 2H

AirAsia X Bhd is confident of growing its passenger load factor to 80% in the second half this year (2H15) from 60 % currently as most of its initiatives for growth kicked in during this period, said chief executive officer Benyamin Ismail. In the second quarter, the long-haul affiliate airline's passenger traffic dropped by 20% to 810,944 passengers compared with the same period last year. Benyamin said AirAsia X would add Hawaii and Auckland to its new routes this year, with Delhi and a potential destination in Europe to join the list next year. *(Source: The Star)*

MRT Corp: TRX's MRT station on track for completion by July 2017, says MRT Corp

Despite concerns over the development of cash-strapped 1Malaysia Development Bhd (1MDB)'s Tun Razak Exchange (TRX), Mass Rapid Transit Corp Sdn Bhd (MRT Corp) said construction works at the TRX MRT station is on track and will be ready for operations by July 2017. As far as we are concerned, our station is on track. We cannot wait until their (TRX) development is over because we are going to complete (the station) so their development has to work around our station. That was the understanding we have from the very beginning," MRT Corp's chief executive officer Datuk Seri Shahril Mokhtar told theedgemarkets.com after a press conference during MRT Corp's Hari Raya open house here today. The TRX MRT station is the biggest among seven underground MRT stations along the Sungai Buloh-Kajang route (SBK route/MRT Line 1), which will later be extended to Serdang and Putrajaya (MRT Line 2). *(Source: The Star)*

Construction Sector (Overweight): Klang Valley MRT reaches 65.4%

The construction of Mass Rapid Transit (MRT) project has reached 65.4%, said Mass Rapid Transit Corp Sdn Bhd chief executive officer Datuk Seri Shahril Mokhtar. He said the construction of the line from Sungai Buloh to Jalan Semantan was expected to be completed by the end of next year, while the line from Jalan Semantan to Kajang by July 2017. Shahril said the construction of the tunnel was also on track for completion and the underground work had reached 79%, which exceeded the target of 74%. *(Source: The Star)*

ECONOMIC UPDATES

Malaysia: Q2 growth seen slowest in two years as demand cools

A tepid trade performance and weak domestic consumption likely pulled down Malaysia's economic growth in the second quarter to its slowest pace in more than two years. The median in a Reuters poll was annual growth of 4.5 percent, which would be the lowest since January-March 2013. In this year's first quarter, Malaysia had growth of 5.6 percent, stronger than most of its counterparts in Southeast Asia, as domestic demand was buoyant. But in April, Malaysia implemented a 6 percent goods and services tax (GST). That, together with plunging commodity prices and a sliding currency, hurt consumption. *(Source: The Star)*

Malaysia: Little cheer for exporters

In an environment where most emerging market currencies have weakened against the US dollar, a cheaper ringgit does not necessarily translate into higher exports for Malaysian producers. The devaluation of the yuan and depreciation of other currencies would neither help exporters nor give them an advantage over their competitors, said economists. Generally, a weak currency will benefit exporters. However, this does not appear to be the case because the currencies of most countries have depreciated against the US dollar. On Tuesday and yesterday, China's central bank caused a shock to the global currency market by lowering the band under which the yuan trades. *(Source: The Star)*

China: S&P says China's new exchange rate makes economic sense

China's surprise move to allow for more exchange rate flexibility makes good economic sense, says Standard & Poor's Ratings Services. The international ratings agency said on Wednesday Beijing's move was not the start of a currency war or an attempt to jump-start growth. In its report "China's new exchange rate regime is more structural reform than competitive devaluation", S&P said the move was more likely to be due to a relatively benign "technical correction". The move was to improve market functioning or an effort to comply with the International Monetary Fund (IMF) conditions to get the yuan included in the special drawing rights (SDR) basket sooner rather than later. *(Source: The Star)*

China: Lets yuan fall further, fuels fears of currency war

China's yuan hit a four-year low on Wednesday, falling for a second day after authorities devalued it, and sources said clamour in government circles to help struggling exporters would put pressure on the central bank to let it drop lower still. Spot yuan in China slid to as low as 6.4510 per dollar, its weakest since

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August 2011, after the central bank set its daily midpoint reference at 6.3306, even weaker than Tuesday's devaluation. The central bank, which had described the devaluation as a one-off step to make the yuan more responsive to market forces, sought to reassure financial markets on Wednesday that it was not embarking on a steady depreciation. The devaluation had sparked fears of a global currency war and accusations that Beijing was unfairly supporting its exporters. *(Source: The Edge)*

Indonesia: President reshuffles economy team as growth sags

Indonesian President Joko Widodo put two experienced technocrats into economic management posts on Wednesday in a cabinet reshuffle designed to reassure investors worried about a policy drift that has allowed growth to slip to a six-year low. Widodo's move defied expectations that his own party would compel him to make more political appointments, a move that may surprise critics who say he has not been the robust leader they had hoped for when he took office last year. Darmin Nasution, who was central bank governor from 2010 to 2013 and received his doctorate from the Sorbonne in Paris, was chosen to replace Sofyan Djalil as chief economic minister. *(Source: The Edge)*

Philippine: Central bank seen holding rates steady

The Philippine central bank looks certain to keep its benchmark interest rate steady on Thursday even though risks to economic growth and financial market volatility are on the rise. Growth in South-East Asia's fifth largest economy has slowed to its weakest since 2009 but consumer and government spending are set to pick up. All 17 economists in a Reuters poll said the central bank can afford to leave the overnight borrowing rate unchanged at 4% for a seventh straight meeting due to low inflation. Most economists also expect the short-term special deposit accounts (SDA) rate to be kept steady at 2.5%. *(Source: The Star)*

Greece: Creditors to subject Greek deal to tough October review

The European Union moved to keep Greece on a tight rein after its latest bailout, with sources saying the 85 billion euro deal will be reviewed by lenders in October and any discussion of debt relief will only come at a later stage. Greece was forced to accept tougher terms than were initially on offer and its creditors want to be sure that reforms are being carried out as promised. There will be a strong first review of the implementation of measures in October," an EU source said. At the same time, rescue funds for Greek banks will be placed in a special account and the lenders will receive fresh equity only after a "stress test" is finished by the end of October, several sources told *Reuters*. *(Source: The Edge)*

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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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