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Monday, October 26, 2015

Report of the Day

Malaysia Equity Strategy: Budget 2016 – “Caring Budget but Exogenous Factor will Dictate the Market on Monday”

At a Glance

FBM KLCI grew 5.84 points to finish at 1,710.93 due to positive sentiment on Budget 2016 announcement.....(See full report next page)

Strategy

“Exogenous Factor to Influence Local Market Today”

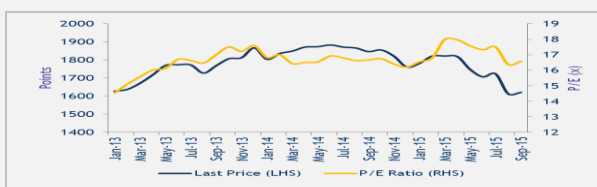
We opine that PBoC will only reinforce currency war especially among the emerging economies.....(See full report next page)

Corporate Highlights

- **Bursa Malaysia (CP: RM8.39):** Q3 earnings down 3% as operating costs climb
- **Hong Leong Bank (CP: RM14.20):** HL Bank, parent set rights issue prices
- **Icon Offshore (CP: RM0.36):** Wins RM7.7mil contract from ExxonMobil

Economic Update

- **Malaysia:** Inflation for September up 2.6% on-year, slower than expected
- **South Korea:** Q3 GDP growth hits 5-year high on consumption
- **Japan:** BOJ faces key test to rosy forecast



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
US	26-Oct	10:00 PM	New Home Sales	547K	552K
US	26-Oct	10:00 PM	New Home Sales MoM	-0.9%	5.7%
US	26-Oct	10:30 PM	Dallas Fed Manf. Activity	-6.0	-9.5
EU	27-Oct	5:00 PM	M3 Money Supply YoY	-	4.8%
US	27-Oct	8:30 PM	Durable Goods Orders	-1.1%	-2.0%
US	27-Oct	8:30 PM	Durable Ex Transportation	0.0%	0.0%
US	27-Oct	9:00 PM	S&P/CS Composite-20 YoY	0.15%	-0.20%
US	27-Oct	9:00 PM	S&P/Caseshiller 20-City Index NSA	-	181.9
US	27-Oct	9:45 PM	Markit US Composite PMI	-	55.0
US	27-Oct	9:45 PM	Markit US Services PMI	-	55.1
US	27-Oct	10:00 PM	Consumer Confidence Index	102.8	103.0
US	27-Oct	10:00 PM	Richmond FedManufac. Index	-2.0	-5.0
US	28-Oct	7:00 PM	MBA Mortgage Applications	-	11.8%
JP	28-Oct	7:50 AM	Retail Trade YoY	-	0.8%
JP	28-Oct	7:50 AM	Retail Sales MoM	-	0.0%
EU	29-Oct	6:00 PM	Economic Confidence	-	105.6
EU	29-Oct	6:00 PM	Consumer Confidence	-	-
US	29-Oct	2:00 AM	FOMC Rate Decision (Upper Bound)	0.25%	0.25%
US	29-Oct	8:30 PM	Initial Jobless Claims	-	-
US	29-Oct	8:30 PM	GDP Annualized QoQ	1.7%	3.9%
US	29-Oct	8:30 PM	Core PCE QoQ	-	1.9%
US	29-Oct	9:45 PM	Bloomberg Consumer Comfort	-	-
US	29-Oct	10:00 PM	Pending Home Sales MoM	0.5%	-1.4%
JP	29-Oct	7:50 AM	Industrial Production MoM	-	-1.2%
JP	29-Oct	8:30 PM	Industrial Production YoY	-	-0.4%
EU	30-Oct	6:00 PM	Unemployment Rate	-	11.0%
EU	30-Oct	6:00 PM	CPI Estimate YoY	-	-
EU	30-Oct	6:00 PM	CPI Core YoY	-	0.9%
US	30-Oct	8:30 PM	Personal Income	0.2%	0.3%
US	30-Oct	8:30 PM	Personal Spending	0.2%	0.4%
US	30-Oct	8:30 PM	PCE Core MoM	0.2%	0.1%
US	30-Oct	8:30 PM	PCE Core YoY	1.4%	1.3%
US	30-Oct	9:45 PM	Chicago Purchasing Manager	49.0	48.7
US	30-Oct	10:00 PM	U. of Mich. Sentiment	92.6	92.1
JP	30-Oct	7:30 AM	Jobless Rate	-	3.4%
JP	30-Oct	7:30 AM	Job-To-Applicant Ratio	-	1.2%
JP	30-Oct	7:30 AM	Natl CPI YoY	-	0.2%
JP	30-Oct	12:00 PM	Vehicle Production YoY	-	-4.7%
JP	30-Oct	1:00 PM	Housing Starts YoY	-	8.8%
JP	30-Oct	1:00 PM	Annualized Housing Starts	-	0.931M
JP	30-Oct	1:00 PM	Construction Orders YoY	-	-15.6%
MY	30-Oct	6:00 PM	Money Supply M3 YoY	-	4.6%
CN	28-31 Oct	-	Leading Index	-	98.2

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,710.93	5.84	0.34
FBMEMAS	11,833.35	51.48	0.44
FBMEMAS SHA	12,630.56	58.79	0.47
FBM100	11,524.79	47.44	0.41
Volume (mn)	2,419.53	-18.55	-0.76
Value (RMmn)	2,005.35	-22.32	-1.10
FBMKLCI YTD Chg			-2.86

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	21.0	-31.7
Local Institution	51.6	-264.8
Foreign Investors	27.4	296.5

Top Gainers

	Close	Change+/-	(+/- %)
BAT	62.98	0.86	1.38
UNITED PLANT	26.80	0.50	1.90
KLK	23.32	0.48	2.10

Top Losers

	Close	Change+/-	(+/- %)
INARI AMERTRON	3.70	-0.11	-2.89
HAP SENG CONS	6.09	-0.09	-1.46
BIMB HLDGS BHD	4.11	-0.09	-2.14

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,646.70	157.54	0.90
NASDAQ	5,031.86	111.81	2.27
S&P 500	2,075.15	22.64	1.10
FTSE 100	6,444.08	67.80	1.06
DAX	10,794.54	302.57	2.88
Nikkei 225	18,825.30	389.43	2.11
HSI	23,151.94	306.57	1.34
KOSPI	2,040.40	17.40	0.86
STI	3,068.63	30.52	1.00
KLCI Futures	1,697.00	17.50	0.01
USDMYR 3M	17.38	0.15	0.01
USDMYR 6M	16.53	0.20	0.01
USDMYR 12M	16.00	0.24	0.02

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	45	0.0	0.1%
Brent (USD/bbl)	48.0	0.0	0.0%
Gold(USD/ounce)	1,164	-0.2	0.0%
Coal (USD/mt)	52.8	-0.2	-0.3%
CPO (RM/mt)	2,328	-43.0	-1.8%
Rubber	129	1.0	0.8%
RM/USD	4.24	-0.0456	1.08%
EUR/USD	0.91	-0.0002	-0.02%
YEN/USD	121.30	-0.17	0.14%

What To Expect

U.S. Market

- The Dow Jones Industrials Average soared 157.54 points to 17,646.70 points, S&P 500 grew 22.64 points to 2,075.15. Nasdaq rose by 111.81 points to 5,031.86. The Nasdaq 100 index, dominated by U.S. technology stocks, may set a record high this week, helped by good earnings from Apple Inc expected on Tuesday.
- Factors this coming week that may provide further support for U.S. stocks include a Federal Reserve policy meeting, which is not expected to raise interest rates yet, a report on U.S. third-quarter economic growth, and earnings from Apple.

The Local Market

- FBMKLCI grew 5.84 points to finish at 1,710.93 due to positive sentiment on Budget 2016 announcement. There were 525 gainers and 318 decliners in total value traded of RM2.0 billion.
- Among the Gainers on Bursa Malaysia were BAT rose 86 cent to RM62.98, United Plant increased 50 cent to RM26.80, KLK up 48 cent to RM23.32 and Kobay Technology gained 35 cent to RM1.52.

Strategy

- **“Exogenous Factor to Influence Local Market Today”**

Wall Street ended last week's trading in turbo charge momentum lifted by better-than-expected corporate earnings results and surprising interest rate cut by PBoC. **S&P 500** and **DJIA** added **22.64 (1.10%)** and **157.54 (0.90%)** to finish at **2,075.15** and **17,646.70** respectively, with the latter effectively erased all of its 2015 losses thanks to Friday's solid gain. To begin with, Microsoft belted corporate earnings results that beaten street estimates, pushing investors to place higher bets in tech stocks which was responsible in lifting the bellwether indexes. Other than that, People Bank of China (PBoC) delivered a stunning catalyst to the global equity market after it announced a series of monetary rates cut in an effort to fight deflation and arrest declining growth amid the probability of bigger quantitative easing injection from Japan and Eurozone apart from the impending backlash from US interest rate adjustment. In surprising move where the PBoC rarely call the monetary shot in synchronization way, the China's central bank had 1) cut its benchmark lending rate by 25 basis points to 4.35% (note: record low), 2) scrapped deposit cap, in an effort for further liberalization 3) reduce one-year deposit rate to 1.5% from 1.75% and 4) lower reserve requirements for all banks by 50 basis points, with an extra 50 basis point reduction for some institutions. All these will take effect last Saturday. With the new monetary weapon, we opine that PBoC will only reinforce currency war especially among the emerging economies. All told, the in sync move by PBoC, which is rare, may surely be a shot-in-the-arm for global equity market on Monday. Nonetheless, the excitement may dissipate towards the 29th or earlier due to the impending release of US 3rd quarter GDP and US

Federal Reserve policy rate decision due on the said date.

- 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

Bursa Malaysia (CP: RM8.39): Q3 earnings down 3% as operating costs climb

Bursa Malaysia posted lower earnings of RM51.46mil in the third quarter ended Sept 30, 2015 due to higher operating expenses. The stock exchange operator said on Friday the earnings fell 3% from RM53.08mil a year ago. Its revenue was almost flat at RM128.83mil compared with RM128.96mil a year ago. Earnings per share were 9.6 sen versus 10 sen. The average daily trading value (ADV) for Securities Market's on-market trades was lower by 12% to RM1.93bil, while average daily contracts traded for the Derivatives Market increased by 14.7% to 61,954 contracts in Q3. For the Islamic Capital Market, the ADV of Bursa Suq Al-Sila increased to RM16bil, up 120.7%. For the nine-month period ended Sept 30, earnings rose 2% to RM148.01mil from RM145.08mil in the previous corresponding period. Revenue was up 2% to RM382.94mil from RM375.27mil. (Source: The Star)

Hong Leong Bank (CP: RM14.20): HL Bank, parent set rights issue prices

Hong Leong Bank Bhd (HLB) and parent company Hong Leong Financial Group Bhd (HLFG) have fixed their rights issue at RM10.40 and RM11.60 a share, respectively. In a filing with the stock exchange, HLB said the issue price of RM10.40 per rights share represents a discount of about 22.7% to the theoretical ex-rights price of RM13.45, which was calculated based on the five-day volume-weighted average market price Oct 22 of RM14.20 and after adjusting for the final single-tier dividend of 26 sen per share. HLB is expected to raise RM2.99 billion from the rights issue exercise on the basis of four rights shares for every 25 existing shares held. HLFG, meanwhile, will raise RM1.1 billion to subscribe to HLB's issuance of rights shares. HLFG's rights issue is on the basis of nine rights shares for every 100 existing shares held. (Source: The Sun)

Icon Offshore (CP: RM0.36): Wins RM7.7mil contract from ExxonMobil

Icon Offshore Bhd has received a RM7.7mil contract from ExxonMobil Exploration & Production Malaysia Inc to provide two anchor handling tug/supply vessels. The offshore support vessel provider told Bursa Malaysia that it had started to provide the vehicles - Icon Zara from Sept 30 and Icon Ikhlas from Oct 1. Icon Zara will continue for six months with an option for a one-month extension while Icon Ikhlas' service will span three months. Under the short-term contract, Icon Offshore's unit Icon Offshore Group Sdn Bhd is required to provide, among others, transportation of supplies from supply bases to drilling rigs/platform and vice versa. Icon Offshore, which in June marked its

first anniversary as a public listed company, has been led by deputy chief executive officer Captain Hassan Ali following the six-month leave of absence granted to its CEO and COO starting April 27 in order to assist in Malaysian Anti-Corruption Commission investigations. (Source: *The Star*)

Eversendai (CP: RM0.81): Hopes for tax cuts, incentives in 2016 Budget

Eversendai Corp Bhd hopes that the government will look at tax reductions as well as incentives for the upcoming Budget 2016, to ensure the country grows its manufacturing, industrial and construction footprint. Managing director Tan Sri A K Nathan said this includes the reduction in corporate tax rate, real property gains tax rate, personal tax rate and goods and services tax (GST) as well as provision for incentives including export incentive. (Source: *NST*)

Gadang Holdings (CP: RM1.46): Bags RM375m contract from Petronas

Gadang Holdings Bhd has clinched a contract worth RM375.13 million from Petroliaam Nasional Bhd (Petronas) for civil and infrastructure works at Pengerang, Johor. In a filing with Bursa Malaysia last Friday, Gadang said its wholly-owned subsidiary Gadang Engineering (M) Sdn Bhd received the letter of award (LOA) from Petronas' subsidiary PRPC Utilities and Facilities Sdn Bhd on Oct 21, 2015. Gadang said, the project known as utilities, interconnecting, offsite (UIO) facilities: procurement, construction and commissioning (PCC) of civil and infrastructure works at interconnecting sleepers and utilities area 2 (package 14-0301). The 31-month contract will commence from the date of the LOA. (Source: *The Sun*)

Sumatec (CP: RM0.16): Plans rights issue to raise RM52.24m

Sumatec Resources Bhd is planning to place out 348.27 million new shares, or 10% of its issued and paid-up share capital, to raise RM52.24 million to finance its upstream oil and gas (O&G) operations in Kazakhstan. In a stock exchange filing last Friday, Sumatec said it intended to place out the shares to independent third party investors. Sumatec, 24.5% owned by Tan Sri Halim Saad, said that the indicative issue price is 15 sen per placement share which is a 4.40% discount to its weighted average market price (WAMP) up to and including Oct 22, 2015. The proposed private placement will enable the company to raise the necessary funds for its capital expenditure at the Rakushechnoye oil and gas field and general working capital without incurring additional interest costs as compared to other means of financing, such as through bank borrowings or the issuance of debt instruments. (Source: *The Sun*)

Plantation (Neutral): Malaysia Produces 33pc of World's Palm Oil

Malaysia is the world's second biggest producer of sustainable palm oil. The country also generated 33 per cent of the world's palm oil production last year. "The high oil yield from mature oil palm tree, averaging close to four tonnes per hectare annually, means the crop requires the least land hectareage compared with other vegetable oil crops such as soya, rapeseed or sunflower, to meet the increasing global demand for oils and fats," according to the website. Oil palm takes up only six per cent of agricultural land devoted to 10 major vegetable oil crops but it accounts for 38 per cent of global vegetable oil production. (Source: *NST*)

ECONOMIC UPDATES

Malaysia: Inflation for September up 2.6% on-year, slower than expected

Malaysia's inflation rate rose 2.6% in September 2015 from a year ago, which was slower than the 2.9% expected. The Statistics Department said on Friday the Consumer Price Index (CPI) for rose to 113.6 from 110.7 a year ago. The rise in the CPI was led by increases in the index for alcoholic beverages & tobacco group by 9.8%; miscellaneous goods and services (+5.6%); health and restaurants & hotels by 4.6%. As for food & non-alcoholic beverages, the index increased by 4.3% while furnishing, household equipment & routine household maintenance (+3.7%). These six groups of goods and services which weighted 47.4 contributed 86.6% to the increase in the CPI for September 2015. On a monthly basis, CPI for September 2015 decreased by 0.3%. The Statistics Department said CPI for the period from January to September 2015 increased by 1.9% from the previous corresponding period. *(Source: The Star)*

South Korea: Q3 GDP growth hits 5-year high on consumption

South Korea's economic growth accelerated to its fastest in more than five years as a sharp recovery in domestic demand more than offset a drop in exports, but policymakers stopped short of saying the consumption recovery would be sustained. Gross domestic product grew by a seasonally adjusted 1.2% in July-September versus the second quarter, Bank of Korea (BoK) data showed, quadrupling from a 0.3% quarterly rise and the fastest since the second quarter of 2010. The dramatic rebound appeared to undermine the case for another interest rate cut soon, but some economists said the BoK could still provide additional policy easing if exports fall further. *(Source: The Star)*

Japan: BOJ faces key test to rosy forecast

Bank of Japan policymakers meet for a crucial rate review on Friday as growing signs of recession and slumping oil prices challenge their scenario that the world's third-largest economy is on track to hit an ambitious 2 percent inflation target. While the central bank is set to cut its rosy price forecasts in a semi-annual report due out Friday, many BOJ officials prefer to hold off on expanding an already massive stimulus program that has had limited success in accelerating inflation since being deployed two-and-half years ago. They are clinging to hopes that Japan's economy will emerge from the doldrums next year as global demand for its exports pick up and accelerate inflation toward the BOJ's target. *(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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