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Wednesday, September 09, 2015

Report of The Day

Sector Update: Oil and Gas (Neutral), Results Round-up – “Apathetic Period of Lower Oil Prices”

At a Glance

FBMKLCI gained 4.27 points to finish at 1,587.12 on the back of better than expected China export forecast.....(See full report next page)

Strategy

“Wall Street Up on Rebound”

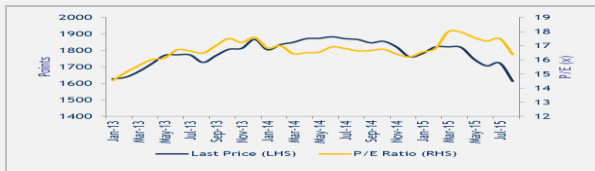
We are not surprised by the acceleration in Wall Street momentum which only suggests that volatility in global equity is here to stay.....(See full report next page)

Corporate Highlights

- **TM, HOLD (TP: RM6.87):** To deliver WAN services for BSN
- **TM, HOLD (TP: RM6.87):** Hopes To Close HSBB 2 Deal In The Next Two Months
- **Tenaga, BUY (TP: RM14.20):** Among four shortlisted for 1MDB power unit sale -sources

Economic Update

- **Malaysia:** GDP growth to weaken to 4.5% in 2016, says Moody's
- **China:** August exports fall 5.5%, better than forecasts
- **U.S.:** Small business confidence rises slightly in August



| KEY ECONOMIC RELEASE | | | | | |
|----------------------|-----------|------------|--------------------------------|-----------|-----------|
| | Date | Local Time | Event | Survey | Prior |
| CN | 7-Sep | - | Foreign Reserves | \$3600.0B | \$3651.3B |
| EU | 8-Sep | 5:00 PM | GDP SA QoQ | 0.3% | 0.3% |
| EU | 8-Sep | 5:00 PM | GDP SA YoY | 1.2% | 1.2% |
| CN | 8-Sep | - | Trade Balance | \$51.10B | \$43.03B |
| CN | 8-Sep | - | Exports YoY | -5.0% | -8.3% |
| CN | 8-Sep | - | Imports YoY | -6.0% | -8.1% |
| JP | 8-Sep | 7:50 AM | BoP Current Account Balance | - | ¥558.6B |
| JP | 8-Sep | 7:50 AM | GDP SA QoQ | -0.4% | -0.4% |
| JP | 8-Sep | 7:50 AM | GDP Annualized SA QoQ | -1.7% | -1.6% |
| JP | 8-Sep | 7:50 AM | GDP Nominal SA QoQ | 0.0% | 0.0% |
| JP | 8-Sep | 7:50 AM | GDP Deflator YoY | 1.6% | 1.6% |
| US | 9-Sep | 7:00 PM | MBA Mortgage Applications | - | 11.3% |
| US | 10-Sep | 8:30 PM | Initial Jobless Claims | - | - |
| US | 10-Sep | 8:30 PM | Continuing Claims | - | - |
| MY | 10-Sep | 12:00 PM | Industrial Production YoY | - | 4.3% |
| CN | 10-Sep | 9:30 AM | CPI YoY | 1.9% | 1.6% |
| CN | 10-Sep | 9:30 AM | PPI YoY | -5.5% | -5.4% |
| US | 11-Sep | 8:30 PM | PPI Final Demand MoM | -0.1% | 0.2% |
| US | 11-Sep | 8:30 PM | PPI Ex Food and Energy MoM | 0.1% | 0.3% |
| US | 11-Sep | 8:30 PM | PPI Final Demand YoY | -0.9% | -0.8% |
| US | 11-Sep | 8:30 PM | PPI Ex Food and Energy YoY | - | 0.6% |
| US | 11-Sep | 8:30 PM | PPI Ex Food, Energy, Trade YoY | - | 0.9% |
| MY | 11-Sep | 6:00 PM | BNM Overnight Policy Rate | - | 3.25% |
| CN | 10-15 Sep | - | New Yuan Loans CNY | 800.0B | 1480.0B |

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Bursa Malaysia

| | Close | Change+/- | (+/- %) |
|-----------------|-----------|-----------|---------|
| FBMKLCI | 1,587.12 | 4.27 | 0.27 |
| FBMEMAS | 10,878.40 | 36.79 | 0.34 |
| FBMEMAS SHA | 11,383.76 | 17.70 | 0.16 |
| FBM100 | 10,610.21 | 29.04 | 0.27 |
| Volume (mn) | 1,994.81 | 310.43 | 18.43 |
| Value (RMmn) | 1,695.50 | 164.67 | 10.76 |
| FBMKLCI YTD Chg | | | -9.89 |

Daily Trading Position (RM'mn)

| | Participation (%) | Net(RMm) |
|-------------------|-------------------|----------|
| Local Retail | 21.9 | 1.0 |
| Local Institution | 54.6 | 120.1 |
| Foreign Investors | 23.5 | -121.1 |

Top Gainers

| | Close | Change+/- | (+/- %) |
|-----------|-------|-----------|---------|
| BAT | 61.26 | 1.24 | 2.07 |
| CHIN TECK | 8.18 | 0.38 | 4.87 |
| MICROLINK | 1.18 | 0.30 | 33.33 |

Top Losers

| | Close | Change+/- | (+/- %) |
|---------------|-------|-----------|---------|
| IJM CORP BHD | 3.00 | -0.08 | -2.44 |
| UNITED PLANT | 26.00 | -0.80 | -2.99 |
| APEX HEALTHCR | 3.88 | -0.31 | -7.40 |

World Indices

| | Close | Change+/- | (+/- %) |
|--------------|-----------|-----------|---------|
| DJIA | 16,492.68 | 390.30 | 2.42 |
| NASDAQ | 4,811.93 | 128.01 | 2.73 |
| S&P 500 | 1,969.41 | 48.19 | 2.51 |
| FTSE 100 | 6,146.10 | 71.58 | 1.18 |
| DAX | 10,271.36 | 162.75 | 1.61 |
| Nikkei 225 | 17,427.08 | -433.39 | -2.43 |
| HSI | 21,259.04 | 675.52 | 3.28 |
| KOSPI | 1,878.68 | -4.54 | -0.24 |
| STI | 2,885.32 | 32.91 | 1.15 |
| KLCI Futures | 1,541.00 | 23.00 | 0.01 |
| USDMYR 3M | 15.85 | 0.03 | 0.00 |
| USDMYR 6M | 15.47 | (0.07) | (0.00) |
| USDMYR 12M | 15.36 | (0.01) | (0.00) |

Other Key Economics Data

| | Close | Change+/- | (+/- %) |
|-----------------|--------|-----------|---------|
| WTI (USD/bbl) | 46 | -0.3 | -0.6% |
| Brent (USD/bbl) | 49.5 | 1.9 | 4.0% |
| Gold(USD/ounce) | 1,123 | 1.4 | 0.1% |
| Coal (USD/mt) | 58.1 | 0.3 | 0.4% |
| CPO (RM/mt) | 2,092 | 44.0 | 2.1% |
| Rubber | 131 | 0.5 | 0.4% |
| RM/USD | 4.34 | 0.0093 | -0.21% |
| EUR/USD | 0.89 | -0.0011 | -0.12% |
| YEN/USD | 119.99 | 0.18 | -0.15% |

What To Expect

U.S. Market

- The Dow Jones Industrials Average rose 390.30 points to 16,492.68, S&P 500 up 48.19 points to 1,969.41. Nasdaq surged by 128.01 points to 4,811.93. Stocks closed more than 2 percent higher, rebounding from their second-worst week for the year as gains in global markets boosted sentiment.
- U.S. markets remain focused on the Federal Reserve ahead of its key policy meeting next week, when policymakers could raise interest rates for the first time in more than nine years.

The Local Market

- FBMKLCI gained 4.27 points to finish at 1,587.12 on the back of better than expected China export forecast. There were 280 gainers and 335 decliners in total value traded of RM1.69 billion.
- Among the gainers on Bursa Malaysia were BAT surged RM1.24 to RM61.26, Chin Teck Plantation soared 38 cent to RM8.18, Microlink Solution added 30 cent to RM1.18 and Maybank grew 20 cent to RM8.58.

Strategy

- **“Wall Street Up on Rebound”**
Wall Street resumed its trading on Tuesday in style driven by technical rebound and speculation that China’s government would shore up its equity market. **DJIA** and **S&P 500** added a good **48.91 (2.51%)** and **390.30 (2.42%)** points to end at **1,969.41** and **16,492.68** respectively. After days of depress market situation, Wall Street resumed its buying momentum, thanks also to the rumour of continued state intervention in China’s equity market that overshadowed China’s poor trade data. Note that China’s month of August export dipped by 5.5% vs. import that declined 13.8%, suggesting that the sizzling China’s economic momentum may be over. At this stage, we are not surprised by the acceleration in Wall Street momentum which only suggests that volatility in global equity is here to stay. The large overhang is still next week’s US policy meeting which may stoke trading fear and may cap the local market upside momentum.
- 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

TM, HOLD (TP: RM6.87): To deliver WAN services for BSN

Telekom Malaysia Bhd and Bank Simpanan Nasional has signed a five year service agreement for the new Converged Network Transformation Project. The agreement will see TM delivering Wide Area Network (WAN) services connecting 413 BSN branches nationwide. TM will also support BSN's telepresence infrastructure with TM Telepresence Exchange Services, delivering high definition quality videos to enable meetings via video conferences between BSN headquarters and its branches. The new services provided by TM will cover both connectivity and managed ICT services for BSN's banking operations. (Source: The Star)

TM, HOLD (TP: RM6.87): Hopes To Close HSBB 2 Deal In The Next Two Months

Telekom Malaysia (TM) hoped to close the High-Speed Broadband Phase 2 (HSBB 2) deal in the next one or two months. Its Group Chief Executive Officer, Tan Sri Zamzamzairani Mohd Isa, said the deal was already in the finalisation stage, having completed the negotiations with the Ministry of Communications and Multimedia. "Now we are waiting for the government to come back to us. I'm hoping that it would happen in one or two months, and we will be able to close it (the deal)," he told reporters after the signing ceremony agreement between TM and Bank Simpanan Nasional (BSN) here today. TM and BSN signed a five-year service agreement to undertake the converged network transformation project to improve connectivity for the bank's operations. (Source: Bernama)

Tenaga, BUY (TP: RM14.20): Among four shortlisted for 1MDB power unit sale -sources

Malaysia's national utility Tenaga Nasional Bhd is one of four suitors shortlisted for the final round of bidding in state fund 1MBD's sale of its power unit Edra Global Energy Bhd, banking sources said. The troubled fund said on Monday it has compiled a shortlist for Edra - valued by bankers at around 10 billion ringgit (US\$2.3 billion) — but it did not identify the four parties. 1MDB declined to comment and representatives for Tenaga were not immediately available for comment. Sources declined to be identified as they were not authorised to speak to media on the topic. (Source: The Edge)

SapuraKencana, BUY (TP: RM2.95): Issues first portion of RM7b sukuk

SapuraKencana Petroleum Bhd has issued a US\$200 million (RM868.5 million) tranche under its RM7 billion multi-currency Islamic bond programme. SapuraKencana is undertaking the exercise via wholly-owned SapuraKencana TMC Sdn Bhd. In a filing with Bursa Malaysia, SapuraKencana said proceeds from the inaugural issuance would partly refinance SapuraKencana TMC's existing debt. "The unrated sukuk is structured based on the Shariah principle of Commodity Murabahah (via Tawarruq arrangement)," SapuraKencana said. In an earlier statement, SapuraKencana president and group chief executive officer Tan Sri Shahril Shamsuddin said the sukuk indicated the group's commitment to undertake Shariah-compliant financing. (Source: The Edge)

Boustead Plantations (CP: RM1.29): Selling land to YTL Cement

Boustead Plantations Bhd has proposed to dispose of 104.40ha of freehold land in Johor for RM60.67mil cash to YTL Cement Bhd. In a filing with Bursa Malaysia, Boustead Plantations said it had entered into a sale and purchase agreement with YTL Cement, for the proposed disposal of part of three parcels of land in Mukim Kulai, Kulaijaya, Johor measuring 52.69ha for a cash consideration of RM30.06mil. The plantation group said its wholly-owned subsidiary, Boustead Sungai Manar Sdn Bhd, had also entered into sale and purchase agreements with YTL Cement for the proposed disposal of part of freehold land in Mukim Kulai measuring 18.45ha for RM10.92mil cash. *(Source: The Star)*

George Kent (CP: RM1.39): Wins HK job

George Kent (M) Bhd has received a Letter of Award from Water Supplies Department, Hong Kong worth RM31.19mil for the supply and delivery of 600,000 units of water meters. In a statement, the group said the water meters would be supplied over the next two years. "The meters will be delivered in 24 batches with the first shipment to commence in October 2015," it said. The group's water meter manufacturing facility in Selangor is the biggest in Asean with a total production capacity of two million water meters per year. *(Source: The Star)*

Pos Malaysia (CP: RM3.51): To focus on CEP

The courier, express and parcel (CEP) services segment will continue to be the main driver of Pos Malaysia Bhd's earning growth, going forward, amid a lacklustre traditional mailing business. Its covering group chief executive officer, Azlan Shahrim, said Pos Malaysia aimed to grow this segment further by maximising the efficiency of its infrastructure. "Pos Malaysia is also keen to capture additional market share and generate new revenue streams via the introduction of new products and services," he told reporters after the company's AGM yesterday. *(Source: The Star)*

Scomi Group (CP: RM0.17): To submit RM8.6bil worth of O&G tenders

Scomi Group Bhd is expected to submit US\$2bil (RM8.67bil) worth of oil and gas (O&G) tenders for the financial year 2016 (FY16). Its business development and communications vice-president, Zubaidi Harun said as at July 2015, bids worth US\$1.3bil were submitted and tenders worth US\$140mil were awarded. "About 20 bids worth US\$800mil were awaiting approval and will be known within the next two or three quarters," he told reporters at the group's AGM here yesterday. Zubaidi said Scomi vied for the tenders in the Middle East, Turkmenistan, Thailand, India, Myanmar and Indonesia. *(Source: The Star)*

TH Heavy Engineering (CP: RM0.17): Tabung Haji injects RM275mil into oil and gas company through rights issue

Lembaga Tabung Haji emerged as the sole subscriber for TH Heavy Engineering Bhd's rights issue of preference shares to raise RM275mil. At the close of the exercise yesterday, the issue, which is a rights issue of Islamic irredeemable convertible preference (ICPS-i), was heavily under-subscribed at 69.96%, underlining the weak sentiments related to the oil and gas sector. In an announcement yesterday, TH Heavy said it had received valid acceptances for a

total of 359.2 million of the 1.2 billion available for subscription at 25 sen each. (Source: The Star)

Petronas: Rival bid seen after Australia's Woodside courts Oil Search with US\$8 bln

Woodside Petroleum Ltd, Australia's biggest independent oil and gas producer, has approached rival Oil Search Ltd with a US\$8 billion all-share takeover plan that would give it stakes in two of the world's lowest-cost LNG projects. In what would be a record deal for Australia's energy sector, Woodside would gain a 29% stake in Oil Search's PNG Liquefied Natural Gas project, coveted as a one of the few expandable LNG projects that will be viable in a world of weak oil prices. ExxonMobil Corp, operator of PNG LNG, France's Total SA and Asian state oil companies like Malaysia's Petronas could emerge with rival bids, although Woodside had already started talks with key shareholders, analysts said. (Source: The Edge)

ECONOMIC UPDATES

Malaysia: GDP growth to weaken to 4.5% in 2016, says Moody's

Moody's Investor Service sees Malaysia's gross domestic product (GDP) growth weakening to 4.5% next year, while maintaining that this year's GDP will increase 4.8%. Moody's said weakening sentiment is cooling private sector consumption and investment, compounding soft external demand conditions. "We continue to project GDP to increase 4.8% this year, but now, see growth weakening to 4.5% next year," it said. The rating agency also adjusted downward, its forecasts for GDP growth for many Asia Pacific sovereigns, as high frequency indicators suggest the pace of economic expansion across Asia Pacific is cooling. (Source: The Edge)

China: August exports fall 5.5%, better than forecasts

China's August exports fell a less than expected 5.5% from a year earlier, while imports declined by 13.8%. That left the country with a trade surplus of \$60.24 billion for the month, the General Administration of Customs said on Tuesday, compared with forecasts of \$48.20 billion. Economists polled by Reuters had expected dollar-denominated exports to fall 6.0 percent, after a sharp drop of 8.3 percent in July, and predicted imports would fall by 8.2 percent, worsening from a 8.1 percent drop in July. (Source: The Star)

U.S.: Small business confidence rises slightly in August

U.S. small business confidence rose modestly in August, suggesting the economy continued to grow at a steady clip halfway through the third quarter. The National Federation of Independent Business said on Tuesday its Small Business Optimism Index gained half a point to 95.9 last month. The NFIB said the survey of 656 businesses had not been impacted much by the recent turmoil in global financial markets, which was triggered by concerns over slowing economic growth in China. Five of the index's 10 components increased last month, while three declined and two were unchanged. (Source: CNBC)

Europe: Euro-area economy grew more than estimated in second quarter

The euro-area economy grew more than initially reported in the second quarter, driven by a surge in exports and consumer spending. Gross domestic product rose 0.4% in the three months through June after expanding a revised 0.5% in the first quarter, the European Union's statistics office in Luxembourg said Tuesday. Household consumption increased 0.4%. Eurostat had reported second-quarter growth of 0.3% on Aug 14. The European Central Bank predicted last week that the region's recovery will continue, albeit at a weaker pace as an economic slowdown in emerging markets including China weighs on global trade. *(Source: Bloomberg)*

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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