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Thursday, September 17, 2015

Report of The Day

Results Review: SapuraKencana 2Q16, BUY (TP: RM2.55) – “Solid Orderbook as a Shield”

At a Glance

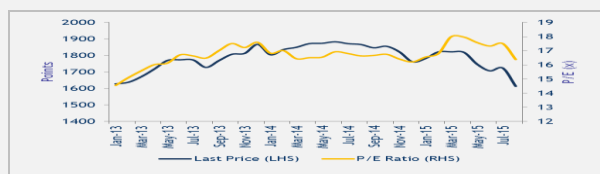
FBMKLCI gained 7.52 points to finish at 1,647.15 lifted by the gain in some heavyweight counters.....(See full report next page)

Corporate Highlights

- **SapuraKencana, BUY (TP: RM2.55):** Sees Q2 earnings shrink 76% to RM104m
- **Axiata, HOLD (TP: RM7.10):** MARC cuts rating of Celcom Networks' sukuk
- **AirAsia (CP: RM1.22):** Must Relocate From KKIA's 'Land-locked' Terminal 2

Economic Update

- **Malaysia:** MPOB to step up promotions in China
- **Indonesian:** August trade data shows persisting economic woes
- **Singapore:** Employment Rate Down On Weaker Economy



| KEY ECONOMIC RELEASE | | | | | |
|----------------------|-----------|------------|-----------------------------------|--------|----------|
| | Date | Local Time | Event | Survey | Prior |
| CN | 10-15 Sep | - | New Yuan Loans CNY | 800.0B | 1480.0B |
| CN | 10-15 Sep | - | Money Supply M2 YoY | 13.3% | 13.3% |
| EU | 14-Sep | 5:00 PM | Industrial Production SA MoM | - | -0.4% |
| EU | 14-Sep | 5:00 PM | Industrial Production WDA YoY | - | 1.2% |
| US | 15-Sep | 8:30 PM | Retail Sales Advance MoM | 0.4% | 0.6% |
| US | 15-Sep | 8:30 PM | Retail Sales Ex Auto MoM | 0.3% | 0.4% |
| US | 15-Sep | 8:30 PM | Retail Sales Ex Auto and Gas | - | 0.4% |
| US | 15-Sep | 8:30 PM | Empire Manufacturing | 1.00 | -14.92 |
| US | 15-Sep | 8:30 PM | Industrial Production MoM | -0.2% | 0.6% |
| EU | 16-Sep | 5:00 PM | CPI MoM | - | -0.6% |
| EU | 16-Sep | 5:00 PM | CPI YoY | - | 0.2% |
| EU | 16-Sep | 5:00 PM | CPI Core YoY | - | 1.0% |
| US | 16-Sep | 7:00 PM | MBA Mortgage Applications | - | - |
| US | 16-Sep | 8:30 PM | CPI MoM | 0.0% | 0.1% |
| US | 16-Sep | 8:30 PM | CPI Ex Food and Energy MoM | - | 4.3% |
| US | 16-Sep | 8:30 PM | CPI YoY | 0.2% | 0.2% |
| US | 17-Sep | 8:30 PM | Housing Starts | 1145K | 1206K |
| US | 17-Sep | 8:30 PM | Building Permits | 1125K | 1119K |
| US | 17-Sep | 8:30 PM | Initial Jobless Claims | - | - |
| US | 17-Sep | 10:00 PM | Philadelphia Fed Business Outlook | 6.0 | 8.3 |
| JP | 17-Sep | 7:50 AM | Trade Balance | - | ¥-268.1B |
| JP | 17-Sep | 7:50 AM | Trade Balance Adjusted | - | ¥-368.8B |
| US | 18-Sep | 10:00 PM | Leading Index | 0.3% | -0.2% |

Bursa Malaysia

| | Close | Change+/- | (+/- %) |
|-----------------|-----------|-----------|---------|
| FBMKLCI | 1,647.15 | 7.52 | 0.46 |
| FBMEMAS | 11,311.83 | 62.99 | 0.56 |
| FBMEMAS SHA | 11,901.74 | 72.72 | 0.61 |
| FBM100 | 11,043.03 | 63.35 | 0.58 |
| Volume (mn) | 2,286.28 | 87.14 | 3.96 |
| Value (RMmn) | 2,390.56 | 159.14 | 7.13 |
| FBMKLCI YTD Chg | | | -6.48 |

Daily Trading Position (RM'mn)

| | Participation (%) | Net(RMm) |
|-------------------|-------------------|----------|
| Local Retail | NA | NA |
| Local Institution | NA | NA |
| Foreign Investors | NA | NA |

Top Gainers

| | Close | Change+/- | (+/- %) |
|-----------------|-------|-----------|---------|
| UNITED PLANT | 26.70 | 0.50 | 1.91 |
| NESTLE (MALAY) | 72.02 | 0.48 | 0.67 |
| MALAYSIA AIRPOR | 5.58 | 0.48 | 9.41 |

Top Losers

| | Close | Change+/- | (+/- %) |
|----------------|-------|-----------|---------|
| ORIENTAL FOOD | 1.50 | -0.03 | -1.83 |
| BAT | 62.38 | -0.56 | -0.89 |
| TOP GLOVE CORP | 7.80 | -0.18 | -2.26 |

World Indices

| | Close | Change+/- | (+/- %) |
|--------------|-----------|-----------|---------|
| DJIA | 16,739.95 | 140.10 | 0.84 |
| NASDAQ | 4,889.24 | 28.72 | 0.59 |
| S&P 500 | 1,995.31 | 17.22 | 0.87 |
| FTSE 100 | 6,229.21 | 91.61 | 1.49 |
| DAX | 10,227.21 | 39.08 | 0.38 |
| Nikkei 225 | 18,171.60 | 145.12 | 0.81 |
| HSI | 21,966.66 | 511.43 | 2.38 |
| KOSPI | 1,975.45 | 37.89 | 1.96 |
| STI | 2,868.74 | 26.80 | 0.94 |
| KLCI Futures | 1,598.50 | 6.00 | 0.00 |
| USDMYR 3M | 15.64 | 0.07 | 0.00 |
| USDMYR 6M | 15.23 | 0.04 | 0.00 |
| USDMYR 12M | 14.84 | (0.01) | (0.00) |

Other Key Economics Data

| | Close | Change+/- | (+/- %) |
|-----------------|--------|-----------|---------|
| WTI (USD/bbl) | 48 | 0.4 | 0.7% |
| Brent (USD/bbl) | 49.8 | 2.0 | 4.2% |
| Gold(USD/ounce) | 1,121 | 1.8 | 0.2% |
| Coal (USD/mt) | 57.9 | 0.3 | 0.4% |
| CPO (RM/mt) | 2,192 | -49.0 | -2.2% |
| Rubber | 133 | 0.8 | 0.6% |
| RM/USD | 4.24 | -0.0635 | 1.50% |
| EUR/USD | 0.89 | 0.0003 | 0.03% |
| YEN/USD | 120.59 | 0.02 | -0.02% |

What To Expect

U.S. Market

- The Dow Jones Industrials Average gained 140.10 points to 16,739.95 points; S&P 500 up 17.22 points to 1,995.31. Nasdaq surged by 28.72 points to 4,889.24. Wall Street were higher on Wednesday due to an almost 6-percent jump in oil prices, but many investors stayed on the sidelines a day ahead of the U.S. Federal Reserve's decision on interest rates.
- The Fed is due to announce a decision on Thursday afternoon to either end or extend seven years of near-zero interest rates, potentially relieving markets of months of uncertainty as investors have been trying to predict the timing of a hike.

The Local Market

- FBMKLCI gained 7.52 points to finish at 1,647.15 lifted by the gain in some heavyweight counters. There were 432 gainers and 415 decliners in total value traded of RM2.39 billion.
- Among the gainers on Bursa Malaysia were United Plantation up 50 cent to RM26.70, Nestle rose 48 cent to RM72.02, Malaysia Airport Berhad surged 48 cent to RM5.58 and Cahya Mata Sarawak jumped 27 cent to RM5.20.

Strategy

- Our 2015 year-end target is **1,660** based on PER of 15.6x. FBMKLCI is a **NEUTRAL**. We have **OVERWEIGHT** call on construction and telco respectively. We predict Malaysia to grow by 5.0% in 2015.

CORPORATE HIGHLIGHTS

SapuraKencana, BUY (TP: RM2.55): Sees Q2 earnings shrink 76% to RM104m

SapuraKencana Petroleum's earnings fell 76.6% to RM104.08mil in the second quarter ended July31, 2015 from RM445.79mil a year ago due to provisions for impairment. The oil and gas services heavyweight reported on Tuesday the weaker earnings were due to provision for impairment on oil and gas properties totalling RM539.9mil. Excluding provision for impairment on O&G properties of RM539.9mil in the current quarter, the group recorded profit before taxation of RM601.0mil, being an increase of RM74.3mil or 14.1% against RM526.7mil a year ago. SKPetro said profit before taxation of RM61.1mil, which was RM465.6mil or 88.4% lower compared to RM526.7mil in the second quarter a year ago. Its revenue rose 4% to RM2.80bil from RM2.69bil. Earnings per share were 1.74 sen compared with 7.44 sen. (Source: The Star)

Axiata, HOLD (TP: RM7.10): MARC cuts rating of Celcom Networks' sukuk

Malaysian Rating Corp Bhd (MARC) has lowered the rating of Celcom Networks Sdn Bhd's (CNSB) RM5 billion sukuk murabahah programme to AA+IS from AAAIS, on weakening cash protection measures of the Celcom group from aggressive dividend distribution policy. The outlook is revised to "stable" from

“negative”. Given the financial and operational links between both entities, the ratings and outlook are premised on the overall credit profile of the Celcom group. The rating approach is also supported by an undertaking from Celcom to maintain 100% ownership in CNSB throughout the sukuk tenure. MARC noted the dividend payout for the group rose to RM2.9 billion in 2014 from RM2.3 billion in 2013. It views the consistently sizeable dividend distributions to the ultimate parent, Axiata, as a constraint to the Celcom group’s strategy by limiting its financial autonomy and potentially exposing the group to its parent’s credit risk. *(Source: The Sun)*

AirAsia (CP: RM1.22): Must Relocate From KKIA's 'Land-locked' Terminal 2

Low-cost carrier, AirAsia, has to relocate its operations to Terminal 1 of the Kota Kinabalu International Airport (KKIA) from its current location at Terminal 2. Malaysia Airports Holding Bhd (MAHB) Managing Director Datuk Badlisham Ghazali said this was because Terminal 2 no longer had room for expansion. "It is a 'land-locked' area, which means there is no more space to expand the terminal, left or right," he told reporters after the official opening of KKIA's Terminal 1 here Wednesday. Terminal 1 was officiated by Prime Minister Datuk Seri Najib Tun Razak who, in his speech, said that traffic at Terminal 2 was congested with the increased number of passengers arriving at the terminal. Badlisham said as part of the synergy for the airport's operation, Terminal 2 would be converted for cargo operations as well as general aviation. *(Source: Bernama)*

Damansara Realty (CP: RM0.60): Partners Sumitomo to bid for Pengerang jobs

Damansara Realty Bhd is planning to set up a joint venture (JV) company with Japan’s Sumitomo Warehouse Co Ltd (SWC) to participate in downstream oil and gas operation in Pengerang Integrated Petroleum Complex (PIPC). The company announced to the stock exchange yesterday that it has entered into a non-binding memorandum of understanding (MoU) with SWC to participate in future business operations involving the handling and logistics for oil and gas downstream product in PIPC. The JV company will provide logistics expertise, as well as design, build and operate warehousing infrastructure support to the myriad of downstream operations within PIPC. *(Source: The Sun)*

Mudajaya (CP: RM1.15): Job boost for Mudajaya

News that Mudajaya Group Bhd has clinched its first contract award this year has boosted its shares, with at least one research house upgrading the stock. The construction firm has secured a RM489mil contract to construct a workers’ village and temporary construction facilities for the utilities, interconnecting and off-site (UIO) facilities for Petroliam Nasional Bhd’s Refinery and Petrochemicals Integrated Development (Rapid) site in Pengerang, Johor. The company will undertake the engineering, procurement, construction and commissioning (EPCC) of the workers’ village and temporary construction facilities for the UIO facilities for Rapid. *(Source: The Star)*

Pentamaster (CP: RM1.15): To invest RM20mil in Batu Kawan plant

Pentamaster Corp Bhd will invest RM20mil in a new manufacturing facility in Batu Kawan next year despite the global economic downturn. Group executive chairman C.B. Chuah told *StarBiz* the plant would be located on 3 acres to

manufacture a new generation of test and robotic equipment for the semiconductor industry. Construction work is expected to start next year and the plant is scheduled to start operations in 2017. Chuah said Pentamaster's order book still had about RM30mil worth of test equipment to deliver to customers in Asia Pacific. *(Source: The Star)*

SKP (CP: RM1.35): Resources contract with Dyson worth RM3bil

SKP Resources has disclosed the five-year contract which it received from its existing customer Dyson Ltd was worth RM600mil a year. It said on Tuesday the value of the contract was RM600mil a year and the tenure was for five years. The company does not foresee any exceptional risk other than the normal business risk associated with the contract. SKP Resources provided additional details about the contract which was earlier announced on Monday. The contract is for manufacturing Dyson's cordless vacuum cleaners. The plastic moulding manufacturer said on Monday the contract, which was scheduled to start in January 2016, would contribute significantly to the company's annual revenue for five years from 2016. *(Source: The Star)*

JAKS Resources (CP: RM0.975): Eyes more contracts from Langat 2 project

Water infrastructure firm JAKS Resources Bhd is anticipating more contracts from the multi-billion Langat 2 water treatment plant project. This came after the long-delayed development of the Langat 2 that was concluded last week, following the Selangor and Federal governments inked the final four agreements. JAKS Resources's general manager for corporate strategy, Steven Ang, said the company is still waiting the government to finalise and conclude the project, as to how it is going to move forward. Once they conclude the deal, we have confidence to clinch more packages from the project," Ang told pressmen, after the company's extraordinary general meeting (EGM) today. *(Source: The Edge)*

Fututech (CP: RM1.51): Top officials inject two companies for RM458m

Fututech Bhd's top officials are injecting their two privately-held companies into the group for RM458mil in cash and shares in a move to expand its property development and construction business. It had on Tuesday signed conditional share sale agreements to buy Kerjaya Prospek (M) Sdn Bhd and Permatang Bakti Sdn Bhd. The RM458mil would comprise of RM35.2mil cash, RM42.8mil via the issuance of Fututech shares at RM1.16 each while RM360mil in new redeemable convertible preference shares at RM1.16 each. Kerjaya Prospek's core business is building construction and it is owned by the company's executive chairman, Datuk Tee Eng Ho (25%) and its executive directors Datin Toh Siew Chuon (25%) and Tee Eng Seng (50%). *(Source: The Star)*

Auto Sector: August Vehicle Sales Up 4.5 Per Cent, Says MAA

Total vehicle sales in August rose 4.5 per cent or 2,326 units to 53,452 units from 51,126 units recorded in the same month a year ago, the Malaysian Automotive Association (MAA) said. However, the sales volume in August was 8.9 per cent or 5,194 units lower than July 2015, due to uncertainties among businesses over the weakening of the ringgit as well as the gloomy global economic outlook, it said in a statement today. Consumers remained cautious

about spending on big-ticket items. Sales of passenger vehicles in August increased to 47,302 units from 44,898 units in the same month of 2014, while commercial vehicle sales slipped to 6,150 units from 6,228 units. (Source: *Bernama*)

ECONOMIC UPDATES

Malaysia: MPOB to step up promotions in China

The Malaysian Palm Oil Board (MPOB) is focusing on promoting palm oil application in non-food products and health benefits in China to further support the growth of Malaysia's palm oil industry. Chairman Datuk Wan Mohammad Khair-il Anuar Wan Ahmad said the focus was crucial to promote the edible oil as the Chinese people were still not aware that palm oil can be used in household products. We are looking at not just promoting/exporting the oils but also other palm oil-based products. We now moving mainland towards the west to regions like Chongqing besides our tradition markets of Guangzhou, Shanghai and Beijing," he told *Bernama* on the sidelines of the Palm Oil Health and Nutrition Forum in Beijing on Tuesday. (Source: *The Star*)

Indonesian: August trade data shows persisting economic woes

Indonesia's exports and imports performed better than expected in August, but the trade numbers show persistently weak growth for South-East Asia's biggest economy. Exports fell 12.3% from a year earlier, less than the 17.4% drop seen in a Reuters poll and July's 18.8% skid. Imports declined 17.1%, less than the poll's forecast of 23.7% and July's 28.4% plunge. The trade surplus narrowed to US\$430 million from July's US\$1.38 billion. The poll projected an August surplus of US\$630 million. August became the ninth straight month with a trade surplus, but that's not a cause for joy as it stems from the poor import numbers, which reflect how weak domestic demand remains. Imports have had double-digit annual declines every month this year. (Source: *The Star*)

Singapore: Employment Rate Down On Weaker Economy

Amid the weaker economy, employment of locals declined by 8,900 in the first half of 2015, while foreign employment continued on its downward growth trajectory and moderated to 8,000, registering the lowest half-yearly growth since 2009. The decline in the foreign workforce did not include foreign domestic workers. In its latest report on Labour Market Developments for the first half of 2015, the Ministry of Manpower (MOM) said the decline in employment of the locals was largely reflected in the exit of young casual workers (below the age of 25) from the workforce, after a significant entry of such workers occurred in 2H 2014. At the same time, there was continued growth in the employment of older local workers. MOM said the services sector accounted for a majority of the 1H 2015 growth in foreign employment, and Work Permit Holders (WPH) accounted for the largest proportion of foreign employment growth. (Source: *Bernama*)

Thailand: central bank to keep rates steady

Thailand's central bank is widely expected to leave its policy interest rate steady for a third straight meeting even as the economy continues to struggle more

than a year after a military coup ended months of political unrest. Twenty of 21 economists polled by Reuters forecast the one-day repurchase rate would be left unchanged at 1.50% when the Bank of Thailand meets on Wednesday due to global market uncertainties, a weak baht and the country's recent stimulus to help the economy. At its Aug 5 meeting, the Monetary Policy Committee voted 7-0 to hold the rate, saying the conduct of monetary policy had led to easier monetary conditions, while the direction of the exchange rate movement had stayed conducive to economic recovery. *(Source: The Star)*

Vietnam: Eyes growth of 6.5-7% for 2016-2020

Vietnam aims to lift its growth rate over the next five years to an annual average of 6.5%-7% by capitalising on multilateral trade deals, modernising agriculture and boosting investments, its communist party said on Tuesday. The ruling party, which rarely details its economic strategy, is set for a shakeup in January 2016 after a five-yearly congress that will decide who leads a low-cost manufacturing hub with high-tech ambitions. It will aim to maintain macro-economic stability and push for industrialisation while modernising agriculture and raising competitiveness, the party said in a draft political report ahead of the congress. The reform of the growth model is being shifted strongly from focusing on exports and investment capital to the development of investment capital, exports and the domestic market," the report said. *(Source: The Star)*

U.S.: Fed begins two-day meeting, world waits to see if rates would be hiked

The Federal Reserve began a two-day policy meeting on Wednesday with economists evenly split on whether Thursday will see the first official U.S. interest rate rise since 2006. The decision by the U.S. central bank's Federal Open Market Committee (FOMC) is expected on Thursday at 2 p.m. (1800 GMT). U.S. economic data are flashing conflicting signals, with unemployment falling but inflation subdued, while slowing growth in China has led to a 40 percent fall in Shanghai stocks <.SSEC> in three months, leaving global markets on edge. Global banks and investment funds see the chances for a rate increase as essentially a toss-up, although most experts see a slightly higher probability for no change in monetary policy. *(Source: The Star)*

U.S.: Fed about to stress test world economy

The world economy is about to be stress tested. Regardless of whether the Federal Reserve raises interest rates today, the first tightening of US monetary policy in almost a decade is beckoning. That poses a challenge for a global economy already buffeted by slowing Chinese demand and volatility in financial markets. Most vulnerable are those emerging nations which binged on cheap dollars and now face tighter credit and a rising greenback. Such an international backdrop leaves Fed chair Janet Yellen needing to communicate her policy plans beyond the US's borders or risk being unable to deliver on them because of fallout elsewhere. *(Source: The Star)*

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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