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Wednesday, September 02, 2015

## Report of the Day

**Sector Update:** Banking July Statistic: – “Business Loans Grow Stronger”

**Company Update:** FGVH – “Divestment of Non-Core Canadian Asset”

## At a Glance

FBMKLCI fell 3.53 points to finish at 1,609.21 on China factory number slump.....(See full report next page)

## Strategy

## “Wall Street on Another Slump Another Headache”

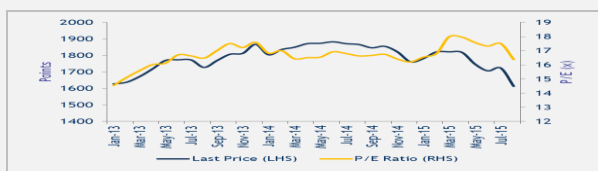
The blood bath of bad news will hurt sentiment today.....(See full report next page)

## Corporate Highlights

- **FGV, HOLD (TP: RM1.30):** Mulls revising US\$680m purchase of PT Eagle High Plantations
- **LBS Bina (CP: RM1.28):** Gets RM108m from sale of China property
- **NPC Resources (CP: RM2.80):** Unit's to sell land for RM74mil

## Economic Update

- **Malaysia:** August factory activity slumps as China weakens -Nikkei
- **Australia:** Central bank keeps rates steady, GDP data awaited
- **China:** Manufacturing index slumps in August



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
MY	1-Sep	10:15 AM	Nikkei Malaysia PMI	-	47.7
EU	1-Sep	4:00 PM	Markit Eurozone Manufacturing PMI	-	52.4
EU	1-Sep	5:00 PM	Unemployment Rate	-	11.1%
ON	1-Sep	9:00 AM	Manufacturing PMI	49.7	50.0
ON	1-Sep	9:00 AM	Non-Manufacturing PMI	-	53.9
ON	1-Sep	9:45 AM	Caixin China PMI Mfg	47.3	47.1
ON	1-Sep	9:45 AM	Caixin China PMI Composite	-	50.2
ON	1-Sep	9:45 AM	Caixin China PMI services	-	53.8
JP	1-Sep	9:35 AM	Nikkei Japan PMI Mfg	-	51.9
US	1-Sep	9:45 PM	Markit US Manufacturing PMI	-	52.9
US	1-Sep	10:00 PM	ISM Manufacturing	52.8	52.7
EU	2-Sep	5:00 PM	PPI MoM	-	-0.1%
EU	2-Sep	5:00 PM	PPI YoY	-	-2.2%
JP	2-Sep	7:50 AM	Monetary Based YoY	-	32.8%
US	2-Sep	7:00 PM	MBA Mortgage Applications	-	0.2%
US	2-Sep	8:15 PM	ADP Employment Change	198K	185K
US	2-Sep	8:30 PM	Nonfarm Productivity	2.5%	1.3%
US	2-Sep	10:00 PM	Factory Orders	0.0%	1.8%
EU	3-Sep	4:00 PM	Markit Eurozone Services PMI	-	54.3
EU	3-Sep	4:00 PM	Markit Eurozone Composite PMI	-	54.1
EU	3-Sep	5:00 PM	Retail Sales MoM	-	-0.6%
EU	3-Sep	5:00 PM	Retail Sales YoY	-	1.2%
EU	3-Sep	7:45 PM	ECB Main Refinancing Rate	-	0.050%
EU	3-Sep	7:45 PM	ECB Deposit Facility Rate	-	-0.200%
EU	3-Sep	7:45 PM	ECB Marginal Lending Facility	-	0.300%
US	3-Sep	8:30 PM	Initial Jobless Claims	-	-
US	3-Sep	8:30 PM	Trade Balance	(\$44.50B)	(\$43.84B)
US	3-Sep	9:45 PM	Markit US Composite PMI	-	55.0
US	3-Sep	9:45 PM	Markit US Services PMI	-	55.2
US	3-Sep	10:00 PM	ISM Non-Manuf. Payrolls	59.0	60.3
MY	4-Sep	12:00 PM	Exports YoY	-	50.0%
MY	4-Sep	12:00 PM	Imports YoY	-	-1.5%
MY	4-Sep	12:00 PM	Trade Balance MYR	-	7.90B
MY	4-Sep	-	Foreign Reserves	-	594.5B
EU	4-Sep	4:10 PM	Markit Eurozone Retail PMI	-	54.2
US	4-Sep	8:30 PM	Change In Nonfarm Payrolls	205K	215K
US	4-Sep	8:30 PM	Unemployment Rate	5.3%	5.3%

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,609.21	-3.53	-0.22
FBMEMAS	10,958.60	-17.44	-0.16
FBMEMAS SHA	11,424.23	-19.11	-0.17
FBM100	10,718.56	-15.61	-0.15
Volume (mn)	2,055.19	-65.10	-3.07
Value (RMmn)	2,598.62	276.77	11.92
FBMKLCI YTD Chg			-8.63

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	13.8	-23.9
Local Institution	48.8	-24.9
Foreign Investors	37.4	48.8

## Top Gainers

	Close	Change+/-	(+/- %)
BATU KAWAN	17.68	0.42	2.43
GENTING BHD	7.14	0.29	4.23
AMWAY	10.10	0.20	2.02

## Top Losers

	Close	Change+/-	(+/- %)
BAT	61.00	-1.18	-1.90
SCGM BHD	2.41	0.02	0.96
KLK	20.40	-0.42	-2.02

## World Indices

	Close	Change+/-	(+/- %)
DJIA	16,058.35	-469.68	-2.84
NASDAQ	4,636.11	-140.40	-2.94
S&P 500	1,913.85	-58.33	-2.96
FTSE 100	6,058.54	-189.40	-3.03
DAX	10,015.57	-243.89	-2.38
Nikkei 225	18,165.69	-724.79	-3.84
HSI	21,185.43	-485.15	-2.24
KOSPI	1,914.23	-27.26	-1.40
STI	2,881.43	-40.01	-1.37
KLCI Futures	1,508.00	(21.50)	(0.01)
USDMYR 3M	14.54	0.24	0.02
USDMYR 6M	14.10	0.14	0.01
USDMYR 12M	14.00	0.20	0.01

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	44	-1.4	-3.0%
Brent (USD/bbl)	49.6	-4.6	-8.5%
Gold(USD/ounce)	1,139	-1.6	-0.1%
Coal (USD/mt)	59.7	1.3	2.1%
CPO (RM/mt)	2,013	22.0	1.1%
Rubber	132	-2.7	-2.0%
RM/USD	4.16	-0.028	0.67%
EUR/USD	0.89	0.0014	0.16%
YEN/USD	119.68	0.31	-0.26%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average dropped 469.68 points to 16,058.35, S&P 500 declined 58.33 points to 1,913.85. Nasdaq fell by 140.40 points to 4,636.11. Stocks plummeted Tuesday as continued signs of weakness in China and concerns about the Federal Reserve weighed heavily on investor sentiment.
- Today is just a continuation of last night's sentiment, plain and simple. Concerns continue to erupt about China's economy and the growth decline in energy and WTI today. Traders also continued to digest policymaker comments and U.S. data that could impact the timing of a rate hike.

### The Local Market

- FBMKLCI fell 3.53 points to finish at 1,609.21 on China factory number slump. There were 369 gainers and 400 decliners in total value traded of RM2.59 billion.
- Among the losers on Bursa Malaysia were BAT declined RM1.18 to RM61.00, Kuala Lumpur Kepong dropped 42 cent to RM20.40, Lafarge fell 30 cent to RM9.00 and SCGM weakened 2 cent to RM2.41.

### Strategy

- **“Wall Street on Another Slump Another Headache”**  
Wall Street started off the month of September backsliding, hit by the tanking in oil prices and also bad vibe from China's increasing downside risks to growth. **S&P 500** and **DJIA** erased **58.33 (-2.96%)** and **469.68 (-2.84%)** points to end at **1,913.85** and **16,058.35** respectively. The jitters started when China reported its latest manufacturing PMI that dropped below the growth level of 50 after touching a level of 49.7, sending chill across the global equity market. The fear that China's economy will contract is almost real now. In another note, Brent, one of the benchmarks for oil prices, dived almost 9% to close as USD49 per barrel, signifying that the fear over the US impending interest rate adjustment and China's slower growth had begun to take a prolonged big hit in sentiment. WTI closed 3% lower to finish at USD44 per barrel. In the meantime, US ISM Manufacturing Index declined to 51.1 in August from 52.7 in July, pointing the unevenness of US growth quality. In sum, the blood bath of bad news will hurt sentiment today, more so when the US is due to release its latest unemployment data this Friday.
- 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

**FGV, HOLD (TP: RM1.30): Mulls revising US\$680m purchase of PT Eagle High Plantations**

Felda Global Ventures Holdings Bhd is believed to be mulling the possibility to revise the terms for its US\$680mil agreement to buy a stake in Indonesia's PT Eagle High Plantations, according to Bloomberg. The wire report said on Tuesday the reason for the revision in the price tag could be due to issues discovered during the due diligence of the company. In June 2015, the two companies inked a preliminary agreement and said they plan to announce a final pact by mid-August, a deadline that has since been extended to Oct. 31. On Aug 14, Felda said it had "substantially completed" due diligence and was in the process of negotiating the terms of the definitive documentation. (Source: The Star)

**LBS Bina (CP: RM1.28): Gets RM108m from sale of China property**

LBS Bina Bhd has received the second tranche of HK\$200mil (RM108mil) from the sale of its assets in China to Zhuhai Holdings Investment Group Ltd. It said on Tuesday the payment was early by four months from the due date and it would enable the group to reduce its cost of borrowings and enhance the cash flow and earnings for the financial year ending Dec 31, 2015. Of the RM108mil, LBS said RM37.80mil would be used to reduce its bank borrowing while RM16.20mil would be used for payment of trade payables and RM10.80 would be for operating expenses. It also said the remaining RM43.20mil would be given out as special dividend. (Source: The Star)

**NPC Resources (CP: RM2.80): Unit's to sell land for RM74mil**

NPC Resources Bhd (NPC) unit Transglobe Enterprise Sdn Bhd has signed an sale agreement with Ladang Sri Harapan (Sabah) Sdn Bhd to dispose of agricultural land in Sabah to the latter for RM74.05 million. The proposed disposal of 18 parcels (0.81ha) of land is expected to be completed in the fourth quarter of this year, NPC said in a filing to Bursa Malaysia. "The properties are currently being utilised for cultivation of oil palm, contributing less than 6% to NPC's net profit and less than 2% to NPC's total revenue in the financial year ended Dec 31, 2014. NPC, an investment holding company, said the proposed disposal would enable the group to raise funds for the development of its remaining plantations and reduce its gearing. (Source: The Star)

**Ho Hup (CP: RM0.805): Plans to buy Kulai land.**

Ho Hup Construction Co Bhd has proposed to acquire a 429-acre leasehold land in Kulai, Johor, for RM107.3mil via its unit, Intact Corporate Approach Sdn Bhd (ICA). In a filing with Bursa Malaysia, Ho Hup said the proposed acquisition was pursuant to a sale and purchase agreement dated July 27, 2015 between ICA and YPJ Plantations Sdn Bhd, whereby ICA would buy the land free from encumbrances and with vacant possession. Ho Hup is paying part cash of RM22.3mil over five years and RM85mil by way of the construction and delivery in phases of a technical and vocational education and training facility over five years at ICA's own cost. (Source: The Star)

**CCM (CP: RM0.91): To close down fertilizer plant in Shah Alam**

Chemical Company of Malaysia Bhd (CCM) is shutting down its fertiliser plant in Shah Alam and retrenching 232 staff due to prolonged negative market conditions. It said that demand for ammonium nitrate (AN) based fertilisers, which the plant manufacturers have reduced over the last five years, are factors that no longer provide conditions conducive for fertiliser manufacturing run by its 50.1%-owned unit CCM Fertilizers Sdn Bhd. The remaining 49.9% equity stake in CCM Fertilizers is directly held by Lembaga Tabung Haji. CCM said the 232 workers that will be made redundant by the closure of the plant will be accorded market driven severance packages. *(Source: The Sun)*

**ML Global (CP: RM0.365): Applies for PN17 exit**

ML Global Bhd said it will make an application to Bursa to lift itself from Practice Note 17 (PN17) status immediately after the company records two consecutive quarters of net profit. This follows the completion of the implementation of the regularisation plan, which it had completed on Oct 31 last year. "Further announcement on the development of the matter (PN17 upliftment) will be made to Bursa Securities in due course," it said in a filing with Bursa Malaysia today. The company has reported its third consecutive quarter of net profit since the three months ended Dec 31, 2014 (4QFY14). It posted a net profit of RM642,000 in 2QFY15, reversing a net loss of RM2.09 million a year ago. *(Source: The Edge)*

**Petronas: Approves plan for Ophir oil field**

Petroleum Nasional Bhd (Petronas) has approved the revised field development plan (FDP) for the Ophir oil field located offshore Peninsular Malaysia after a cut in the cost of production by 30%. The field is being developed under a risk service contract (RSC) that had been awarded in 2014 to Ophir Production Sdn Bhd. It is a consortium led by Australia's Octanex NL, Scomi Energy Services Bhd and Vestigo Petroleum Sdn Bhd, which is a wholly owned subsidiary of Petronas. Octanex, an Australian oil and gas company, has a 50% stake in the joint venture, while Scomi holds 30% and Vestigo, the remaining 20%. *(Source: The Star)*

**ECONOMIC UPDATES****Malaysia: August factory activity slumps as China weakens -Nikkei**

The Nikkei Malaysia Manufacturing Purchasing Managers Index (PMI) dropped to 47.2 in August, from 47.7 a month earlier, indicating the strongest deterioration in operating conditions in nearly three years. In a statement today, Nikkei Inc said Malaysian manufacturers had contended with less orders and costlier production inputs in August. "New orders contracted at the fastest rate since September 2012, leading to further sharp falls in both production and purchasing activity. Subsequently, employment decreased for the third straight month, albeit at a weaker rate. "Cost pressures persisted, as input prices rose at the quickest rate since November 2013, consequently leading to higher charges," said Nikkei. *(Source: The Edge)*

**Australia: Central bank keeps rates steady, GDP data awaited**

Australia's central bank kept interest rates at a record low on Tuesday in a widely expected decision ahead of GDP data that is likely to show economic growth shifted a gear lower in the second quarter. The Reserve Bank of Australia (RBA) left the cash rate at 2.0 percent, where it has been since May. It cemented its wait-and-see stance by repeating that it would assess upcoming economic data to judge the impact of past easings. "In Australia, most of the available information suggests that moderate expansion in the economy continues," the central bank said in a short post-meeting statement. (Source: *The Star*)

**China: Manufacturing index slumps in August**

Chinese manufacturing activity fell into contraction in August, with an official index on Tuesday slumping to a three-year low in the latest sign of a slowdown in the world's second-largest economy. The official Purchasing Managers' Index (PMI) came in at 49.7 last month, the National Bureau of Statistics (NBS) said in a statement. The result, which tracks activity in China's vast factory and workshop sector and considered a key barometer of the nation's economic health, was worse than July's 50.0 reading and the first contraction since February. (Source: *The Star*)

**Germany: Jobless rate at record low**

German unemployment fell more than expected in August, with the jobless rate holding steady at a record low, offering reassurance that consumer spending will continue to drive growth in Europe's largest economy this year.

The Federal Labour Office reported yesterday that the seasonally-adjusted unemployment total dipped by 7,000 to 2.79 million. Economists polled by *Reuters* had been forecasting a fall of only 2,000. The jobless rate remained at 6.4% for the fifth straight month. That is the lowest since German reunification in 1990. German unemployment had unexpectedly risen in July, posting its biggest increase since May last year. But the latest data suggested this was just a blip. (Source: *The Star*)

**Thailand: Approves US\$3.8b stimulus to help stumbling economy**

Thailand's military government has approved economic measures worth a combined 136 billion baht (US\$3.81 billion) aimed at boosting spending power in rural areas, as the junta struggles to lift economic growth. The measures include soft loans via village funds worth 60 billion baht and a budget of 36 billion baht for sub-districts, Deputy Finance Minister Wisut Srisuphan told reporters after a cabinet meeting. The government will also speed up spending on small projects with 40 billion baht, he added. Southeast Asia's second-largest economy has yet to regain traction after the army seized power in May 2014 to end months of political unrest, with exports and domestic demand stubbornly sluggish. (Source: *The Edge*)

**U.K.: August UK factory growth slips**

A two-year spell of jobs growth across British factories came to an end last month as manufacturing activity expanded at a slower pace, a survey showed, suggesting the sector is unlikely to boost economic growth much this quarter. The Markit/CIPS UK Manufacturing Purchasing Managers' Index (PMI) fell in August to 51.5 from 51.9 in July, confounding expectations for a rise to 52. While still holding above the 50 threshold for growth, the survey underlined Britain's reliance on its services sector and big-spending consumers to drive the economy. There were mixed signals for the manufacturing outlook. New orders came in at the fastest pace in five months but export orders continued to contract, while backlogs of work shrank at the fastest pace since March 2013. (Source: *The Star*)

**U.S.: Construction spending rises to seven-year high**

US construction spending rose in July to the highest level in just over seven years as private outlays surged, providing another sign of solid economic momentum at the start of the third quarter. Construction spending increased 0.7% to \$1.08 trillion, the highest level since May 2008, the Commerce Department said on Tuesday. June's outlays were revised up to show a 0.7% increase instead of the previously reported 0.1% gain. Construction spending has increased for eight straight months. Economists polled by *Reuters* had forecast construction outlays rising 0.6% in July. Construction spending was up 13.7% compared to July of last year. (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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