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Friday, September 11, 2015

Report of The Day

Sector Update: Banking Results Roundup – “Bumpy Road Ahead”

Sector Update: Plantation MPOB August – “August’s Palm Oil Stocks Accelerate m-o-m (21.5% y-o-y)”

Results Review: Berjaya Auto 1Q16 – “1Q16 On Track despite Margin Erosion”

Company Update: IOI Corp – “Proposed Acquisition of Oleo-chemical Business in German”

At a Glance

FBMKLCI gained 10.66 points to finish at 1,614.02 due to better-than-expected July IPI numbers.....(See full report next page)

Strategy

“Wall Street Marginally Higher but Not Convincing”

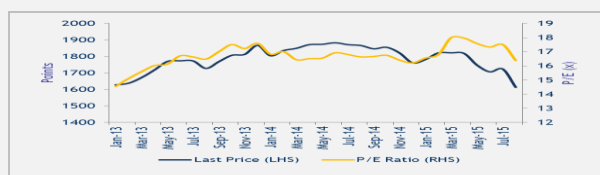
The short trading week next week will only add to the volatility and we think there is greater downside risk.....(See full report next page)

Corporate Highlights

- **SP Setia, (TP: TBD):** Posts stellar Q3 results
- **Berjaya Auto, BUY (TP: RM2.45):** First quarter revenue rises on Mazda vehicle sales
- **IOI Corp, HOLD (TP: RM3.60):** Buying oleochemicals biz in Germany for RM433m

Economic Update

- **Malaysia:** July industrial output up 6.1%, exceeds forecast
- **Malaysia:** Bank Negara likely to hold rates steady at 3.25%
- **China:** Deflation fears grow as producer prices sink most in 6 years



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

Research Team

research@mna.com.my

03-22877228/03-22825373

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,614.02	10.66	0.66
FBMEMAS	11,067.00	62.21	0.57
FBMEMAS SHA	11,523.70	25.25	0.22
FBM100	10,799.26	70.36	0.66
Volume (mn)	1,828.13	-730.09	-28.54
Value (RMmn)	2,022.21	-398.99	-16.48
FBMKLCI YTD Chg			-8.36

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	17.4	-36.1
Local Institution	56.1	86.4
Foreign Investors	28.5	-50.3

Top Gainers

	Close	Change+/-	(+/- %)
BAT	63.58	2.58	4.23
GENTING	7.37	0.44	6.35
LII HEN IND	6.67	0.33	5.21

Top Losers

	Close	Change+/-	(+/- %)
METAL RECLAMAT	0.20	-0.30	-60.00
NESTLE	71.80	-0.30	-0.42
UMS HLDGS	2.45	-0.25	-9.26

World Indices

	Close	Change+/-	(+/- %)
DJIA	16,330.40	76.83	0.47
NASDAQ	4,796.25	39.72	0.84
S&P 500	1,952.29	10.25	0.53
FTSE 100	6,155.81	-73.20	-1.18
DAX	10,210.44	-92.68	-0.90
Nikkei 225	18,299.62	-470.89	-2.51
HSI	21,562.50	-568.81	-2.57
KOSPI	1,962.11	27.91	1.44
STI	2,888.03	-40.15	-1.37
KLCI Futures	1,550.00	3.00	0.00
USDMYR 3M	15.69	(0.18)	(0.01)
USDMYR 6M	15.33	(0.30)	(0.02)
USDMYR 12M	15.28	(0.30)	(0.02)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	46	-0.4	-0.9%
Brent (USD/bbl)	48.9	1.3	2.8%
Gold(USD/ounce)	1,112	1.3	0.1%
Coal (USD/mt)	57.8	0.0	0.0%
CPO (RM/mt)	2,157	44.0	2.1%
Rubber	133	0.1	0.1%
RM/USD	4.31	-0.0003	0.01%
EUR/USD	0.89	-0.0006	-0.07%
YEN/USD	120.71	0.09	-0.07%

What To Expect

U.S. Market

- The Dow Jones Industrials Average recovered 76.83 points to 16,330.40 points, S&P 500 soared 10.25 points to 1,952.29. Nasdaq surged by 39.72 points to 4,796.25. Stocks closed higher Thursday off session highs as a bounce in oil and major stocks failed to completely offset increased uncertainty heading into the Federal Reserve's key meeting next week.
- With the big rate hike decision from the Federal Reserve looming on Sept. 17, traders are just unwilling to make big directional bets ahead of what could be the first interest rate hike since 2006.

The Local Market

- FBMKLCI gained 10.66 points to finish at 1,614.02 due to better-than-expected July IPI numbers. There were 354 gainers and 422 decliners in total value traded of RM2.02 billion.
- Among the gainers on Bursa Malaysia were BAT surged RM2.58 to RM63.58, Genting soared 44 cent to RM7.37, Lii Hen Industries added 33 cent to RM6.67 and Magni-Tech Industries grew 25 cent to RM4.64.

Strategy

- **“Wall Street Marginally Higher but Not Convincing”**
Wall Street ended higher on Thursday in a see-saw trading this week, boosted by technology stocks but still showing nervousness arising from US next week's policy meeting. DJIA and S&P 500 gained 10.25 (0.53%) and 76.83 (0.47%) points to end at 1,952.29 and 16,330.40 respectively. It was not a convincing trajectory in Wall Street on Thursday as the signs of jitteriness arising from US policy decision was still apparent. We reiterate our view that there is more than 50% chance the US Federal Reserve will adjust its policy rate by 25 basis points given the strong employment level in the US now. Note that the US unemployment level has hit 5.1% August, essentially a full employment. Hence, a small dose adjustment of 25 basis points is manageable for its economy but again it is bad news for global equity market. For, a series of US policy rate upward adjustments could be on the table, more so if oil prices resume its heavenward movement. As for the local market, the short trading week next week will only add to the volatility and we think there is greater downside risk, mostly due to exogenous factors.
- 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

SP Setia, (TP: TBD): Posts stellar Q3 results

SP Setia Bhd's net profit for the third quarter ended July 31, 2015 rose 2.5 times to RM261.79 million from RM103.32 million a year ago on the back of a strong sales pipeline and timely handover of its maiden Australian property project, Fulton Lane. The group's revenue jumped 81% to RM1.63 billion from RM902.66 million in the previous corresponding quarter. For the nine-month period, net profit more than doubled to RM590.3 million from RM274.37 million, while revenue increased 63% to RM4.19 billion from RM2.58 billion a year ago. For the current financial period from Nov 1, 2014 to Dec 31, 2015, the group registered its strongest results to date with the completion of Fulton Lane.

(Source: The Sun)

Berjaya Auto, BUY (TP: RM2.45): First quarter revenue rises on Mazda vehicle sales

Berjaya Auto Bhd (BAuto) saw a marginal increase in revenue for the first quarter ended July 31, 2015 to RM512.55 million from RM507.95 million in the previous year's corresponding quarter from the sales of Mazda vehicles in both the Malaysian and Philippine markets. However, its net profit fell to RM52.2 million from RM56.1 million a year ago, mainly due to higher spending on advertising and promotion expenses. The board has recommended a first interim dividend of 2.25 sen single-tier dividend per share with respect to the financial year ending April 30, 2016 to be payable on Oct 21. The entitlement date has been fixed on Oct 8. (Source: The Sun)

IOI Corp, HOLD (TP: RM3.60): Buying oleochemicals biz in Germany for RM433m

IOI Corporation Bhd's is buying Cremer Oleo GmbH & Co KG entire's oleochemicals business in Germany for 89.4mil euros (RM433.3mil) as it expands its value chain. The plantation heavyweight said on Thursday the oleochemical business' production facilities were in Witten and Zur Hafenspitze. "The production plant in Witten offers a broad array of mostly branded oleochemical specialty products for the pharmaceutical, cosmetic, food and performance chemicals markets worldwide. "The Wittenberge plant provides high performance capacities for esterification with multi-step short-path distillation, distillation and fractionation of fatty acids and production of medium-chain triglycerides," it said. (Source: The Star)

RHB Capital, BUY (TP: RM7.70): Abu Dhabi fund Aabar may see stake diluted in Malaysia's RHB Cap

Aabar Investments PJS, the Abu Dhabi-based investment fund which has a 21.09% stake in RHB Capital Bhd (RHB Cap), has not taken up its entitlement under a RM2.5bil rights issue being called by that bank. RHB Cap told Bursa Malaysia that 51.55% of the total rights shares had been subscribed by major shareholders Employees Provident Fund Board and OSK Holdings Bhd as at the entitlement date. The EPF is the single-largest shareholder in RHB Cap with a 41.65% stake, while OSK has a 9.9% interest. For the remaining 250.8 million shares or 48.45% of the rights issue, RHB Cap said its investment bank, RHB

Investment Bank, had entered into an underwriting agreement with several investment banks to underwrite that portion. *(Source: The Star)*

Boustead Plantations (CP: RM1.32): 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)*

KNM (CP: RM0.48): KNM's CNI Engineering gets RM183m Petronas project

KNM Group Bhd's 70% owned JV company has secured a US\$42mil (RM183mil) contract to undertake part of the works at Petronas Pengerang Integrated Complex project in Johor. The oil and gas services company said on Thursday CNI Engineering & Construction Malaysia Sdn Bhd had secured the contract from Toyo Thai Malaysia Sdn Bhd. "The scope of supply and work of CNI Engineering shall generally include, but not limited to, procurement of consumable materials and parts, construction works, inspection and test," it said. KNM added the contract was 25 months and was set to start in September 2015. *(Source: The Star)*

Malaysia Airports (CP: RM4.61): Passenger movements up 8.4% in Aug

Passenger movements for Malaysia Airports Holdings Bhd's (MAHB) airports, including Istanbul Sabiha Gokcen International Airport (SGIA), grew by 8.4% year-on-year (y-o-y) to record its highest ever monthly traffic at 10.3 million in August 2015. In a statement, MAHB said domestic traffic grew 9.3% to 5.6 million passengers while international traffic totalled 4.6 million passengers, up 7.2% y-o-y. On a last 12-month basis, the total MAHB system (including Istanbul SGIA) registered a 4.7% growth with 111 million passengers, it added. MAHB said the passenger growth momentum for the Malaysia sector was high in the first two weeks of August but there was a slowdown towards month-end. *(Source: The Star)*

Tune Ins (CP: RM1.33): Becomes Tune Protect

Tune Ins Holdings Bhd has changed the company's name to Tune Protect Group Bhd, as part of its rebranding initiative to better align with its future strategy and product roadmap. In a statement yesterday, the insurer said the rebranding initiative is in response to the dynamic change in consumer behaviour and preferences that require information on the go. "Our passion is to constantly meet our customer expectations by providing products and services in an easy, convenient and simple manner. Hence, we have also introduced a new corporate tagline 'Insurance Made Easy'," its CEO Junior Cho said. *(Source: The Sun)*

AirAsia (CP: RM1.20): Bags best low-cost airline award

AirAsia Bhd has clinched the best low-cost airline title at the Business Traveller Asia-Pacific Travel Awards 2015, becoming the only airline that has won the title since the inception of the category in 2012. "It is our absolute honour to have receive this award as it signifies the vote of confidence by our valuable guest and the discerning readers of Business Traveller," its CEO Aireen Omar said in a statement yesterday. Aireen said the award reflects the airline's commitment in providing the best air travel experience for its guests through its network in the region. (Source: The Sun)

Guocoland (CP: RM1.15): Units plan disposal of properties for RM66m

BLV Fashions Sdn Bhd (BLVF) and Guobena Development Sdn Bhd (GDSB), indirect wholly-owned subsidiaries of Guocoland (Malaysia) Sdn Bhd, are planning to sell two floors of leasehold commercial office spaces, together with some car park parcels, in Menara Pandan at Pandan Indah, Cheras, for RM66 million. In a filing with Bursa Malaysia, Guocoland said both companies have entered into conditional sale and purchase agreements with Mayapada Capital Sdn Bhd for the proposed disposal. BLVF's leasehold properties, located on the eighth floor of the tower, are vacant with original costs of investment totalling RM43.29 million, made on Oct 20, 1994 and June 3, 1999. GDSB's leasehold properties, located on the seventh floor of the tower, have a 12% occupancy rate as at Aug 31, 2015 with a cost of RM41.86 million. (Source: The Edge)

PJ Development (CP: RM1.50): OSK Holdings maintains the listing status of PJD

OSK Holdings Bhd (OSKH) said it has successfully completed the takeover of PJ Development Holdings Bhd (PJD), with a 89.4% majority stake in the latter at the close of the offer period on Monday (Sept 7). "OSKH had successfully completed the takeover of PJD, with an 89.4% interest in PJD at the close of the offer period, and is now a majority shareholder of PJD. "As stated in the OSKH's offer document to the shareholders of PJD dated Aug 10, 2015, it is the intention of OSKH to maintain the listing status of PJD. The statement clarifies the perception that OSKH wanted to take PJD private through the takeover bid at RM1.56 per share. (Source: The Edge)

Plantation Sector (Neutral): Malaysian Aug palm oil inventory, output higher than expected

Malaysian palm oil inventory climbed 10.04% to 2.49 million tonnes in August from RM2.27 million tonnes a month earlier on higher crude palm oil (CPO) output and lower exports. In a statement, the Malaysian Palm Oil Board (MPOB) said inventory, comprising CPO and processed palm oil, increased as CPO output rose 12.96% to 2.05 million tonnes from 1.82 million tonnes. MPOB said palm oil exports, however, fell 0.3% to 1.608 million tonnes from 1.613 million tonnes. In July, CPO output rose 2.95% from a month earlier while inventory climbed 5.39%. (Source: The Edge)

ECONOMIC UPDATES

Malaysia: July industrial output up 6.1%, exceeds forecast

Malaysia's industrial production index (IPI) rose at a faster pace of 6.1% in July from a year ago, which exceeded economists' survey of a 5% growth, underpinned by the manufacturing sector. The Statistics Department said on Thursday the expansion in July was supported by positive growth in manufacturing (4.2%) and mining (14.0%). However, the electricity index declined by 1.2%. "The IPI in June 2015 remained unchanged at 4.3% year-on-year. In seasonally adjusted terms, the IPI in July 2015 recorded a marginal decrease of 0.1% month-on-month," it said. The department said the marginal decline in the month-on-month IPI was due to the decrease in manufacturing index (2.4%). (Source: *The Star*)

Malaysia: Bank Negara likely to hold rates steady at 3.25%

Bank Negara will likely hold its key interest rate steady at a policy review today as a weakened global economy, battered ringgit and uncertain domestic politics keep policymakers in check. Economists in a *Reuters* poll were unanimous in their forecasts for Bank Negara to keep its overnight policy rate unchanged at 3.25%, as risks to Malaysia's economic growth remain. With the ringgit, plummeting to 17-year lows, economists do not see central bank resorting to using interest rates as a policy tool. Economists say that the most likely policy action to stabilise capital outflows is to repatriate government-linked firms' overseas investments and repatriate foreign exchange earnings. (Source: *The Star*)

China: Deflation fears grow as producer prices sink most in 6 years

China's manufacturers slashed prices at the fastest rate in six years in August as commodity prices fell and demand cooled, signalling stubborn deflation risks in the economy and adding to expectations for further stimulus measures. The producer price index (PPI) fell 5.9% in August from the same period last year, its 42nd consecutive month of decline and the biggest drop since the depths of the global financial crisis in late 2009, data showed on Thursday. The market had expected a decline of 5.5% after a drop of 5.4% in July. Economists believe China's surprise currency devaluation of nearly 2% in mid-August will have little impact on inflation in the near term, in comparison with the effect of sharply lower commodity prices. (Source: *Reuters*)

Brazil: Downgraded to junk rating by S&P, deepening woes

Standard & Poor's downgraded Brazil's credit rating to junk grade on Wednesday, further hampering President Dilma Rousseff's efforts to regain investors' trust and pull Latin America's largest economy out of recession. The faster-than-anticipated downgrade from investment grade will likely rock Brazilian financial markets on Thursday and will increase borrowing costs for the government and Brazilian companies. Brazil first won its investment-grade credit rating in 2008 and the S&P downgrade is a major setback for Rousseff, a leftist struggling to kick-start the economy and shore up weak public finances. (Source: *Reuters*)

U.S.: Jobless claims fall, point to firming labor market

The number of Americans filing new applications for unemployment benefits fell last week, suggesting a moderation in job growth in August was an aberration. Initial claims for state unemployment benefits dropped 6,000 to a seasonally adjusted 275,000 for the week ended Sept 5, the Labor Department said on Thursday. It was the 27th straight week that claims remained below the 300,000 threshold, which is usually associated with a strengthening labor market. Claims for the prior week were revised to show 1,000 fewer applications received than previously reported. Economists had forecast claims falling to 275,000 last week. A Labor Department analyst said there were no special factors influencing the data and only claims for Hawaii had been estimated. (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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(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Level 1,2,3 No.45-47 & 43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 – 2282 1820 Fax: +603 – 2283 1893
Website: www.mnaonline.com.my

Head Of Research



Rosnani Rasul
M&A Securities