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Thursday, October 22, 2015

## Report of the Day

## Sector Update: Construction – “Bullish Outlook”

## At a Glance

FBMKLCI gained 2.08 points to finish at 1,707.11 lifted by the gained in selected heavyweight counters. ....(See full report next page)

## Strategy

## “Lack of Catalyst Weigh on Wall Street”

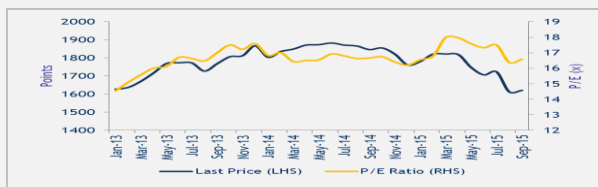
We don't think that Budget 2016 will have significant bearing on the market .....(See full report next page)

## Corporate Highlights

- **UEM Sunrise (CP: RM1.20):** Hibiscus design for UEM's 92-storey tower in Melbourne
- **Barakah (CP: RM0.975):** Signs MoU with HK's Hilong
- **TMC (CP: RM0.56):** Quarterly net profit quadruples

## Economic Update

- **Brazil:** Keeps interest rates steady to avoid deepening recession
- **China:** Vows to lift yuan convertibility in Shanghai FTZ
- **Europe:** ECB to stay put, keep door open for more stimulus



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
CN	19-Oct	10:00 AM	Retail Sales YoY	10.8%	10.8%
CN	19-Oct	10:00 AM	Retail Sales YTD YoY	10.5%	10.5%
CN	19-Oct	10:00 AM	Industrial Production YoY	6.0%	6.1%
CN	19-Oct	10:00 AM	Industrial Production YTD YoY	6.3%	6.3%
CN	19-Oct	10:00 AM	GDP YoY	6.8%	7.0%
US	20-Oct	8:30 PM	Housing Starts	1140K	1126K
US	20-Oct	8:30 PM	Buildings Permits	1158K	1170K
US	21-Oct	7:00 PM	MBA Mortgage Applications	-	-27.6%
JP	21-Oct	12:30 PM	All Industry Activity Index MoM	-	0.2%
EU	22-Oct	7:45 PM	ECB Main Refinancing Rate	-	0.050%
EU	22-Oct	7:45 PM	ECB Deposit Facility Rate	-	-0.020%
EU	22-Oct	7:45 PM	ECB Marginal Lending Facility	-	0.300%
EU	22-Oct	10:00 PM	Consumer Confidence	-	-7.1
US	22-Oct	8:30 PM	Initial Jobless Claims	-	-
US	22-Oct	8:30 PM	Continuing Claims	-	-
US	22-Oct	10:00 PM	Existing Home Sales	5.35m	5.31m
US	22-Oct	10:00 PM	Existing Home Sales MoM	0.8%	-4.8%
US	22-Oct	10:00 PM	Leading Index	0.0%	0.1%
US	22-Oct	11:00 PM	Kansas City Fed Manf. Activity	-	-8.0%
MY	22-Oct	-	Foreign Reserves	-	\$93.3b
EU	23-Oct	4:00 PM	Markit Eurozone Manufacturing PMI	-	52.0
EU	23-Oct	4:00 PM	Markit Eurozone Services PMI	-	53.7
EU	23-Oct	4:00 PM	Markit Eurozone Composite PMI	-	53.6
US	23-Oct	9:45 PM	Markit US Manufacturing PMI	53.0	53.1
JP	23-Oct	9:35 AM	Nikkei Japan PMI Mfg	-	51.0
JP	23-Oct	1:00 PM	Leading Index C1	-	103.5
JP	23-Oct	1:00 PM	Coincident Index	-	112.5

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,707.11	2.08	0.12
FBMEMAS	11,781.00	25.15	0.21
FBMEMAS SHA	12,553.68	18.13	0.14
FBM100	11,478.90	17.40	0.15
Volume (mn)	2,386.59	256.72	12.05
Value (RMmn)	2,191.67	340.52	18.39
FBMKLCI YTD Chg			-3.07

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	19.5	-14.6
Local Institution	26.5	-1.8
Foreign Investors	23.6	16.4

## Top Gainers

	Close	Change+/-	(+/- %)
KESM INDUS BHD	5.10	0.72	16.44
SAM ENGINEERIN	7.86	0.57	7.82
TOP GLOVE CORP	9.55	0.45	4.95

## Top Losers

	Close	Change+/-	(+/- %)
BAT	62.38	-0.42	-0.67
NESTLE (MALAY)	71.06	-0.30	-0.42
HONG LEONG FIN	14.72	-0.22	-1.47

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,168.61	-48.50	-0.28
NASDAQ	4,840.12	-40.86	-0.84
S&P 500	2,018.94	-11.83	-0.58
FTSE 100	6,348.42	3.29	0.05
DAX	10,238.10	90.42	0.89
Nikkei 225	18,554.28	347.13	1.91
HSI	22,989.22	-86.39	-0.37
KOSPI	2,042.98	3.62	0.18
STI	3,025.82	6.79	0.22
KLCI Futures	1,688.00	16.00	0.01
USDMYR 3M	17.12	(0.24)	(0.01)
USDMYR 6M	16.26	(0.13)	(0.01)
USDMYR 12M	15.61	(0.12)	(0.01)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	45	0.1	0.2%
Brent (USD/bbl)	47.9	-0.9	-1.8%
Gold(USD/ounce)	1,167	-0.6	0.0%
Coal (USD/mt)	53.3	0.0	0.1%
CPO (RM/mt)	2,367	48.0	2.1%
Rubber	128	-1.7	-1.3%
RM/USD	4.29	0.019	-0.44%
EUR/USD	0.88	-0.0002	-0.02%
YEN/USD	119.90	-0.03	0.03%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average plunged 48.50 points to 17,168.61 points, S&P 500 dropped 11.83 points to 2,018.94. Nasdaq slipped by 40.86 points to 4,840.12. A short-seller takeout of Valeant Pharmaceuticals International Inc. roiled the health-care sector, sending U.S. stocks to a second day of losses amid mixed corporate results. Fresh signs of a slowdown in global growth helped push oil to a three-week low.
- Equities have struggled this week to extend a rally that added more than \$4 trillion to global share prices since the end of September. Commodities producers paced that rally, but resources tumbled Wednesday after a decline in Japanese imports added to signs that demand from major economies in ebbing

### The Local Market

- FBMKLCI gained 2.08 points to finish at 1,707.11 lifted by the gained in selected heavyweight counters. There were 268 gainers and 648 decliners in total value traded of RM2.19 billion.
- Among the gainers on Bursa Malaysia were Kesm Indus grew 72 cent to RM5.10, Sam Engineering rose 57 cent to RM7.86, Top Glove up 45 cent to RM9.55 and KLK added 28 cent to RM22.88.

### Strategy

- **“Lack of Catalyst Weigh on Wall Street”**  
Wall Street ended lower yet again hurt by lack of catalyst that weighed on risk appetite. **S&P 500** and **DJIA shaved 11.83 (-0.58%)** and **48.50 (-0.28%)** points to end at **2,018.94** and **17,168.61** respectively. Lack of solid tier-1 economic announcement has taken toll on risk taking especially when Wall Street is on the verge of 3<sup>rd</sup> quarter results season. We opine that investors would want to wait for fresh signals before deciding on their investing strategy. As for the local market, the direction of Ringgit will play key role and we don't think that Budget 2016 will have significant bearing on the market especially when the winners or losers out the budget is limited to conjecture.
- 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

**UEM Sunrise (CP: RM1.20): Hibiscus design for UEM's 92-storey tower in Melbourne**

Leading Malaysian property developer UEM Sunrise is building a A\$770 million mixed-use development called "Aurora" in the shape of a hibiscus, Malaysia's national flower. This was announced on Wednesday at the ground-breaking ceremony at the site in La Trobe St. At 92 stories, the development will be the tallest in the Melbourne central business district (CBD) and will create a new focal point for the CBD. Aurora is Melbourne's only residential development with a direct underground connection to the rail network, the Melbourne Central Station, as well as, the CBD's largest continuous retail precinct comprising Melbourne Central Shopping Centre, Emporium, Myer, David Jones, GPO and the Bourke Street Mall. (Source: The Star)

**Barakah (CP: RM0.975): Signs MoU with HK's Hilong**

Barakah Offshore Petroleum Bhd's wholly-owned subsidiary PBJV Group Sdn Bhd has signed a memorandum of understanding (MoU) with Hilong Marine Engineering (HK) Ltd for opportunities related to offshore transportation and installation projects. In a statement, Barakah said the projects were for platform heavy lifts and pipelay as well as full engineering, procurement, construction, installation and commissioning for offshore oil and gas field development projects. Through the partnership, Hilong will bring heavy lift and pipelay installation vessel Hilong 106 that benefits from a maximum lift capacity of 3,000 tonnes in shallow to mid waters. (Source: The Star)

**TMC (CP: RM0.56): Quarterly net profit quadruples**

TMC Life Sciences Bhd, which operates the Tropicana Medical Centre and TMC Fertility Centre, quadrupled its net profit for its latest quarter ended Aug 31, 2015, to RM2.89mil. The healthcare group, which this month changed its financial year-end to Aug 31 from May 31, told Bursa Malaysia yesterday that the figure jumped 297% year-on-year on a 29.8% higher revenue of RM30.07mil. It said the higher revenue was contributed by a higher patient load arising from additional consultants recruited. Profitability improved due to higher revenue recorded and interest income earned," it added. (Source: The Star)

**Malayan Flour Mills (CP: RM1.35): Proposes land leasing, ups stake in poultry business related subsidiaries**

Malayan Flour Mills Bhd (MFM) has proposed to lease three pieces of land, measuring 200 acres in Lumut, Perak, from the Perak State Agricultural Development Corp (PSADC) for RM2.53 million. This will be satisfied by the issuance of 1.96 million new MFM shares to PSADC, at an issue price of RM1.29 per share. It will also issue one special share in its wholly-owned subsidiary, Dindings Poultry Development Centre Sdn Bhd (DPDC), to PSADC. In a filing with Bursa Malaysia today, MFM said the lands currently house 27 breeder houses, old hatchery buildings with new extension, a flourmill factory with warehouses, storage area, related buildings and facilities. MFM Group has been operating on the said lands for the past 25 years. (Source: The Edge)

**Pantech (CP: RM0.625): Weak demand drags Pantech's 2Q net profit, plans 0.6 sen dividend**

Weaker sales have dragged Pantech Group Holdings Bhd's net profit down by some 22.11% to RM10.43 million in its second quarter ended Aug 31, 2015 (2QFY16) from RM13.39 million a year ago. This translated to an earnings per share (EPS) of 1.72 sen in its latest quarter compared to 2.33 sen in 2QFY15. Revenue was down 14.12% at RM121.41 million from RM141.37 million a year earlier, according to its announcement to Bursa Malaysia. Nevertheless, the pipes and fittings manufacturer which primarily serves the oil and gas (O&G) industry has declared a second interim dividend of 0.6 sen per share for its FY16, payable on Jan 14; the ex-date is on Dec 18. (Source: The Edge)

**Hua Yang (CP: RM1.81): 2Q net profit up 10.4% at RM28.69m**

Hua Yang Bhd's net profit for the second quarter ended Sept 30, 2015 (2QFY16) grew 10.4% year-on-year to RM28.69 million or 10.87 sen per share from RM25.98 million or 9.84 sen a year ago due to better performance from the property development segment. Revenue for the quarter increased 8% to RM150.62 million from RM139.49 million in 2QFY15, its filing with Bursa Malaysia yesterday. For the cumulative six months (6MFY16), its net profit increased 17.4% to RM58.58 million or 22.19 sen per share versus RM49.92 million or 18.91 sen per share in 6MFY15. Revenue for the period came in 6.24% higher at RM293.19 million from RM275.96 million in the previous corresponding period. (Source: The Edge)

**Zelan (CP: RM0.28): Bags RM96.99m sub-contract works**

Zelan Bhd has bagged sub-contract works worth RM96.99 million from MMC-Sumitomo Consortium, which is constructing the Langat centralised sewage treatment plant and sewer pipe network connection for the Langat river basin catchment. In a filing with Bursa Malaysia today, Zelan said its wholly-owned subsidiary, Zelan Construction Sdn Bhd will undertake the sub-contract works with ICOP Construction (M) Sdn Bhd on a joint venture basis through an entity to be incorporated. Both companies yesterday accepted the letter of acceptance for the sub-contract works from MMC-Sumitomo Consortium. The sub-contract works involve the construction and completion of 16.6km of pipe jacking in various sizes and 164 shafts for jacking and receiving pit in various sizes and depths for the sewerage conveyance system for Zone 7A and 7B of the Langat project. (Source: The Edge)

**Alam Maritim (CP: RM0.48): Bags RM53.5m job from Petronas**

Alam Maritim Resources Bhd has bagged a RM53.5 million subcontract from Petroliaam Nasional Bhd (Petronas). In a filing with Bursa Malaysia, the company said that its wholly-owned subsidiary Alam Maritim (M) Sdn Bhd had received a letter of award from Petronas Floating LNG 1 (L) Ltd, a wholly-owned subsidiary of Petronas, for a subcontract for the floating liquefied natural gas (FLNG) offshore works of final positioning and mooring system hook-up including flexible riser installation, pre-commissioning and commissioning of pipeline, pipeline end terminal and riser from KAKG to FLNG (Package No 2). The duration for the subcontract is from June 15, 2015 until April 30, 2016. (Source: The Edge)

**MAHB (CP: RM5.49): Spent RM76.5m on klia2 repair works, says minister**

Malaysia Airport Holdings Bhd (MAHB) has spent a total of RM76.5 million on repair works in Kuala Lumpur International Airport 2 (klia2) since the airport's opening in May 2014, said Transport Minister Datuk Seri Liow Tiong Lai. Liow said this in a written reply to Sepang MP Mohamed Hanipa Maidin who asked the Transport Minister about the total cost incurred by MAHB to carry out repair works on the defects in klia2. Mohamed Hanipa also asked Liow to state whether the government has conducted the construction and development audit on klia2 as promised by the minister and the status of audit. Mohamed Hanipa expressed disappointment over the huge repair cost of RM76.5 million incurred due to construction defects. *(Source: The Edge)*

**ECONOMIC UPDATES****Brazil: Keeps interest rates steady to avoid deepening recession**

Brazil's central bank kept interest rates on hold on Wednesday, standing pat for a second straight meeting despite a jump in inflation expectations to avoid doing more harm to an economy mired in its worst recession in decades. In a unanimous vote, the central bank's monetary policy committee, known as Copom, kept the benchmark Selic rate BRCBMP=ECI at 14.25 percent, a nine-year high and still the highest among the world's top 10 economies. The decision not to raise rates will give a breather to President Dilma Rousseff, who is fighting for her political survival amid the country's worst economic and political crisis in 25 years. *(Source: Reuters)*

**China: Vows to lift yuan convertibility in Shanghai FTZ**

The Chinese government will boost the convertibility of the yuan under its capital account in the Shanghai free trade zone, and will increase the ways in which renminbi that are held overseas can be reinvested in China, the cabinet said on Wednesday. The government will also study ways to allow qualified Chinese investors to invest overseas, the State Council said after a weekly meeting. In a separate development, the People's Bank of China (PBOC) said on Wednesday that China and Britain had renewed their bilateral local currency swap agreement for a further three years, and increased the swap line from 200 billion yuan to 350 billion yuan (US\$55.13bil). *(Source: Reuters)*

**Europe: ECB to stay put, keep door open for more stimulus**

The European Central Bank is likely to keep the door open for more monetary stimulus but stop short of taking new policy steps at a meeting on Thursday as it awaits fresh indications about the outlook for euro zone inflation. Consumer prices in the 19-country euro zone fell in September, prompting calls for the ECB to expand or extend its 60 billion euros (\$68.09 billion) a month of asset purchases. The program was launched in March to help push inflation back to the ECB's target of just under 2 percent. While stressing their readiness to act, the bank's policymakers have said the fall in prices is largely due to energy costs, which the ECB cannot influence, and that it is unclear whether a slowdown in emerging economies will have a lasting impact on the euro zone. *(Source: Reuters)*

**Thailand: New Thai central bank chief says monetary policy to remain accommodative**

Thailand's new central bank chief said on Wednesday that monetary policy will remain supportive of the economy, but added he was concerned about challenges to growth. The military seized power in May 2014 to end months of political unrest but has struggled to move South-East Asia's second-largest economy forward, with exports and consumption stubbornly sluggish. Growth last year was only 0.9%. Monetary policy in the short term can still support Thailand's economic recovery because we have no stability risks," Bank of Thailand (BoT) governor Veerathai Santiprabhob said at his first news conference after taking the top job this month. The BoT's monetary policy committee left the benchmark one-day repurchase rate unchanged at 1.50% for a third straight meeting last month, just above the record low of 1.25%. (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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