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Thursday, September 03, 2015

At a Glance

FBMKLCI dropped 19.02 points to finish at 1,590.19 in line with weak regional market.....(See full report next page)

Strategy

“Wall Street Calmer on Technical Rebound”

At this stage, all these including the volatile Ringgit, and oil prices including Fitch credit warning will continue to weigh on sentiment.....(See full report next page)

Corporate Highlights

- **FGVH, HOLD (TP: RM1.30):** Said to mull price cut for US\$680m Indonesian deal
- **UMWOG, HOLD (TP: RM0.90):** Takes delivery of latest jack-up rig, UMW Naga 8
- **Maybank, BUY (TP: RM10.20):** Sets up RM10b medium term note programme

Economic Update

- **Malaysia:** PMI drops to 34 month low
- **U.S.:** Auto sales stronger than expected in August on trucks, SUVs
- **China:** Forex reserves unwind could reverse bond supercycle



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%
CN	1-Sep	9:00 AM	Manufacturing PMI	49.7	50.0
CN	1-Sep	9:00 AM	Non-Manufacturing PMI	-	53.9
CN	1-Sep	9:45 AM	Caixin China PMI Mfg	47.3	47.1
CN	1-Sep	9:45 AM	Caixin China PMI Composite	-	50.2
CN	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	-	7.98B
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%

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,590.19	-19.02	-1.18
FBMEMAS	10,864.32	-94.28	-0.86
FBMEMAS SHA	11,381.66	-42.57	-0.37
FBM100	10,618.22	-100.34	-0.94
Volume (mn)	1,887.94	-167.25	-8.14
Value (RMmn)	2,128.53	-470.09	-18.09
FBMKLCI YTD Chg			-9.71

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	15.9	60.1
Local Institution	54.4	208.3
Foreign Investors	29.7	-268.4

Top Gainers

	Close	Change+/-	(+/- %)
KLK	21.02	0.62	3.04
VS INDUSTRY BHD	5.98	0.36	6.41
FAR EAST HLDGS	7.50	0.30	4.17

Top Losers

	Close	Change+/-	(+/- %)
BAT	60.48	-0.52	-0.85
UMW HLDG BHD	7.94	-0.43	-5.14
MAYBANK	8.42	-0.35	-3.99

World Indices

	Close	Change+/-	(+/- %)
DJIA	16,351.38	293.03	1.82
NASDAQ	4,749.98	113.87	2.46
S&P 500	1,948.86	35.01	1.83
FTSE 100	6,083.31	24.77	0.41
DAX	10,048.05	32.48	0.32
Nikkei 225	18,095.40	-70.29	-0.39
HSI	20,934.94	-250.49	-1.18
KOSPI	1,915.22	0.99	0.05
STI	2,878.13	-4.64	-0.16
KLCI Futures	1,505.00	(4.50)	(0.00)
USDMYR 3M	14.93	0.13	0.01
USDMYR 6M	14.50	0.02	0.00
USDMYR 12M	14.37	(0.03)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	46	0.0	0.1%
Brent (USD/bbl)	50.5	0.9	1.9%
Gold(USD/ounce)	1,134	-0.5	0.0%
Coal (USD/mt)	59.7	0.0	0.0%
CPO (RM/mt)	1,989	-24.0	-1.2%
Rubber	130	-2.3	-1.7%
RM/USD	4.21	0.0462	-1.10%
EUR/USD	0.89	0.0011	0.12%
YEN/USD	120.58	0.25	-0.21%

Market Access

What To Expect

U.S. Market

- The Dow Jones Industrials Average gained 293.03 points to 16,351.38, S&P 500 up 35.01 points to 1,948.86. Nasdaq grew by 113.87 points to 4,749.98. Wall Street stocks jumped almost 2 percent on Wednesday in the latest volatile session as investors weighed the impact of a stumbling Chinese economy and global market turmoil on the Federal Reserve's impending decision about when to raise interest rates.
- U.S. investors have weathered over two weeks of unusually wide-swinging trade that has left the S&P 500 with its worst monthly drop in three years and a loss of 8.5 percent from an all-time high in May.

The Local Market

- FBMKLCI dropped 19.02 points to finish at 1,590.19 in line with weak regional market. There were 379 gainers and 347 decliners in total value traded of RM2.12 billion.
- Among the losers on Bursa Malaysia were BAT fell 52 cent to RM60.48, UMW Holding slid 43 cent to RM7.94, Maybank declined 35 cent to RM8.42, and Amway (M) weekend 20 cent to RM9.80.

Strategy

- **“Wall Street Calmer on Technical Rebound”**
Wall Street made a comeback on Wednesday, driven by technical rebound, partly recovered the major losses yesterday. **S&P 500** and **DJIA** gained 35.01 (1.83%) and 293.03 (1.81%) points to end at **1,948.86** and **16,351.38** respectively. Economic data from the US as in employment for the nonfarm private, productivity data for the second quarter, factory orders for July, all came in favourably ok. Nonfarm employment addition jumped 190k from consensus expectation of 201k, suggesting the US unemployment rate may stay the same at 5.3% and hence, no cause for alarm. Productivity data for second quarter rose steadily by 3.3% better than 1.3% reported in the preliminary report whilst US factory orders for July gained by 0.4% against the expectation of 0.9%. All in, we see no reason to panic on the US latest economic indicators as all is seemingly well. On the flip side, however, we see rising jitteriness in the local market sentiment given Fitch's credit rating warning on the country yesterday. Citing deteriorating currency (Ringgit) as the main reason, Malaysia's credit outlook may get knocked down to negative from stable if the former continues to decelerate. At this stage, all these including the volatile Ringgit, and oil prices including Fitch credit warning will continue to weigh on sentiment.
- 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

FGVH, HOLD (TP: RM1.30): Said to mull price cut for US\$680m Indonesian deal
 Felda Global Ventures Holdings Bhd, the world's biggest crude palm oil producer, is considering seeking revised terms for its \$680 million deal to buy a stake in PT Eagle High Plantations, people with knowledge of the matter said. Felda may ask for a lower price to take into account issues discovered during due diligence on the Indonesian company, two of the people said, asking not to be identified as the information is private. The two companies reached a preliminary agreement in June and said they plan to announce a final pact by mid-August, a deadline that has since been extended to Oct 31. Felda said Aug 14 it had "substantially completed" due diligence and was in the process of negotiating the terms of the definitive documentation. *(Source: The Edge)*

UMWOG, HOLD (TP: RM0.90): Takes delivery of latest jack-up rig, UMW Naga 8

UMW Oil & Gas Corp Bhd (UMWOG) officially took delivery of its latest jack-up rig, UMW Naga 8, from Keppel FELS Ltd, a subsidiary of Keppel Offshore & Marine Ltd. UMWOG said UMW NAGA 8 is designed to address higher requirement market, and it is the third KFELS B Class jack-up rig in UMWOG's fleet; the first two being UMW Naga 4 and UMW Naga 5, which were delivered in 2013 and 2014 respectively. Similar to both its predecessors, UMW Naga 8 is a premium jack-up drilling rig capable of operating in water depths of up to 400 ft (approximately 125 metres) and drilling to a total depth of 30,000 ft (approximately 9,144 metres) sub-sea. *(Source: The Edge)*

Maybank, BUY (TP: RM10.20): Sets up RM10b medium term note programme

Malayan Banking Bhd (Maybank) has set up a RM10 billion senior medium term note (MTN) programme allowing it to issue MTNs from time to time to fund its working capital, general banking and other corporate purposes, including refinancing any existing borrowings and/or debt instruments. Maybank said it had on Aug 26 lodged with the Securities Commission Malaysia all required information and relevant documents relating to the MTN Programme pursuant to the Guidelines on Unlisted Capital Market Products. The MTN Programme has been assigned a final long-term debt rating of AAA by Malaysian Rating Corp Bhd, it added. Maybank Investment Bank Bhd is the principal adviser, lead arranger and lead manager for the programme.

Sunway (CP: RM3.38): Declares special dividend of 26 sen a share

Sunway Bhd has rewarded its shareholders with a special dividend of 26 sen a share. It said on Wednesday the dividend will go ex on Sept 30 and be paid on Oct 16. The dividend arose from the proceeds raised from the offer for sale of 398.70 million Sunway Construction Bhd shares, which was a unit of Sunway Bhd – under its listing exercise on July 28. The dividend was after setting aside the listing expenses and working capital. Any new Sunway shares to be allotted pursuant to the exercise of the outstanding warrants and ESOS options and shareholders of Sunway on the entitlement date would be entitled to the dividend. *(Source: The Star)*

Scomi Engineering (CP: RM0.23): Signs LRT, MRT partnership deal with Skoda

Scomi Engineering Bhd has entered into global light rapid transit (LRT) and mass rapid transit (MRT) partnership with Czech transport engineering company, Skoda Transportation. "We are confident the collaboration will enable Scomi to participate in a wider range of transport projects including the LRT and MRT," said Scomi Engineering Chief Executive Officer, Kanesan Velupillai. He said this at a media briefing after announcing the partnership here today. The technical collaboration with Skoda was inked in conjunction with Scomi Engineering's participation in Rail Business Asia 2015 here. (Source: Bernama)

RCE Capital (CP: RM0.38): To tap into CRIS database

Financial services provider RCE Capital Bhd is keen to tap into Credit Reference Information System (CRIS), a comprehensive borrower database maintained by Bank Negara Malaysia. The CRIS, which can be accessed by financial institutions upon request, will enable RCE Capital to narrow down potential customers as it contains information on about nine million borrowers in the country. RCE Capital chief executive officer Loh Kam Chuin said the company was working with the central bank to make the venture possible and believed it could secure access to the database by year-end. (Source: The Star)

Sarawak Cable (CP: RM1.29): Bags RM19.12m contract in Samalaju

Sarawak Cable Bhd has clinched a RM19.12 million contract to supply 275kV power transmission lines for Samalaju Industrial Park Phase 1 and 2 in Sarawak. The power cable and wire manufacturer said its wholly-owned subsidiary Sarwaja Timur Sdn Bhd has received a letter of acceptance from Sarawak Energy Bhd for the design, supply, delivery, erection and commissioning of the transmission line project. The project is expected to contribute positively to the earnings and net assets of Sarawak Cable Group for the financial years ending Dec 31, 2015 to 2017. Sarawak Energy holds a 16.53% stake in Sarawak Cable as at April 27, 2015. (Source: The Edge)

RGB International (CP: RM0.12): Targets 1,500 machines sale for 2015

Electronic gaming and amusement machine manufacturer RGB International Bhd is confident of achieving a sales target of 1,500 machines for 2015. This is despite a moderate sales performance of only 387 machines sold for the first half of the year. RGB COO Steven Lim explained that there are about 300 machines that are on trial at the moment, which is expected to be converted into actual sales in the second half. Last year, the company sold a total of 1,452 machines, translating into RM143.16 million in revenue under the sales and marketing division. (Source: TheSunDaily)

ECONOMIC UPDATES

Malaysia: PMI drops to 34 month low

The manufacturing sector continued to suffer declines in new orders in August, according to the latest Malaysian Purchasing Managers' Index. At 47.2, the headline number indicated the sharpest contraction in 32 months in both production and purchasing activity. "Poor demand, unfavourable exchange rates and challenging economic conditions were cited as the main factors behind the latest fall," said Nikkei Malaysia Manufacturing PMI. The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of sector operating conditions. (Source: *NewStraitsTimes*)

U.S.: Auto sales stronger than expected in August on trucks, SUVs

The U.S. auto industry powered ahead in August, topping sales estimates and shrugging off gyrating stock markets as consumers continued to show their penchant for pickup trucks and SUVs. U.S. auto sales were the strongest in any month since July 2005. The annualized selling rate in August was 17.8 million vehicles, according to Autodata Corp, well above expectations of 17.3 million. The six largest automakers in the U.S. market all beat the sales forecasts of industry analysts, with Toyota, Honda, Nissan and GM reporting declines that were not as severe as expected. Roller-coaster stock markets appeared to have no major impact on auto purchases, which each month are an early indicator of consumer spending. (Source: *Reuters*)

China: Forex reserves unwind could reverse bond supercycle

China's summer shock may mark the end of an era of globalization that helped define world markets for more than a decade. Investor anxiety about the consequences is well-founded. Beijing's integration into the global economy since 2002 reshaped the financial as well as economic landscape - mainly by the way China itself and the economies it supercharged with outsize demand for raw materials banked the hard cash windfalls they earned over the following 12 years. According to the International Monetary Fund, the dollar value of foreign currency reserves held by all developing nations ballooned by almost \$7 trillion in just one decade to a peak of some \$8.05 trillion by the middle of last year. (Source: *Reuters*)

China: Signs off on US\$5bln loan to boost Venezuela oil output

Venezuela and China have signed a deal for a US\$5 billion loan designed to increase the OPEC country's oil production, Venezuelan President Nicolas Maduro said. Maduro, speaking from China in a program broadcast on Venezuelan state television late on Tuesday, said the loan was destined "to increase oil production in a gradual way in coming months," without providing further details. A source at Venezuelan state-run oil company PDVSA told Reuters in March that China was set to extend a "special" US\$5 billion loan that would likely stipulate hiring Chinese companies to boost output in the company's mature oil fields. Venezuela has borrowed US\$50 billion from China through an oil-for-loans agreement created by late socialist leader Hugo Chavez

in 2007, which has helped Chinese companies expand into Venezuelan markets amid chronic shortages of consumer goods there. (Source: *The Edge*)

Singapore: Economists lower growth and inflation projections for 2015: MAS survey

Private-sector economists are less sanguine about the growth outlook for Singapore's economy this year, and have moderated their expectations for several sectors, a quarterly survey released by the Monetary Authority of Singapore on Wednesday shows. The economists polled in the survey say they expect the economy to grow 2.2% this year, down from their median forecast of 2.7% in the previous survey in June. The economy grew 1.85 in 2Q 2015. The manufacturing sector is expected to see a contraction of 2.7% this year, down from the 0.5% forecast in the previous survey. The finance and insurance industry is expected to grow 6.6%, down from 7%, while the construction sector is expected to grow 2.3%, down from 3.3%. The accommodation and food services sector is expected to contract 0.1%, compared with a growth forecast of 1 per cent. (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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