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Monday, August 24, 2015

## Report of the Day

**Results Review:** Malakoff 2Q15, BUY (TP: RM2.30):  
– “Slower, but Within Expectation”

**Results Review:** Sunway Construction 2Q15,  
BUY (TP: RM1.40): – “Well on Track”

## At a Glance

FBMKLCI slid 2.74 points to finish at 1,574.67 in line with the negative regional market sentiment.....(See full report next page)

## Strategy

## “Wall Street on Rout”

We can't see the bottom yet and it's best to stay at the sideline and hold the fort if can.

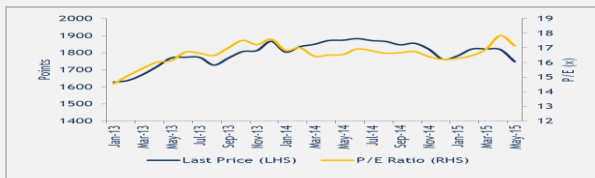
.....(See full report next page)

## Corporate Highlights

- **Malakoff, BUY (TP: RM2.30):** 2Q revenue falls to RM1.3b on power plant 'lower capacity factor'
- **Sunway Construction, BUY (TP: RM1.40):** Posts RM37.8m net profit in 2Q
- **Sime Darby, BUY (TP: RM9.00):** Rights issue by Sime?

## Economic Update

- **China:** August factory activity shrinks as orders tumble
- **Japan:** Eyes record debt servicing costs for FY2016
- **U.S.:** Semicon equipment makers sees orders picking up



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
JP	24-Aug	1:00 PM	Leading Index CI	-	107.2
US	25-Aug	9:45 PM	Markit US Composite PMI	-	55.7
US	25-Aug	9:45 PM	Markit US Services PMI	-	55.7
US	25-Aug	10:00 PM	New Home Sales	514K	482K
US	25-Aug	10:00 PM	Consumer confidence Index	93.0	90.9
US	26-Aug	7:00 PM	MBA Mortgage Applications	-	3.6%
US	26-Aug	8:30 PM	Durable Goods Orders	-0.5%	3.4%
US	26-Aug	8:30 PM	Durables Ex Transportation	0.3%	0.8%
EU	27-Aug	4:00 PM	M3 Money Supply YoY	-	5.0%
US	27-Aug	8:30 PM	GDP Annualized QoQ	3.2%	2.3%
US	27-Aug	8:30 PM	Personal Consumption	3.0%	2.9%
US	27-Aug	8:30 PM	GDP Price Index	2.0%	2.0%
US	27-Aug	8:30 PM	Core PCE QoQ	-	1.8%
US	27-Aug	8:30 PM	Initial Jobless Claims	-	-
US	27-Aug	8:30 PM	Continuing Claims	-	-
US	27-Aug	10:00 PM	Pending Home Sales MoM	1.0%	-1.8%
EU	28-Aug	5:00 PM	Economic Confidence	-	104.0
EU	28-Aug	5:00 PM	Consumer Confidence	-	-
US	28-Aug	8:30 PM	Personal Income	0.4%	0.4%
US	28-Aug	8:30 PM	Personal Spending	0.4%	0.2%
US	28-Aug	10:00 PM	U. of Mich. Sentiment	93.3	92.9
JP	28-Aug	7:30 AM	Jobless Rate	-	3.4%
JP	28-Aug	7:30 AM	Job-To-Application Ratio	-	1.19
JP	28-Aug	7:50 AM	Retail Trade YoY	-	0.9%
JP	28-Aug	7:50 AM	Retail Sales MoM	-	-0.8%
MY	28-Aug	6:00 PM	Money Supply M3 YoY	-	6.0%

## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,574.67	-2.74	-0.17
FBMEMAS	10,794.97	-22.84	-0.21
FBMEMAS SHA	11,189.89	-2.01	-0.02
FBM100	10,529.77	-18.34	-0.17
Volume (mn)	1,788.84	2.33	0.13
Value (RMmn)	2,126.04	360.54	20.42
FBMKLCI YTD Chg			-10.59

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	15.5	11.5
Local Institution	55.4	363.5
Foreign Investors	29.1	-375.0

## Top Gainers

	Close	Change+/-	(+/- %)
PETDAG	20.32	0.50	2.52
NESTLE (MALAY)	72.18	0.38	0.53
TOP GLOVE CORP	8.39	0.30	3.71

## Top Losers

	Close	Change+/-	(+/- %)
ORIENTAL FOOD	5.80	-0.20	-3.33
SELANGOR PROPS	4.67	-0.19	-3.91
PRESTARIANG	1.97	-0.19	-8.80

## World Indices

	Close	Change+/-	(+/- %)
DJIA	16,459.75	-530.94	-3.12
NASDAQ	4,706.04	-171.45	-3.52
S&P 500	1,970.89	-64.84	-3.19
FTSE 100	6,187.65	-180.24	-2.83
DAX	10,124.52	-307.67	-2.95
Nikkei 225	19,435.83	-597.69	-2.98
HSI	22,409.62	-347.85	-1.53
KOSPI	1,876.07	-38.48	-2.01
STI	2,971.01	-38.77	-1.29
KLCI Futures	1517	3.5	0.2242
USDMYR 3M	15	0.9375	6.6667
USDMYR 6M	15	1.1575	8.3619
USDMYR 12M	14.75	1.155	8.4958

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	40.03	-0.42	-1.03832
Brent (USD/bbl)	45.13	-0.33	-0.72591
Gold(USD/ounce)	1160.3	-0.47	-0.0405
Coal (USD/mt)	58.8	-0.1	-0.16978
CPO (RM/mt)	1986	-11	-0.55083
Rubber	140.1	1.1	0.791367
RM/USD	4.2395	0.076	-1.7906
EUR/USD	0.8786	0.0004	0.0455
YEN/USD	121.78	-0.26	0.2135

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average declined 530.94 points to 16,459.75 S&P 500 down 64.84 points to 1,970.89 Nasdaq dropped by 171.45 points to 4,706.04. The rout in U.S. stocks continued for the fourth straight day on Friday, with all three major indices down more than 1 %, as fears of a China-led global slowdown were heightened after grim data overnight.
- Data from China showed its giant manufacturing sector shrank at the fastest pace since 2009, exacerbating worries about its health. The data comes on the heels of weaker-than-expected economic data in July, the yuan's devaluation this month and a stock market plunge.

### The Local Market

- FBMKLCI slid 2.74 points to finish at 1,574.67 in line with the negative regional market sentiment. There were 360 gainers and 448 decliners in total value traded of RM2.13 billion.
- Among the losers on Bursa Malaysia were Oriental Food fell 20 cent to RM5.80, Selangor Props and Prestariang declined 19 cent respectively.

### Strategy

- **“Wall Street Tank Steeply with DJIA Tumbles Over 500 Points”**

It was another earth shaking moment for Wall Street on Friday, leading investors to take cover and detach itself from equity market, resulting in a rout, one its biggest tanking this year. S&P 500 and DJIA tumbled **64.84 (-3.19%)** and **530.94 (-3.12%)** points to end at 1,970.89 and 16,459.75 respectively, with both indexes dipping below its 2,000 and 17,000 psychological level. Multiple factors hammered confidence including oil price (WTI) that touched USD40 per barrel and speculated to drop further, economic slowdown in China, emerging economies decelerating economic growth, recession in Brazil and Chile and a breakdown in commodity prices. In sum, equity market was hit in all angles and we expect the jittery sentiment to continue until the policy step in the US is known. Hence, US FOMC policy meeting in September will be huge than ever with spotlight directed solely at its. Until then, expect tremor, big and small, to continue hitting global equity market. As for the local market, the sentiment over the foreseeable future will hinge on the oil price and also Ringgit momentum apart from external factor like US FOMC meeting. As of now, we can't see the bottom yet and it's best to stay at the sideline and hold the fort if can.

- 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

**Malakoff, BUY (TP: RM2.30): 2Q revenue falls to RM1.3b on power plant 'lower capacity factor'**

Malakoff Corp Bhd reported a 27% drop in second quarter net profit from a year earlier as revenue fell after its gas-fired power plants generated less electricity. Malakoff said profit also fell as the group's bottom line a year earlier included fair valuation gains from the acquisition of the remaining 75% stake in Port Dickson Power (PDP). For the quarter in review, Malakoff said net profit declined to RM86.29 million in the second quarter ended June 30, 2015 (2QFY15) from RM118.08 million. Revenue dropped to RM1.3 billion from RM1.47 billion. This (profit drop) was mainly due to recognition of fair valuation gains from our acquisition of the remaining 75% equity in PDP in corresponding quarter, share of losses recorded by an associated company, which was partly offset by lower finance cost following the redemption of the unrated junior sukuk musharakah from initial public offering (IPO) proceeds in the current quarter. (Source: The Edge)

**Sunway Construction, BUY (TP: RM1.40): Posts RM37.8m net profit in 2Q**

Sunway Construction Group Bhd (SunCon) recorded a net profit of RM37.8 million or 2.92 sen per share for the second quarter ended June 30, 2015 (2QFY15), mainly contributed by ongoing local construction projects and its supply of precast concrete products to projects in Singapore. Revenue for 2QFY15 stood at RM500.22 million, its filing with Bursa Malaysia showed today. SunCon said the construction segment reported revenue of RM431.4 million and pre-tax profit of RM27.3 million in 2QFY15, while the precast segment reported revenue of RM68.8 million and pre-tax profit of RM14.3 million. For the six months period, the group recorded a net profit of RM72.16 million or 5.58 sen per share on revenue of RM996.29 million. (Source: The Edge)

**Sime Darby, BUY (TP: RM9.00): Rights issue by Sime?**

Sime Darby Bhd is considering a proposal to raise up to RM6bil through a rights issue as the group seeks to cut down its RM18bil debts by a third. The fund-raising plan proposed by several banks pitching for the job comes after the diversified plantation company put on hold a plan in May to list its motor unit amid weak stock market condition. Sources said if Sime Darby agreed to the plan, the exercise could be implemented by the end of the year. "There is no immediate need for Sime Darby to raise funds," a source said. "But a fund-raising exercise will help address some of the issues raised by rating agencies." Standard and Poor's (S&P) in May lowered its long-term corporate credit rating on Sime Darby by a notch from A to A- with a negative outlook. The firm stated that it might revise its outlook if Sime Darby started to "markedly reduce" its debts. (Source: The Star)

**Petra Energy (CP: RM0.95): 2Q earnings up 84.5% on higher revenue, lower finance costs**

Petra Energy Bhd (Financial Dashboard)'s net profit jumped 84.5% to RM14.9 million from RM8.1 million a year ago in its second quarter ended June 30 (2QFY15), on positive contribution from its services segment, which was strengthened by a decrease in finance cost. Thus earnings per share for the

latest quarter rose to 4.63 sen per share, from 2.51 sen per share a year ago, its filing to Bursa Malaysia today showed. Revenue for 2QFY15 came in at RM164.7 million, 29.3% higher than the RM127.4 million seen in 2QFY14, as a result of a higher contribution from the hook up, commissioning and top-side major maintenance (HuC/TMM) contract from PETRONAS Carigali Sdn Bhd (PCSB). *(Source: The Edge)*

**Inari Amertron (CP: RM3.03): Sees new cables contributing RM20m to revenue**

Inari Amertron Bhd's new fiber based optical cables is expected to contribute RM20mil to the group's revenue in FY2016. Inari group chief executive officer KC Lau said on Friday the company targets to achieve 5% world market share by year 2017. This is Inari's first own brand which was manufactured and assembled at its Inari South Keytech Sdn Bhd plant in Senai, Johor. The company invested RM20mil for the new product as it seeks to move up the opto-electronics value chain and improve margins compared to its existing outsourced and contract manufacturing business. *(Source: The Star)*

**MISC (CP: RM7.99): Sells back VTTI stake to Vitol Group**

MISC Bhd is disposing of its entire 50% stake in VTTI BV, which it bought in 2010, back to Vitol Group for US\$830 million (RM3.41 billion). In a filing with the stock exchange, MISC said it had entered into an agreement with VIP Terminals Finance BV, a wholly-owned subsidiary of Vitol Investment Partnership Ltd, for the disposal. VTTI, once a potential listing entity for MISC, owns, operates and manages a network of oil product storage terminals and refineries in 11 countries, including Malaysia. VTTI registered an audited profit after tax and the net assets of US\$41.8 million (RM171.6 million) and US\$1.3 billion (RM5.34 billion) respectively for the financial year ended Dec 31, 2014. *(Source: The Sun)*

**Ho Hup (CP: RM0.88): Buys 70% equity in ICA**

Ho Hup Construction Co Bhd has bought a 70% stake in Intact Corporate Approach Sdn Bhd (ICA) from I4G Intelliganz Sdn Bhd for RM20mil. ICA has the rights over 429 acres of leasehold land in Kulai, Johor, after it had struck a deal in July with YPJ Plantations Sdn Bhd – the registered land owner – to buy the land for RM107.3mil, where it would be transferred progressively to ICA in over five years. Ho Hup said the acquisition of ICA would give the group access to the rights to develop the said 429-acre land, which is located within the Yayasan Pelajaran Johor Academic City near Kulai Town. Development is expected to span 15 years from 2016 to 2031. *(Source: The Star)*

**BHIC (CP: RM1.77): Rejigs organisation structure to provide clarity**

Boustead Heavy Industries Corp Bhd (BHIC) is undertaking a reorganisation of its corporate structure, in order to achieve better operational efficiencies, organisational clarity and focus on its core businesses. In a statement today, BHIC said the reorganisation exercise will see the group divided into three distinct divisions reflecting its principal business activities, namely the defence and security division, the commercial division and the energy division. The reorganisation will also see BHIC's subsidiary, BHIC Defence Technologies Sdn Bhd (BHICDT) becoming the holding company for the defence and security division, and BHIC will acquire the entire share capital of BHICDT from Boustead Penang Shipyard Sdn Bhd (BPS). *(Source: The Edge)*

**TIME dotcom (CP: RM5.66): 2Q net profit jumps 7 times to RM315.43m on fair value gain**

TIME dotCom Bhd's net profit for the second quarter ended June 30, 2015 (2QFY15) jumped seven times to RM315.43 million or 54.97 sen per share, largely on a fair value gain of RM274 million from the disposal of a portion of its quoted equity investments. The telecommunications provider's net profit in the previous corresponding quarter came in at RM44 million or 7.68 sen per share. Revenue for the quarter climbed 5.16% to RM163.77 million, from RM155.74 million last year, underpinned by higher revenue contributions across all product segments — except for global bandwidth sales and non-recurring contracts. No dividend was declared for the current quarter under review. For the cumulative six months (1HFY15), TIME posted a 406.69% increase in net profit to RM372.01 million or 64.83 sen per share, compared with RM73.42 million or 12.81 sen per share a year earlier, also due to the fair value gain. (Source: *The Edge*)

**Minetech (CP: RM0.065): Aims to deliver double-digit revenue growth in FY16**

Mining and civil engineering company Minetech Resources Bhd hopes to deliver double-digit growth in revenue for its financial year ending March 31, 2016, driven mainly by upcoming government and public sector infrastructure projects. Minetech offers quarry services, drilling, blasting, loading, hauling, rock crushing and loading of finished aggregates to the quarrying and civil engineering industries. If the government continues to spend on infrastructure (projects), I think it can be realised," its group COO Eng Kim Leng told reporters after its AGM here last Friday. We will definitely participate in all the infrastructure projects that the government has, including those recently announced in the 11th Malaysia Plan," he added. The projects that it hopes to participate in include the Mass Rapid Transit Line 2 (MRT 2), West Coast Expressway, Pan Borneo Highway, Klang Valley Light Rapid Transit 3, as well as Pengerang in Johor Baru. (Source: *The Sun*)

**Media Sector (Neutral): Slight drop in July adex**

Advertising expenditure (adex) in July fell slightly to RM1.09bil from RM1.20bil in the same month a year ago as spending by advertisers dropped due to uncertainties on the local and foreign fronts. Omnicom Media Group chief executive officer Andreas Vogiatzakis said the marginally weaker adex mirrored the sentiment over the local and global economic uncertainties. He was not surprised, given the situation, that advertisers chose to hold back or be cautious with their spending. Vogiatzakis pointed out that advertisers will need to better understand the consumer. The consumers will be more discerning and selective when purchasing a product or service. They will be more cautious on how and who they will be spending with. (Source: *The Star*)

**1MDB: To complete power asset sale after signing 4Q definitive agreement**

1Malaysia Development Bhd (1MDB) is confident of signing a definitive agreement with the potential buyer of its electricity-generation assets by the fourth quarter of this year. In a statement on Friday, state-owned 1MDB said it expected to complete the deal, soon after relevant conditions had been fulfilled, following signing of the agreement. 1MDB's power assets are parked under wholly-owned subsidiary, Edra Global Energy Bhd. "1MDB has since shortlisted a



select group of potential parties, comprising both local and international strategic investors, to progress their detailed due diligence inquiries into Edra, which houses our power assets. The due diligence exercise will entail, among others, discussions with management, access to data room and site visits, designed to facilitate the potential investors' review of Edra. (Source: The Edge)

## ECONOMIC UPDATES

### China: August factory activity shrinks as orders tumble

Activity in China's factory sector shrank at its fastest pace in almost 6-1/2 years in August as domestic and export demand dwindled, a private survey showed, adding to worries that the world's second-largest economy may be slowing sharply. China's surprise devaluation of the yuan last week and a near-collapse in its stock markets in early summer have sparked fears that it could be at risk of a hard landing which would hammer global growth, sending financial markets into a tailspin. China's major stock indexes opened down on Friday amid global market weakness and concerns over China's economy. (Source: The Star)

### Japan: Eyes record debt servicing costs for FY2016

Japan's finance ministry will seek a record 26.05 trillion yen (\$213.5 billion) for interest payment and debt servicing of Japanese government bonds, in budgetary appropriations for the next fiscal year from April 2016, government sources said. The increase of 11.1 percent from the current fiscal year's budget reflects ballooning national debt. The debt service costs consist of 15.21 trillion yen for debt repayment, up 14.3 percent from the previous year, and 10.8 trillion yen for interest payment and discount charge, an annual increase of 6.9 percent, the sources said on Friday. (Source: The Star)

### U.S.: Semicon equipment makers sees orders picking up

North America-based manufacturers of semiconductor equipment posted US\$1.59bil in global orders in July 2015, which was based on a three-month average basis. It said on Friday the manufacturers reported a book-to-bill ratio of 1.02, which means that US\$102 worth of orders were received for every US\$100 of product billed for the month. The Semiconductor Equipment Manufacturers Industry (SEMI) reported that the three-month average of worldwide bookings of US\$1.59bil in July 2015 was 5.1% higher than the final June 2015 level of US\$1.52bil. SEMI said the bookings were also 12.5% higher than the July 2014 order level of US\$1.42bil. (Source: The Star)

### Spain: Economy to keep growing at around 1 percent in the third quarter

Spain's economy will grow in the July to September period at a similar pace to previous quarters, boosted by a busy tourism season and consumer spending, the economy minister said in comments published on Sunday. Spain has recovered from a deep recession and the economy is growing at one of the fastest rates in the euro zone, expanding by 0.9 percent quarter-on-quarter in the first three months of 2015, and by 1 percent in the second quarter. Minister Luis de Guindos was quoted as saying that growth would be "very similar" in the third quarter. (Source: Reuters)

# 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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