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Friday, October 23, 2015

## Report of the Day

**Results Review: Public Bank 3Q15 – “NIM Improve”**  
 Results Review: Nestle 3Q15 – “Challenging Outlook”

### At a Glance

FBMKLCI declined 2.02 points to finish at 1,705.09 ahead of the tabling of Budget 2016.....(See full report next page)

### Strategy

#### “Wall Street Turn Bull on Mario Power”

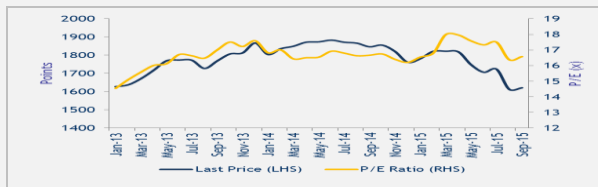
We opine that the local and regional market may resume its risk taking appetite today.....(See full report next page)

### Corporate Highlights

- **Public Bank, HOLD (TP: RM19.14):** Records higher Q3 earnings
- **Nestle Malaysia, SELL (TP: RM61.50):** Q3 earnings up 19%
- **Gas Malaysia, BUY (TP: RM2.89):** To use new regulatory framework in 2016

### Economic Update

- **Malaysia:** Foreign reserves at US\$97.6 billion
- **Indonesia:** FDI into Indonesia on the rise in Q3
- **Europe:** ECB looks set to keep rates steady, despite deflation fears



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	1,705.09	-2.02	-0.12
FBMEMAS	11,781.87	0.87	0.01
FBMEMAS SHA	12,571.77	18.09	0.14
FBM100	11,477.35	-1.55	-0.01
Volume (mn)	2,438.08	51.48	2.16
Value (RMmn)	2,027.67	-164.00	-7.48
FBMKLCI YTD Chg			-3.19

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	21.5	-12.3
Local Institution	54.5	31.7
Foreign Investors	24.0	-19.4

## Top Gainers

	Close	Change+/-	(+/- %)
NESTLE	72.00	0.94	1.32
PANASONIC	21.86	0.62	2.92
PETRONAS GAS	23.34	0.58	2.55

## Top Losers

	Close	Change+/-	(+/- %)
TOP GLOVE	9.27	-0.28	-2.93
BAT	62.12	-0.26	-0.42
ORIENTAL INT	3.32	-0.26	-7.26

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,489.16	320.55	1.87
NASDAQ	4,920.05	79.93	1.65
S&P 500	2,052.51	33.57	1.66
FTSE 100	6,376.28	27.86	0.44
DAX	10,491.97	253.87	2.48
Nikkei 225	18,435.87	-118.41	-0.64
HSI	22,845.37	-143.85	-0.63
KOSPI	2,023.00	-19.98	-0.98
STI	3,040.96	15.26	0.50
KLCI Futures	1,678.00	(11.50)	(0.01)
USDMYR 3M	17.15	(0.16)	(0.01)
USDMYR 6M	16.25	(0.21)	(0.01)
USDMYR 12M	15.69	(0.14)	(0.01)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	45	0.1	0.2%
Brent (USD/bbl)	48.1	0.2	0.5%
Gold(USD/ounce)	1,166	0.1	0.0%
Coal (USD/mt)	53.0	-0.3	-0.6%
CPO (RM/mt)	2,371	4.0	0.2%
Rubber	128	0.0	0.0%
RM/USD	4.28	-0.0027	0.06%
EUR/USD	0.90	0.0023	0.26%
YEN/USD	120.89	0.2	-0.17%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average soared 320.55 points to 17,489.16 points, S&P 500 grew 33.57 points to 2,052.51. Nasdaq rose by 79.93 points to 4,920.05. The bulls shook off a two-day funk on Thursday with an impressive rally, pushing large-cap stocks up and over technical resistance last crossed back in August.
- A combination of solid earnings (especially in tech) and hints of more cheap money stimulus from the European Central Bank overnight was all it took to reignite animal spirits in a big way.

### The Local Market

- FBMKLCI declined 2.02 points to finish at 1,705.09 ahead of the tabling of Budget 2016. There were 419 gainers and 456 decliners in total value traded of RM2.03 billion.
- Among the losers on Bursa Malaysia were Top Glove down 28 cent to RM9.27, BAT slipped 26 cent to RM62.12, Oriental Interest fell 26 cent to RM3.32 and Carlsberg slid 20 cent to RM12.02.

### Strategy

- **“Wall Street Turn Bull on Mario Power”**  
Mario Draghi single handedly lifted Wall Street risk appetite on Thursday with the Dow raced to close a solid 300 points higher. **S&P 500** and **DJIA added a steady 33.57 (1.66%) and 320.55 (1.87%)** points to end at **2,052.51** and **17,489.16** respectively. Despite the European Central Bank (ECB) decision to hold its policy rate steady, market watchers were jubilant with its boss (Mario Draghi) statement that the ECB will reassess its asset purchase programme in December amid weak inflation due to less-than-sanguine emerging market economies. As though a harbinger for bigger stimulus programme, it signals that Euro may drop in due time and hence, will eventually lifted its economy and this has stoked a sense of optimism and therefore, the rally in Wall Street. We agree that bigger stimulus will help the EU economy and this will be one of the very few catalysts that could lift sentiment by year end. As for next week, we need to forewarn a few stress points that could send global equity market into state of jitteriness, that is the release of US 3<sup>rd</sup> quarter GDP on the 29<sup>th</sup> October along with the Fed’s policy decision. But first, we opine that the local and regional market may resume its risk taking appetite today.
- 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

**Public Bank, HOLD (TP: RM19.14): Records higher Q3 earnings**

Public Bank Bhd posted stronger earnings for the third quarter ended Sept 30 at RM1.201bil while for the nine-month period, earnings were at a record of RM3.569bil, driven by sustained growth performance in the group's loan and deposit, as well as non-interest income. It said on Thursday its Q3 earnings rose 0.8% from RM1.191bil a year ago and for the nine months, the earnings expanded at a stronger pace of 9.3% from RM3.264bil in the previous corresponding period. Its Q3 revenue increased by a strong 13.6% to RM4.914bil from RM4.324bil a year ago. Earnings per share were 31.11 sen compared with 31.88 sen. For the nine months, its revenue rose 15.5% to RM14.252bil from RM12.331bil. (Source: *The Star*)

**Nestle Malaysia, SELL (TP: RM61.50): Q3 earnings up 19%**

Nestle (Malaysia) Bhd's third quarter net profit jumped 19% for the quarter ended Sept 30, 2015, compared with the corresponding period the year before, on improvements in cost of sales with lower tax expense. The group made RM179.2 million net profit for the quarter, compared to RM150.1 million for the same period in 2014. This was on only slightly higher revenue of RM1.2 billion for the third quarter in 2015, compared with RM1.15 billion for the same period in 2014. For the nine-month period ended Sept 30, 2015, Nestle made a net profit of RM490.9 million, compared with RM452.1 million for the same period in 2014. Revenue for the period was slightly lower though at RM3.6 billion, compared with RM3.7 billion for the same period in 2014. (Source: *The Sun*)

**Gas Malaysia, BUY (TP: RM2.89): To use new regulatory framework in 2016**

The implementation of the incentive-based regulation framework (IBR) by Gas Malaysia Bhd will take effect on Jan 1, 2016. The IBR is a form of economic regulation aimed at incentivising Gas Malaysia for better operational and financial performance, whilst regulating the natural gas tariff. In support of the liberalisation of the natural gas industry, which is to gradually align current piped gas towards market prices, the IBR is introduced to promote efficient resources allocation and usage, and sustainable financial performance, Gas Malaysia said. With respect to its implementation, the IBR will first be on a trial run in 2016, following which the first regulatory period will run for the next three years from 2017 until 2019. (Source: *The Sun*)

**MNC Wireless (CP: RM0.27): Inks MoU with Petrowangsa for O&G jobs**

Digital marketing technology solutions provider MNC Wireless Bhd has signed an MoU with Petrowangsa Sdn Bhd that will pave way for both parties to secure multimedia advertising and digital work contracts in the oil and gas industry. MNC chief executive officer Christopher Tan said with its current order book of over RM5mil from existing clientele, the group hopes to generate a substantial and profit margin via its tie-up with Petrowangsa in the next few years. Established three years ago, Petrowangsa is an approved Petroliam Nasional Bhd (Petronas) licence holder for various works, including supply of personal transfer basket, application of passive fire proofing and supply of material handling equipment and life boats, among others. (Source: *The Star*)

**Brahim's (CP: RM0.98): Singapore's SATS offers RM218m for stake in Brahim caterer**

Singapore's leading provider of gateway services and food solutions, SATS Ltd has made an offer of RM218mil to Brahim's Holdings Bhd for its 49% stake in Brahim's Airline Catering Holdings Sdn Bhd (BACH). Brahim's said on Thursday that it has received a conditional binding offer from SATS unit SATS Investments Pte Ltd to acquire the 490,000 shares in BACH. The amount would be RM110mil upon completion of the transaction and the remaining RM108mil conditional upon certain financial targets being achieved. In a separate statement, SATS Ltd said BACH in turn owns 70% of Brahim's Airlines Catering Sdn Bhd while Malaysia Airlines Bhd holding the other 30% interest. *(Source: The Star)*

**IPO: Red Sena, banks sign IPO pact**

Red Sena Bhd, a special purpose acquisition company (SPAC) formed for the purpose of acquiring operating companies or assets in the branded, packaged food and beverage business, has signed an underwriting agreement with investment bankers for its proposed initial public offering (IPO) on the Main Market of Bursa Malaysia Securities Bhd. It signed the underwriting agreement with RHB Investment Bank, CIMB Investment Bank, Affin Hwang Investment Bank and AmInvestment Bank. Maybank Trustees has been appointed the SPAC custodian to hold in trust 92% of the gross IPO proceeds. The company received approval from the Securities Commission Malaysia in July and from Bursa Securities recently to proceed with its proposed IPO of 800 million new ordinary shares of 1 sen each together with one free detachable warrant. *(Source: The Sun)*

**Construction Sector: Tender for RM28bil SSP line to open soon**

The tendering process for the RM28bil MRT Sungai Buloh-Serdang-Putrajaya Line (SSP Line) may soon begin as Mass Rapid Transit Corp Sdn Bhd (MRT Corp) has obtained the final approval for the railway scheme from the Government. The Government, through the Land Public Transport Commission (SPAD), approved the railway scheme, which contains, among others, the final alignment and station locations of the second line of the Klang Valley MRT Project. MRT Corp said the final approval was given without any major modification to the earlier proposed SSP Line alignment displayed during public inspection. But, the final alignment saw some minor tweaking at two locations at Kuchai Lama and Sungai Besi to minimise the impact from land acquisition and to enable optimisation of usage of the remaining land after acquisition. *(Source: The Star)*

**ECONOMIC UPDATES****Malaysia: Foreign reserves at US\$97.6 billion**

The international reserves of Bank Negara Malaysia amounted to RM418.0 billion (equivalent to US\$97.6 billion) as at Oct 15. The reserves position is sufficient to finance 8.8 months of retained imports and is 1.2 times the short-term external debt. BNM did not explain why the reserves had risen from RM415.1 billion as at Sept 30, 2015. It had then said that the decline in reserves level in US dollar terms as at Sept 30 from the prior two weeks was mainly due

to the quarterly adjustment for foreign exchange revaluation changes. (Source: *The Sun*)

#### **Malaysia: Mier Business Conditions Index slips in third quarter**

The Malaysian Institute of Economic Research (Mier) Business Conditions Index (BCI) for the third quarter extended its downtrend by 9.0 points to 86.4 points, versus 95.4 points in the previous quarter. In releasing the results on Thursday, Mier said the component indices of manufacturing sales, new domestic orders, production and new export orders weighed down the index. Mier said the drop below the 100-point threshold reflects signs of a contracting manufacturing sector. As at September 2015, the manufacturing sector remained in low gear, due to sluggish final demand and ongoing inventory adjustments. (Source: *The Star*)

#### **Indonesia: FDI into Indonesia on the rise in Q3**

Foreign direct investment (FDI) into Indonesia rose in the third quarter in rupiah terms, but the dollar-equivalent FDIs slowed as the economy struggled under the weight of slumping commodity prices, red tape and faltering investor confidence. The Investment Coordinating Board (BKPM) said South-East Asia's largest economy attracted 92.5 trillion rupiah (US\$6.85bil) in investment over the July-September period, up 18.1% from a year ago. Reporting the FDIs in local currency terms, however, has tended to mask the underlying picture of a cautious foreign investor. The dollar equation provided by BKPM showed that FDI so far this year has been slowing in line with a cooling economy. (Source: *The Star*)

#### **Europe: ECB looks set to keep rates steady, despite deflation fears**

The European Central Bank (ECB) looks set to keep its key rates steady and refrain from any additional stimulus measures at a meeting in Malta on Thursday, despite concern about chronically weak inflation, analysts said. The strong euro, falling consumer prices and fears of a global economic slowdown provide ample argument for the ECB to ease monetary conditions still further in the 19-country eurozone. But ECB watchers predict the guardian of the euro will intervene only verbally when its decision-making governing council meets in Malta and wait until later in the year to take any concrete policy action. Markets have begun to speculate that the ECB could accelerate or increase its programme of so-called quantitative easing (QE) soon, given that consumer prices declined by 0.1% in the euro-area in September. (Source: *The Star*)

#### **U.S.: Housing, jobs data point to fairly strong economy**

U.S. home resales rebounded strongly in September and new applications for unemployment benefits hovered around 42-year lows last week, pointing at solid domestic fundamentals even as the global economy falters. Thursday's upbeat housing and labor market reports could keep the door open to an interest rate hike from the Federal Reserve by the end of the year. The National Association of Realtors said existing home sales increased 4.7 percent to an annual rate of 5.55 million units last month, almost erasing August's decline. (Source: *Reuters*)

# 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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