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Friday, August 21, 2015

## Report of the Day

**Results Review:** Axiata 2Q15, BUY (TP: RM7.10) – “Satisfactory, Need to Push in 2H15”

**Results Review:** Dialog 4Q15, HOLD (TP: RM1.60) – “Pengerang to Propel Growth”

**Results Review:** WCT 2Q15, HOLD (TP: RM1.28) – “Property the Culprit”

**Results Review:** Kossan 2Q15, HOLD (TP: RM6.84) - “New Plants Lift Earnings”

## At a Glance

FBMKLCI declined 5.03 points to finish at 1,577.41 in line with the negative regional market sentiment.....(See full report next page)

## Strategy

### “Wall Street on Rout”

We expect the local market to recoil too today.....(See full report next page)

## Corporate Highlights

- **Axiata, BUY (TP: RM7.10):** Q2 earnings rise 34% to RM610m
- **Dialog Group, HOLD (TP: RM1.60):** Posts record FY15 earnings
- **WCT, HOLD (TP: RM1.28):** Q2 profit falls 9% to RM31mil on lower property sales

## Economic Update

- **Malaysia:** Second highest levels of bank account ownership in Asean
- **Greece:** To receive 23 billion euro cash injection ahead of key repayment
- **U.S.:** Jobless claims edge up; labor market still improving



| 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         | 1,577.41  | -5.03     | -0.32   |
| FBMEMAS         | 10,817.81 | -36.57    | -0.34   |
| FBMEMAS SHA     | 11,191.90 | -49.76    | -0.44   |
| FBM100          | 10,548.11 | -36.60    | -0.35   |
| Volume (mn)     | 1,786.51  | -107.72   | -5.69   |
| Value (RMmn)    | 1,765.50  | -15.90    | -0.89   |
| FBMKLCI YTD Chg |           |           | -10.44  |

## Daily Trading Position (RM'mn)

|                   | Participation (%) | Net(RMm) |
|-------------------|-------------------|----------|
| Local Retail      | 17.6              | -8.1     |
| Local Institution | 52.1              | 139.4    |
| Foreign Investors | 30.3              | -131.3   |

## Top Gainers

|               | Close | Change+/- | (+/- %) |
|---------------|-------|-----------|---------|
| PHARMANIAGA   | 6.11  | 0.33      | 5.71    |
| LAY HONG      | 3.50  | 0.26      | 8.03    |
| YSP SOUTHEAST | 2.75  | 0.23      | 9.13    |

## Top Losers

|               | Close | Change+/- | (+/- %) |
|---------------|-------|-----------|---------|
| PANASONIC MAN | 21.70 | -0.26     | -1.18   |
| HUAT LAI      | 2.99  | -0.26     | -8.00   |
| CARLSBERG     | 11.94 | -0.26     | -2.13   |

## World Indices

|              | Close     | Change+/- | (+/- %) |
|--------------|-----------|-----------|---------|
| DJIA         | 16,990.69 | -358.04   | -2.06   |
| NASDAQ       | 4,877.49  | -141.56   | -2.82   |
| S&P 500      | 2,035.73  | -43.88    | -2.11   |
| FTSE 100     | 6,367.89  | -35.56    | -0.56   |
| DAX          | 10,432.19 | -249.96   | -2.34   |
| Nikkei 225   | 20,033.52 | -189.11   | -0.94   |
| HSI          | 22,757.47 | -410.38   | -1.77   |
| KOSPI        | 1,914.55  | -24.83    | -1.28   |
| STI          | 3,009.78  | -31.47    | -1.03   |
| KLCI Futures | 1,516.50  | (12.00)   | (0.01)  |
| USDMYR 3M    | 13.96     | -         | -       |
| USDMYR 6M    | 13.74     | 0.01      | 0.00    |
| USDMYR 12M   | 13.61     | (0.01)    | (0.00)  |

## Other Key Economics Data

|                 | Close  | Change+/- | (+/- %) |
|-----------------|--------|-----------|---------|
| WTI (USD/bbl)   | 41     | -0.3      | -0.8%   |
| Brent (USD/bbl) | 46.6   | -0.5      | -1.1%   |
| Gold(USD/ounce) | 1,155  | 2.9       | 0.2%    |
| Coal (USD/mt)   | 58.9   | 0.0       | 0.1%    |
| CPO (RM/mt)     | 1,997  | -38.0     | -1.9%   |
| Rubber          | 139    | -1.0      | -0.7%   |
| RM/USD          | 4.13   | 0.0219    | -0.53%  |
| EUR/USD         | 0.89   | 0.0005    | 0.06%   |
| YEN/USD         | 123.46 | 0.06      | -0.05%  |

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average declined 358.04 points to 16,990.69, S&P 500 down 43.88 points to 2,035.73 Nasdaq dropped by 141.56 points to 4,877.49. Stocks closed near session lows, off about 2 percent, as investors weighed continued uncertainty about the timing of a rate hike and concerns about global growth headed by slowing in China.
- Stocks extended recent losses, with the major averages falling below their 200-day moving averages.

### The Local Market

- FBMKLCI declined 5.03 points to finish at 1,577.41 in line with the negative regional market sentiment. There were 360 gainers and 448 decliners in total value traded of RM1.77 billion.
- Among the losers on Bursa Malaysia were Panasonic Manufacturing down 26 cent to RM21.70, Huat Lai slipped 26 cent to RM2.99, Carlsberg dropped 26 cent to RM11.94 and Chin Teck Plantation slid 26 cent to RM8.50.

### Strategy

- **“Wall Street on Rout”**  
Wall Street tanked steeply hurt by multiple factors with no end in sight. S&P 500 and DJIA lost 43.88 (-2.11%) and 358.04 (-2.06%) points to end at 2,035.73 and 17,990.69 respectively. To begin with, depressed oil price, China slower growth along with the descending pattern of emerging countries' currencies have strongly weighed on sentiment. Oil, which has increasing downside risk due to US impending interest rate adjustment, may probably go down further and this will hurt major oil producing countries economy including big names like Canada and Australia not to mention Brazil, Venezuela, Malaysia and Indonesia. China, which almost certainly grow slower this year, as witnessed by two Yuan devaluations, also chipped in to hurt sentiment. Finally, Dong 1% devaluation on Wednesday (3rd adjustments this year) along with Kazakhstan desperate measure to float its currency from a peg, which has lost a quarter of value upon floating, also contributed to the recoiling of sentiment. All in, the tremor in equity market is quite violent and we cant see the bottom. We expect the local market to recoil too today.
- 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

**Axiata, BUY (TP: RM7.10): Q2 earnings rise 34% to RM610m**

Axiata Group Bhd's net profit jumped 34.2% to RM610.7mil in the second quarter ended June 30 from RM455.01mil from a year ago mainly due to lower losses from Indonesia arising from lower foreign exchange losses and net finance costs. "Higher profits were also recorded by Sri Lanka and Cambodia operations and share of profits from our associate company in India increased significantly. Revenue, however, was marginally lower at RM4.7bil compared with RM4.73bil previously due to lower revenues in Malaysia and Indonesia. Earnings per share for the quarter rose to 7.10 sen from 5.30 sen previously. It announced an interim dividend of eight sen a share. (Source: The Star)

**Dialog Group, HOLD (TP: RM1.60): Posts record FY15 earnings**

Dialog Group Bhd posted record earnings of RM275.13mil in the financial year ended June 30, 2015, an increase of 27.4% from RM215.87mil a year ago boosted by the strong financial performance from the Malaysian operations. It said on Thursday this was mainly due to the completion of the engineering and construction activities for the Pengerang Deepwater Terminal Phase 1 and the beginning of works on Phase 2. However, its revenue fell 7.6% to RM2.36bil from RM2.55bil mainly due to low activities in engineering, construction and plant maintenance in Singapore and fabrication in Australia and New Zealand and lower sales of specialist products and services. (Source: The Star)

**WCT, HOLD (TP: RM1.28): Q2 profit falls 9% to RM31mil on lower property sales**

WCT Holdings Bhd's net profit for its second quarter ended June 30 dropped 9% to RM31.06mil from RM34.30mil in the previous corresponding period, mainly due to lower contributions from overseas projects and its property development segment. Revenue during the quarter, meanwhile, increased to RM422.31mil from RM401.47mil a year earlier. Basic earnings per share (EPS) was lower at 2.89 sen, compared with 3.14 sen in the previous corresponding period. For the six-month period ended June 30, the builder-cum-property developer's net profit dropped to RM64.27mil from RM74.40mil in the previous corresponding period, while revenue in the first half of 2015 slipped to RM773.93mil from RM868.69mil a year earlier. (Source: The Star)

**Kossan, HOLD (TP: RM6.84): 2Q's net profit grows 37% on higher sales volume**

Kossan Rubber Industries Bhd whose share price is hovering near the record high level, announced its net profit grew 37% to RM47.44 million for the second quarter ended June 30, 2015 (2QFY15), from RM34.59 million in the previous corresponding quarter, driven by the same quantum increase in its sale quantity in the quarter under review. The rubber glove maker's earnings per share (EPS) increased to 7.42 sen, from 5.41 sen. Other than higher glove sales, Kossan told Bursa Malaysia that better product mix and improved operational efficiency also helped to boost its profitability. The group's quarterly revenue expanded nearly

27% to RM385.78 million in 2QFY15, from RM303.83 million a year ago. (Source: *The Edge*)

**BIMB, BUY (TP: RM4.84): Appeals for time extension on submission**

BIMB Holdings Bhd has appealed for more time to submit its second quarter results for the financial year ended Jun 30, 2015 pending approval from the relevant authority. In a filing with the stock exchange yesterday, BIMB said it has submitted an application letter for the extension to Bursa Malaysia Securities Bhd on yesterday. The Islamic banking services provider did not say what was the delay. (Source: *The Sun*)

**SP Setia (TP: TBA): To launch RM350mil residential project in Penang**

SP Setia Bhd will soon launch its latest project, a 9-acre freehold residential development in Penang with a gross development value (GDV) of RM350mil. The property developer, formerly a construction company, has 150 acres of undeveloped land in Penang. Nine acres are being developed into a freehold residential project comprising apartments averaging 1,100 sq ft within a price range of RM800,000 to RM1mil per unit. The development will be launched in the last quarter of the year. Most of the approvals have been obtained. The campaign entailed a contest open to all S P Setia's property buyers based in Malaysia, who signed their sale and purchase agreement between Jan 1 and Dec 1, 2015. (Source: *The Star*)

**AMMB, BUY (TP: RM6.15): Expects challenging year due to poor market sentiment**

AMMB Holdings Bhd expects the current financial year ending March 31, 2016 to be challenging due to the poor market sentiment, partly weighed down by political risks. Acting group managing director Datuk Mohamed Azmi Mahmood said on Thursday that while the banking group was cautious about its prospects for FY16, it would focus on managing growth efficiently. He also stated the banking group was not involved in any merger talks. The group's key performance indicators for FY16 included loans growth of between 4% and 5%, profit after tax and minority interest of between 3% and 5% and return on equity of 12% to 12.5%. (Source: *The Star*)

**Boustead Plantations (CP: RM1.28): 2Q net profit jumps 413%, declares 5 sen dividend**

Boustead Plantations Bhd's net profit for the second quarter ended June 30, 2015 surged over four-fold to RM48.6 million from RM9.46 million a year earlier due to a one-off land disposal gain of RM39.1 million. The improve in earnings has resulted in its earnings per share (EPS) jumping to 3.04 sen as compared to 0.9 sen last year. Boustead Plantations had on May 19 this year entered into sales and purchase agreements with Seng Hong Quarry Sdn Bhd and Bentara Gemilang Industries Sdn Bhd for the disposals of approximately 88.17ha of freehold lands held in Kulai, Johor, for RM49 million cash. (Source: *The Edge*)

**AirAsia (CP: RM1.01): Q2 net profit falls 33.8%**

AirAsia Bhd's net profit for the second quarter ended June 30, 2015 fell 33.8% to RM243.03 million from RM367.16 million a year ago following the unrealised foreign exchange loss on borrowings and one-off costs related to the sale of

leaseback of aircraft. Its revenue was almost flat at RM1.32 billion on the back of a 7% year-on-year growth in the number of passengers carried at 5.95 million, which is in-line with capacity growth, allowing the company to record 80% load factor. For the six months period, its net profit dropped 22.6% to RM392.36 million from RM506.87 million from the previous year, while revenue increased marginally to RM2.62 billion compared with RM2.61 billion a year ago. *(Source: The Sun)*

**Oriental Holdings (CP: RM6.67): 2Q net profit up 14.4%, pays 6 sen dividend**

Penang-based Oriental Holdings Bhd, owned by the family of the late tycoon Tan Sri Loh Boon Siew, reported a 14.4% rise in second quarter net profit to RM59.05 million or 9.52 sen per share from RM51.6 million and 8.32 sen per share a year ago, on higher contributions from its automotive and plantation segments. Revenue for the three months ended June 30, 2015 (Q2FY15) grew 18.1% to RM1.05 billion from RM889.26 million in Q2FY14. Oriental Holdings also declared an interim dividend of 6 sen totalling RM37.2 million for the financial year ending Dec 31, 2015 (FY15), payable on Nov 17. *(Source: The Star)*

**UOA Development (CP: RM1.82): 2Q net profit falls 14% on year**

Property developer UOA Development Bhd's net profit dropped to RM68.93 million in its second quarter ended June 30, 2015 (2QFY15), from RM80.19 million a year earlier, mainly on higher taxes and minority interest. In a filing with Bursa Malaysia, UOA said the absence of property revaluation gains had also curbed bottom line. The company, however, registered higher revenue of RM325.71 million, versus RM216.26 million. Cumulative 1HFY15 net profit rose to RM147.41 million, from RM124.84 million in the corresponding period last year, while revenue grew to RM639.41 million, from RM394.24 million. *(Source: Reuters)*

**KUB (CP: RM0.30): KUB's unit faces RM34m arbitration claim over klia2 works**

KUB Malaysia Bhd said an arbitration proceeding has been initiated against its wholly-owned unit KUB Builders Sdn Bhd (KUBB) by a contractor to claim RM34.19 million in relation to works done at klia2. The claim was filed by Swee Construction & Transports Co (M) Sdn Bhd (Swee) in relation to works KUBB subcontracted to Swee in 2012, according to KUB's filing on Bursa Malaysia. The claim amount comprises RM18.19 million for certified works and retention sum, and RM16 million non-certified claims, like loss and expenses, and loss of profit. The arbitrator has directed the parties to file their statement of claim and statement of defence on Sept 23 and Oct 16 respectively. *(Source: The Edge)*

**Petronas: Takes over MLNG Dua from Shell**

Petroleum Nasional Bhd (Petronas) has fully taken over Malaysia LNG Dua Sdn Bhd (MLNG Dua) from Sarawak Shell Bhd (Shell), who had a 50% equity stake in the firm. In a statement, Petronas said hand-over of Shell's equity stake was officiated in a ceremony yesterday, and thus its unit Petronas Carigali Sdn Bhd (PCSB) now owns 90% stake in MLNG Dua, while the remaining 10% is held by PCSB's subsidiary, E&P Malaysian Ventures Sdn Bhd (EPMV). Consequently, PCSB and EPMV are now the operators of MLNG Dua. Previously, MLNG Dua was operated by Shell via a production sharing contract (PSC) signed with Petronas in 1993. The PSC expired yesterday. *(Source: The Edge)*

## ECONOMIC UPDATES

**Malaysia: Second highest levels of bank account ownership in Asean**

Malaysia has the second highest levels of bank account ownership for adults among South East Asian countries after Singapore. According to Global Findex 2014, 81% of adults in Malaysia are exposed to financial services in 2014 from 66% in 2011. The report showed that Malaysia has higher level of bank account ownership compared to the global's rate of 62% in 2014. The World Bank Group senior financial economist, finance and markets global practice Dr Jose De Luna Martinez said Malaysia is a success story in promoting financial inclusion. (Source: *The Star*)

**Greece: To receive 23 billion euro cash injection ahead of key repayment**

Greece is set to receive the first instalment of its third multi-billion-euro bailout on Thursday, just as a key repayment to the European Central Bank falls due. A source close to the matter said Greece would receive 23 billion euros (US\$25.5 billion) on Thursday morning, allowing Athens to make a loan repayment of 3.4 billion euros due the same day to the European Central Bank (ECB). Greece got the green light on Wednesday to start repaying its debts and reviving its economy after eurozone finance ministers formally approved the third reforms-for-rescue package of up to 86 billion euros. (Source: *The Star*)

**South Korea: Yuan devaluation puts 'considerable pressure' on S. Korea economy**

South Korea's finance minister said on Thursday that China's decision to devalue the yuan puts "considerable pressure" on South Korea's economy due to the global financial turmoil it has sparked. "It's true that (the devaluation) has laid considerable pressure on the local economy as volatility in the local stock and foreign exchange markets has increased and worries have risen over the competitiveness of exporters who compete with Chinese counterparts," Finance Minister Choi Kyung-hwan told parliament. The minister also said the devaluation can help South Korea's exports, but his fresh remarks were seen as a step back from his earlier ones that it would give a boost to local exports. (Source: *Reuters*)

**U.S.: Jobless claims edge up; labor market still improving**

The number of Americans filing new applications for unemployment benefits unexpectedly rose last week, but the trend remained consistent with solid labor market momentum that could keep the Federal Reserve on track to raise interest rates this year. Initial claims for state unemployment benefits increased 4,000 to a seasonally adjusted 277,000 for the week ended Aug. 15, the Labor Department said on Thursday. Claims for the prior week were revised to show 1,000 fewer applications received than previously reported. Economists had forecast claims slipping to 272,000 last week. A Labor Department analyst said there were no special factors influencing the data and no states had been estimated. (Source: *The Edge*)

**U.S.: Home sales near 8-1/2-year high, brighten outlook**

U.S. home resales rose to a near 8-1/2-year high in July and factory activity in the mid-Atlantic region picked up this month, fresh signs of steady economic

growth that likely keeps the Federal Reserve on track to raise interest rates this year. While other data on Thursday showed a slight increase in the number of Americans filing new applications for unemployment benefits last week, the trend remained consistent with strong labor market momentum. "We continue to expect both economic growth and labor market activity to continue shifting higher, providing the justification for the Fed to begin the normalization in monetary policy in September. (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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