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Thursday, August 20, 2015

Report of the Day

Results Review: AMMB 1Q16, BUY (TP: RM6.15) – “Not Hitting It Right”

Results Review: KLK 3Q15, HOLD (TP: RM21.21) – “Drags by Lower Plantation and Manufacturing Divisions”

Results Review: MBM Resources 2Q15, BUY (TP: RM3.88) – “Expect Robust Quarter Ahead”

At a Glance

FBMKLCI rose 2.84 points to finish at 1,582.44 on a last minute rebound in some heavyweight counters.....(See full report next page)

Strategy

“Oil to Make Market Slippery Today”

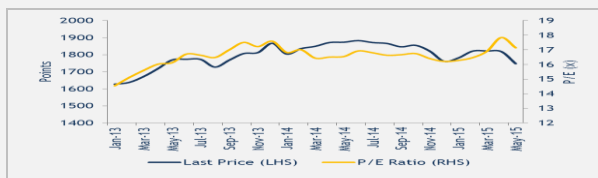
The movement of oil and Ringgit will be key in our view.....(See full report next page)

Corporate Highlights

- **AMMB, BUY (TP: RM6.15):** Q1 earnings at RM339m
- **KLK, HOLD (TP: RM21.21):** Net profit up on higher dividend income
- **MBM Resources, BUY (TP: RM3.88):** 2Q profit slips on lower sales, pays 7 sen dividend

Economic Update

- **Malaysia:** July inflation up 3.3% on-year, exceeds forecast
- **Malaysia:** Nets RM42mil from German trade fair
- **China:** FDI up 5.2% in July on M&A



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
JP	17-Aug	7:50 AM	GDP SA QoQ	-0.5%	1.0%
JP	17-Aug	7:50 AM	GDP Annualized SA QoQ	-1.8%	3.9%
JP	17-Aug	7:50 AM	GDP Nominal SA QoQ	0.1%	2.3%
US	18-Aug	10:30 PM	Housing Starts	1190K	1174K
CN	18-Aug	9:30 AM	China July Property Prices	-	-
US	19-Aug	7:00 PM	MBA Mortgage Applications	-	0.1%
US	19-Aug	8:30 PM	CPI MoM	0.1%	0.3%
US	19-Aug	8:30 PM	CPI Ex Food and Energy MoM	0.2%	0.2%
US	19-Aug	8:30 PM	CPI YoY	0.2%	0.1%
MY	19-Aug	12:00 PM	CPI YoY	-	2.5%
US	20-Aug	8:30 PM	Initial Jobless Claims	-	-
US	20-Aug	8:30 PM	Continuing Claims	-	-
US	20-Aug	9:45 PM	Bloomberg Consumer Comfort	-	-
US	20-Aug	9:45 PM	Bloomberg Economic Expectations	-	45.5
US	20-Aug	10:00 PM	Existing Home Sales	5.41M	5.49M
US	20-Aug	10:00 PM	Philadelphia Fed Business Outlook	6.2	5.7
US	20-Aug	10:00 PM	Existing Home Sales MoM	-1.3%	3.2%
US	20-Aug	10:00 PM	Leading Index	0.2%	0.6%
MY	20-Aug	10:30 PM	Bloomberg Aug. Malaysia Economic Survey	-	-
EU	21-Aug	10:00 PM	Consumer Confidence	-	-7.1
US	21-Aug	9:45 PM	Markit US Manufacturing PMI	-	53.8
MY	21-Aug	-	Foreign Reserves	-	\$96.7B

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Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,582.44	2.84	0.18
FBMEMAS	10,854.38	50.62	0.47
FBMEMAS SHA	11,241.66	50.10	0.45
FBM100	10,584.71	41.03	0.39
Volume (mn)	1,894.23	-360.48	-15.99
Value (RMmn)	1,781.40	-331.26	-15.68
FBMKLCI YTD Chg			-10.15

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	18.5	-8.9
Local Institution	56.5	298.7
Foreign Investors	25.0	-289.8

Top Gainers

	Close	Change+/-	(+/- %)
MALAYSIAN PAC	6.45	0.47	7.86
SYARIKAT TAKAF	3.91	0.31	8.61
CARLSBERG BREW	12.20	0.30	2.52

Top Losers

	Close	Change+/-	(+/- %)
NESTLE (MALAY)	71.80	-0.20	-0.28
NEGRI SEMBILAN	4.10	-0.18	-4.21
PETRONAS GAS	21.00	0.00	0.00

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,348.73	-162.61	-0.93
NASDAQ	5,019.05	-40.30	-0.80
S&P 500	2,079.61	-17.31	-0.83
FTSE 100	6,403.45	-122.84	-1.88
DAX	10,682.15	-233.77	-2.14
Nikkei 225	20,222.63	-331.84	-1.61
HSI	23,167.85	-307.12	-1.31
KOSPI	1,939.38	-16.88	-0.86
STI	3,041.25	-8.40	-0.28
KLCI Futures	1,528.00	2.50	0.00
USDMYR 3M	13.99	(0.01)	(0.00)
USDMYR 6M	13.67	(0.08)	(0.01)
USDMYR 12M	13.63	(0.05)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	41	-0.1	-0.4%
Brent (USD/bbl)	47.2	-1.7	-3.4%
Gold(USD/ounce)	1,133	-0.9	-0.1%
Coal (USD/mt)	58.9	-0.1	-0.2%
CPO (RM/mt)	2,035	-25.0	-1.2%
Rubber	140	2.0	1.4%
RM/USD	4.11	0.0238	-0.58%
EUR/USD	0.90	0.0001	0.01%
YEN/USD	123.91	0.11	-0.09%

What To Expect

U.S. Market

- The Dow Jones Industrials Average declined 162.61 points to 17,348.73, S&P 500 down 17.31 points to 2,079.61 Nasdaq dropped by 40.30 points to 5,019.05. Stocks closed lower on Wednesday after an earlier than expected release of the Federal Reserve's minutes, global growth concerns and a plunge in oil prices sent them for a wild ride.
- Nevertheless, the Dow Jones and the Nasdaq briefly turned positive while the S&P 500 pared most of its earlier losses after the Fed's minutes release before going back down.

The Local Market

- FBMKLCI rose 2.84 points to finish at 1,582.44 on a last minute rebound in some heavyweight counters. There were 557 gainers and 259 decliners in total value traded of RM1.78 billion.
- Among the gainers on Bursa Malaysia were Malaysian Pacific Industries surged 47 cent to RM6.45, Syarikat Takaful jumped 31 cent to RM3.91, Carlsberg up 30 cent to RM12.20 and Sam Engineering gained 28 cent to RM4.73.

Strategy

- **“Oil to Make Market Slippery Today”**

Wall Street maintained its losing streak, back-to-back, hurt by the tanking of oil price despite the favourable outcome of US FOMC meeting minutes. S&P 500 and DJIA lost 17.31 (-0.83%) and 162.61 (-0.93%) points to end at 2,079.61 and 17,348.73 respectively. WTI touched USD41 per barrel and this has spooked the global equity market as the descending trend could weigh on global growth. Crucially, this will hurt the oil producing countries currency, economy and equity market. This is despite the US FOMC favourable meeting minute outcome which says that policy rate adjustment is not due yet due to lethargic US inflation momentum. At this stage, September adjustment is out of the picture. It could be in December albeit in small dose of 25 basis points. As oil is one of the major supporters of local market equity performance, the deceleration of its momentum may weigh on sentiment today. Hence, the movement of oil and Ringgit will be key in our view.

- 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

AMMB, BUY (TP: RM6.15): Q1 earnings at RM339m

AMMB Holdings Bhd posted earnings of RM339.51mil in the first quarter ended June 30, 2015 during a soft quarter which was impacted by slowing economic growth while it reduced its exposure to less preferred segments and instead emphasised on growing variable rate loans. It said on Wednesday the earnings were lower compared with the RM536.94mil a year ago when there was a one-off divestment gain. Excluding one-off divestment gains in Q1FY2015, profit after tax and non-controlling interests increased by 3.1% to RM339.5mil driven by lower provisions and operating expenses, it said. Revenue fell to RM2.109bil from RM2.583bil a year ago. Earnings per share were 11.31 sen compared with 17.86 sen. Reduction in earnings for current period ended June 30 was mainly due to lower income reported from other operating income, net interest income and net income from insurance business by RM412.7mil, RM81.9mil and RM5.7mil respectively. (Source: The Star)

KLK, HOLD (TP: RM21.21): Net profit up on higher dividend income

Kuala Lumpur Kepong Bhd (KLK) posted a 15.5% increase in net profit to RM246.88mil in the third quarter ended June 30 from RM213.66mil in the same quarter a year ago. Revenue was stronger at RM3.538bil, a 21% gain from RM2.924bil in the corresponding quarter a year ago. In a filing with Bursa Malaysia, the plantation group said its performance during the quarter was due to a higher dividend income of RM53.4mil from an overseas investment, Synthomer Plc, and the release of RM12.6mil on interest income due to a disposal of a subsidiary. During the quarter, plantations profit fell 19.5% to RM184.9mil due to a drop in the average selling prices of commodities. The manufacturing sector recorded a lower profit of RM60mil, from RM66.5mil a year ago. KLK said although revenue grew 9.6% to RM1.596bil on higher sales volume, profits were hit by lower selling prices and an unrealised loss of RM8.6mil. (Sources: The Star)

MBM Resources, BUY (TP: RM3.88): 2Q profit slips on lower sales, pays 7 sen dividend

Lower sales from both motor trading and auto parts manufacturing dragged MBM Resources Bhd net profit down 6.5% to RM29.22 million or 7.48 sen per share in the second quarter ended June 30, 2015 (2QFY15) from RM31.24 million or 8 sen a share last year. The decline in demand was in line with lower total industry volume and total industry production, it said in its filing to Bursa Malaysia. Similarly, revenue for 2QFY15 declined 23.9% to RM374.41 million against RM492.17 million. It also declared an interim dividend of 4 sen per share and a special dividend of 3 sen per share under the single-tier system in respect of the financial year ending Dec 31, 2015. Meanwhile, for the six months ended June 30 (1HFY15), net profit came in higher at RM64.37 million from RM54.67 million a year ago, up by 17.8%. Cumulative revenue also grew 2.8% to RM966.15 million from RM939.53 million in 1HFY14. (Sources: The Edge)

MSM Malaysia, (TBD): Earnings slightly higher on lower raw sugar price

MSM Malaysia Holdings Bhd earnings rose by 0.5% to RM79.13mil in the second quarter ended June 30, 2015 from RM78.71mil a year ago on lower material costs including sugar. It said on Wednesday revenue fell 1.2% to RM588.32mil from RM595.43mil. Earnings per share were 11.26 sen compared with 11.30 sen. MSM said when compared with the first quarter, revenue increased by 15.7% from RM508.49mil. The higher revenue, it explained was due to a 13% rise in demand for refined sugar for the months leading to Hari Raya. On the outlook, MSM said the group expects to be able to sustain its "satisfactory performance" notwithstanding the volatility of commodity prices. For the first half, net profit increased 11.20% to RM150.16mil from RM135.04mil in the previous corresponding period. However, revenue rose at a slower pace of just 0.3% to RM1.096bil from RM1.093bil. *(Source: The Star)*

Amway, (TBD): 1H pre-tax profit dips to RM63 million

Amway (Malaysia) Holdings Bhd's pre-tax profit for the first six months ended June 30, 2015 fell 8.9 per cent to RM63.3 million from the RM69.5 million recorded in the same period last year. Revenue rose 25.4 per cent to RM510 million versus RM406.8 million, in benefitting from a strong pre-Goods and Services Tax (GST) buy-up in the first quarter, the company said in a filing to Bursa Malaysia today. We see a challenging year ahead due to higher import costs and an adjustment in market demand, post-GST implementation, Amway said. *(Sources: Bernama)*

PetDag, HOLD (TP: RM19.71): Launches new Euro 4M fuel ahead of Sept 1

Petronas Dagangan Bhd (PDB) has launched its new Ron 97 fuel that meets the Euro 4M specification, ahead of the gazetted September 1 implementation date. Its managing director and chief executive officer Ibrahimnuddin Yunus said the Petronas Primax 97 also comes with improved energy formula engineered for superior acceleration. The Euro 4M fuel comes with lower benzene, sulphur content and Reid vapour pressure (RVP) levels making it greener fuel as it produces less emissions and pollutants as compared to the previous Euro 2M Ron 97 fuel. With the Euro 4M specification, the lower sulphur content will also further protect emission system. Also present was Minister of Domestic Trade, Cooperatives and Consumerism Datuk Hamzah Zainuddin. *(Sources: New Straits Times)*

Eco World (CP: RM1.28): To start work on Bukit Bintang City Centre by Q1 2016

Eco World Development Group Bhd is expected to start construction of the RM8.7bil Bukit Bintang City Centre (BBCC) project by the first quarter of 2016, once it has obtained the development approval from the Kuala Lumpur City Hall. Its CEO Datuk Chang Khim Wah said on Wednesday the company would prepare the pre-marketing for the launch of the project by year-end. The former Pudu jail site has been approved for a mixed residential and commercial development comprising a retail mall, an entertainment block, strata offices, office tower, two hotels, and serviced residences and apartments. The development period is expected to be about eight to 10 years. *(Source: The Star)*

AirAsia (CP: RM1.07): Sees RM652mil savings as crude oil tumbles

AirAsia Bhd foresees US\$160mil (RM652mil) in cost savings next year from weakening crude oil prices as the group's hedging tenure ends this year. Sixty per cent of the AirAsia fleet is hedged. Oil is a very big component of our costs and that has tumbled. No hedge next year," said group chief executive officer Tan Sri Tony Fernandes. Currently, the group's hedging level is US\$80 per barrel, which is 50% higher than the market price. From the financial point, the currency devaluation is nothing compared with the oil devaluation. (The devaluation of) oil has a much bigger impact for us (in foreign exchange terms). (Source: The Star)

ECONOMIC UPDATES**Malaysia: July inflation up 3.3% on-year, exceeds forecast**

Malaysia's inflation rate, measured by the Consumer Price Index (CPI), rose 3.3% in July from a year ago, exceeding a survey of an increase of 2.9%. Consumer prices increased more than expected in July as the effects of a consumption tax implemented on April 1 continued to have an impact. The Statistics Department said the rise in the CPI was due to increases in alcoholic beverages & tobacco group by 13.3%; health by 4.8%; miscellaneous goods and services (+4.7%). Overall, the index for food & non-alcoholic beverages (weight: 30.3) rose 3.8% on a on-year basis in July 2015. The index for non-food (weight: 69.7) recorded an increase of 3.0%. The CPI for July increased 0.8% on a month-on-month basis. For January to July, the CPI increased by 1.7% from the previous corresponding period. (Source: The Star)

Malaysia: Nets RM42mil from German trade fair

Malaysia's participation in the recently concluded Global Destination for Shoes and Tag It! International trade fair in Dusseldorf, Germany has raked in sales of RM42mil. Malaysia External Trade Development Corp (Matrade) coordinated the participation of 10 Malaysian companies in the event including Sakura Malaysia Sdn Bhd, Holmen (M) Sdn Bhd and Jimmy Couture Trend Sdn Bhd. Matrade trade commissioner to Frankfurt S.Jai Shankar said that foreign buyers were still open to sourcing from Malaysia as the range of products offered by Malaysian exporters remained wide. (Source: The Star)

China: FDI up 5.2% in July on M&A

Foreign investment into China rose 5.2% in July compared with the previous year, largely on the back of mergers and acquisitions by overseas firms, the commerce ministry said on Wednesday. Overall foreign direct investment (FDI), which excludes financial sectors, was US\$8.22 billion last month, the ministry said, and US\$76.63 billion in the first seven months of the year, a 7.9% increase. The amount and the proportion of foreign capital mergers and acquisitions rose sharply between January and July," it said in a statement. The proportion of M&A activity in FDI rose to 18.2% in the January-July period, it added, up from 4.6% in the same seven months a year ago. China's outbound overseas direct investment (ODI) last month was US\$7.5 billion, a sharp decline of 18.6% versus a year earlier and the second consecutive monthly fall after one of 15.5% in June, the ministry said. (Source: The Star)

Japan: Exports stumble on China slowdown

Japan's exports slowed in July, official data showed on Wednesday, adding to concerns about the fragile recovery in the world's number three economy as demand falls in neighbouring giant China. The lacklustre figures come days after news Japan's economy contracted last quarter, boosting speculation the central bank will be forced to unleash more stimulus as Tokyo's "Abenomics" growth blitz stumbles. While the value of Japan's exports rose 7.6% last month from a year ago, partly driven by rising vehicle shipments, the volume of goods slipped 0.7% from July 2014. China-bound shipments were off 1.3% from 12 months earlier in volume terms, outstripping a 0.4% fall to the rest of Asia. (Source: *The Star*)

U.S.: Consumer prices rise modestly

US consumer prices rose slightly in July, but a solid increase in the cost of shelter suggested inflation was probably stabilizing enough to support expectations the Federal Reserve will raise interest rates this year. The Labor Department said on Wednesday its Consumer Price Index edged up 0.1 percent last month as gasoline and food prices increased marginally. July's increase in the CPI was a slowdown from the 0.3 percent gain in June. It was the sixth straight month of increase in the CPI. Shelter, which accounts for a third of the CPI, shot up 0.4 percent, the largest increase since February 2007. That was on top of a 0.3 percent again in June. In the 12 months through July, the CPI climbed 0.2 percent. It was the second month the annual CPI increased after plunging crude oil prices pushed it into negative terrain in January. Signs of an ebb in the disinflationary trend, combined with a tightening labor market and strengthening housing sector could give the Fed confidence that inflation will eventually rise toward its 2 percent target. (Sources: *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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