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Friday, October 30, 2015

Report of The Day

Results Review: TNB 4Q15 – “Weaker Due to Rebates and Forex”

Company Update: UMW Oil and Gas-“Awards for NAGA 7”

At a Glance

FBMKLCI declined 19.53 points to finish at 1,666.98 dragged by slowdown in US third quarter GDP number.....(See full report next page)

Strategy

“Wall Street Already Looking at Next Week’s Economic Signals”

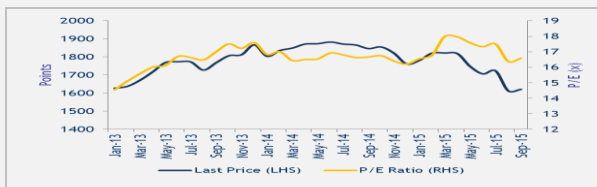
We think that cautious trading sentiment will continue.....(See full report next page)

Corporate Highlights

- **TNB, BUY (TP: RM14.60):** Q4 net profit more than halved due to ringgit depreciation
- **Maybank, BUY (TP: RM9.92):** Maybank Indonesia 9-month earnings up 70.7%
- **IHH Healthcare, SELL (TP: RM5.19):** To open RM400m hospital in Johor

Economic Update

- **Malaysia:** Central bank accepts dollar deposits as ringgit sinks
- **U.S.:** Economy slows to 1.5% growth in third quarter
- **U.S.:** Jobless claims rise, four-week average lowest since 1973



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
US	26-Oct 10:00 PM	New Home Sales MoM	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	-	6.8%	
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	-	3.9%	
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 7:50 AM	Industrial Production YoY	-	-0.4%	
EU	30-Oct 6:00 PM	Unemployment Rate	-	11.0%	
EU	30-Oct 6:00 PM	CPI Estimate YoY	-	0.9%	
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	1,666.98	-19.53	-1.16
FBMEMAS	11,573.16	-98.51	-0.84
FBMEMAS SHA	12,387.26	-58.90	-0.47
FBM100	11,258.26	-104.49	-0.92
Volume (mn)	2,168.17	19.41	0.90
Value (RMmn)	2,281.08	227.56	11.08
FBMKLCI YTD Chg			-5.35

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	17.0	48.9
Local Institution	59.0	310.8
Foreign Investors	24.0	-359.7

Top Gainers

	Close	Change+/-	(+/- %)
PIE INDUSTRIAL	7.45	0.40	5.67
AJIYA BHD	4.30	0.25	6.17
CARLSBERG BREW	12.42	0.22	1.80

Top Losers

	Close	Change+/-	(+/- %)
BAT	62.24	-0.46	-0.73
DUTCH LADY MILK	47.24	-0.36	-0.76
HONG LEONG BA	13.72	-0.02	-0.15

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,755.80	-23.72	-0.13
NASDAQ	5,074.27	-21.42	-0.42
S&P 500	2,089.41	-0.94	-0.04
FTSE 100	6,395.80	-42.00	-0.65
DAX	10,800.84	-31.12	-0.29
Nikkei 225	18,935.71	32.69	0.17
HSI	22,819.94	-136.63	-0.60
KOSPI	2,034.16	-8.35	-0.41
STI	3,001.51	-39.00	-1.28
KLCI Futures	1,647.00	(26.50)	(0.02)
USDMYR 3M	17.08	(0.17)	(0.01)
USDMYR 6M	16.32	(0.03)	(0.00)
USDMYR 12M	15.77	0.01	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	46	-0.3	-0.6%
Brent (USD/bbl)	48.8	-0.3	-0.5%
Gold(USD/ounce)	1,148	2.2	0.2%
Coal (USD/mt)	53.2	0.3	0.6%
CPO (RM/mt)	2,370	29.0	1.2%
Rubber	125	0.7	0.6%
RM/USD	4.30	0.0285	-0.66%
EUR/USD	0.91	-0.001	-0.11%
YEN/USD			

What To Expect

U.S. Market

- The Dow Jones Industrials Average declined 23.72 points to 17,775.80 points, S&P 500 dropped 0.94 points to 2,089.41. Nasdaq fell by 21.42 points to 5,074.27. In the wake of Wednesday's surprisingly hawkish Federal Reserve policy statement, futures market odds of a December rate hike moved up to 50-50, the highest they've ever been.
- And while stocks surged into the close yesterday, driven by financial stocks poised to benefit from higher long-term yields, traders were more cautious today — unsure if the end of the long experiment with near-zero interest rates will really be benign.

The Local Market

- FBMKLCI declined 19.53 points to finish at 1,666.98 dragged by slowdown in US third quarter GDP number. There were 393 gainers and 511 decliners in total value traded of RM2.28 billion.
- Among the losers on Bursa Malaysia were BAT decreased 46 cent to RM62.24, Dutch Lady Milk fell 36 cent to RM47.24, Hong Leong Bank dropped 2 cent to RM13.72 and PetDag slid 26 cent to RM22.50.

Strategy

- **“Wall Street Already Looking at Next Week’s Economic Signals”**
Wall Street erased some of Thursday’s gain to close lower no thanks to worse-than-expected US 3Q15 GDP. S&P 500 and DJIA lost 0.94 (-0.04%) and 23.72 (-0.13%) points to end at 2,089.41 and 17,775.80 respectively. Hammered by decelerating re-stocking activity due to the supply glut, the US 3Q15 GDP grew a mere 1.5% annualised rate vs. 3.9% in second quarter but domestic demand appeared strong. The drop in re-stocking activity could be temporary, nonetheless, and could pick up in the 4th quarter. Out of this, the strong domestic demand momentum for the quarter could be harbinger for the first US interest rate adjustment in December. Hence, we think that Wall Street has started to look at next week’s economic announcement, chiefly the US October unemployment rate due next Friday. Therefore, we think that cautious trading sentiment will continue.
- 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

TNB, BUY (TP: RM14.60): Q4 net profit more than halved due to ringgit depreciation

State-controlled power producer Tenaga Nasional Bhd's (TNB) net profit fell by 65.2% in the fourth ended August 31, 2015 due the weaker ringgit. TNB said its earnings for the quarter fell RM535.0 million to RM820.9 million from RM1.35 billion due mainly to the translation loss of RM733.5 million compared to a gain of RM153.1 million in the same period last year, and the weakening of the ringgit against the US dollar and Japan's yen. In a stock exchange filing yesterday, TNB said quarterly revenue and electricity sales were almost flat at RM11.74 billion and RM11.3 billion, respectively, from the same period of the last financial year. TNB recommended a final single-tier dividend of 19.0 sen per share for FY2015. For the 12-month period (FY2015), TNB's net profit declined by 5.7% to RM6.1 billion from RM6.4 billion reported in 2014. (Source: The Sun)

Maybank, BUY (TP: RM9.92): Maybank Indonesia 9-month earnings up 70.7%

PT Bank Maybank Indonesia Tbk posted a 70.7% increase in net profit for the nine months ended Sept 30, 2015 to 592 billion rupiah (RM186 million) from 347 billion rupiah a year ago, on the back of improved net interest income (NII) and net interest margin (NIM). The bank's NII increased 10.5% from 4.3 trillion rupiah in September 2014 to 4.8 trillion rupiah in September 2015 as the bank's NIM improved to 4.82% from 4.63%. Other operating revenue (fee based income) recorded an increase of 12.4% to 1.6 trillion rupiah in September compared with 1.4 trillion rupiah a year ago, driven mainly by fees from advisory activities, insurance and foreign exchange transaction. (Source: The Sun)

IHH Healthcare, SELL (TP: RM5.19): To open RM400m hospital in Johor

Malaysia's healthcare services provider IHH Healthcare Bhd is going to open its RM400 million Gleneagles Medini Hospital in Nusajaya, Johor. The 300-bed tertiary hospital — which is located in Medini, Nusajaya, on a 15-acre site — is IHH Healthcare's 14th hospital in Malaysia, following the opening of Gleneagles Kota Kinabalu in May by Parkway Pantai, a wholly-owned subsidiary of IHH Healthcare. Gleneagles Malaysia chief operating officer Dato Amir Abdullah Firdaus said that this new world-class medical facility would help boost Iskandar Malaysia's attractiveness as a regional medical hub. (Source: The Edge)

Unisem (CP: RM2.30): Q3 profit soars with the stronger US dollar

Unisem (M) Bhd boosted its earnings for the third quarter (Q3) ended Sept 30, 2015, by 48.2% to RM40.2mil from a year earlier, thanks mainly to a higher revenue as a result of the stronger US dollar. The semiconductor assembly firm grew its revenue 20.6% year on year to RM329.6mil. At the same time, it halved its interest expense to RM1.4mil, which also contributed to the better profit. For the nine-month period to Sept 30, earnings doubled to RM95.1mil on a 20.7% jump in revenue to RM908.5mil. In a filing with Bursa Malaysia on Thursday, Unisem said the increase in revenue for Q3 and financial year to date (YTD) was mainly due to consistent demand for the group's products and services and the stronger greenback versus the ringgit and yuan. (Source: The Star)

KESM Industries (CP: RM5.05): Plans for 2016 onwards in place

KESM Industries Bhd said its plans for the financial year ending July 31, 2016 and beyond that are in place. "We are servicing growing markets and will continue to invest in testing and burn-in. We have a strong workforce and a heritage of quality service leadership," said executive chairman and chief executive officer Samuel Lim in the company's 2015 annual report released earlier on Thursday. Lim added that the group is in a healthy financial position. In 2015, KESM Industries recorded net profit of RM17.03mil against RM10.88mil in the previous year, as a result of various productivity programmes and cost management. Revenue for the full year also grew to RM263.12mil compared with RM254.37mil in 2014. (Source: *The Star*)

Salcon (CP: RM0.62): Unit to generate RM4-RM5mil from new contracts

Salcon Bhd's joint venture entity, Volksbahn Technologies Sdn Bhd (VBT) expects to generate RM4mil to RM5mil per annum from two new contracts it signed recently. The water and wastewater infrastructure specialist confirmed in its Bursa Malaysia filing that VBT signed two 10-year contracts with U-Mobile Sdn Bhd and Celcom Networks Sdn Bhd for mobile site rental for shared infrastructure on Aug 6, 2015 and Sept 3, 2015 respectively. This follows a StarBiz report on Oct 26 on Salcon getting two telecom contracts, and may see lower-than-expected contract values for its fibre optics arm. The company said in its filing on Thursday that VBT entering into the contracts did not warrant an announcement to the local exchange. (Source: *The Star*)

D'nonce (CP: RM0.21): Slips into 4Q loss as revenue descends

Diversified entity D'nonce Technology Bhd (Valuation: 0.90, Fundamental: 0.95) incurred a net loss of RM1.59 million in the fourth quarter ended Aug 31, 2015 (4QFY15), compared to a net profit of RM4.27 million a year earlier, on lower logistics and contract manufacturing revenue. Higher finance cost and taxation also led to the 4QFY15 net loss. Revenue fell to RM39.78 million, from RM55.14 million. Full-year net profit shrank to RM389,000 from RM2.31 million a year earlier, on higher revenue of RM223.77 million versus RM178.76 million. D'nonce said it was mindful of the challenging business landscape, which justified the need to explore the feasibility of other businesses. (Source: *The Edge*)

EPF: Mulls selling one of its UK properties

The Employees Provident Fund (EPF) is considering to dispose of one of its properties in the United Kingdom (UK), namely the Reading International Business Park. Chief Executive Officer Datuk Shahril Ridza Ridzuan said on Thursday the fund has been constantly receiving offers for its assets in the country. At this point in time, it really depends on whether we have the right offer and right pricing that we think makes it worthwhile to dispose of an asset. (Source: *The Star*)

ECONOMIC UPDATES

Malaysia: Central bank accepts dollar deposits as ringgit sinks

Malaysia's central bank started taking in interbank dollar deposits for the first time in September to try and slow a slide in Asia's worst-performing currency. Bank Negara Malaysia is accepting deposits in small amounts, according to a person familiar, who asked not to be identified because of company policy. The move will help build up the country's currency reserves, two other people said. The monetary authority said in response to questions that it's encouraging financial institutions, including branches of overseas banks, to keep foreign-currency earnings and deposits of Malaysian-based companies in the domestic market. Falling reserves in the Southeast Asian nation have fueled speculation the central bank has been intervening by selling dollars to help prop up the ringgit. (Source: *The Edge*)

U.S.: Economy slows to 1.5% growth in third quarter

The US economy grew at a slower pace in the third quarter as exports and private inventory investment fell, but crucial consumer spending remained strong, the Commerce Department said Thursday. Gross domestic product expanded at an annual rate of 1.5% in the July-September period, the department said in its first estimate for the quarter. The reading came in slightly weaker than analysts expected, but the economy was widely expected to have cooled down from the second quarter's robust 3.9% expansion. Growth in the economy has been volatile this year, with the first quarter mustering only a 0.6% rise amid severe winter weather and a West Coast ports shutdown. (Source: *The Star*)

U.S.: Jobless claims rise, four-week average lowest since 1973

The number of Americans filing new applications for unemployment benefits rose marginally and the underlying trend continued to point to a fairly healthy labor market. Initial claims for state unemployment benefits increased 1,000 to a seasonally adjusted 260,000 for the week ended Oct. 24, the Labor Department said on Thursday. They remained not too far from levels last seen in late 1973. The prior week's claims were unrevised. It was the 34th straight week that claims were below the 300,000 threshold, which is normally associated with a fairly healthy jobs market. (Source: *Reuters*)

Japan: Factory output bounces, easing pressure on BoJ

Japan's factory output unexpectedly rebounded in September, data showed on Thursday, tempering expectations the Bank of Japan (BoJ) would unleash more stimulus after a string of weak data from the world's number three economy. Government figures showed industrial production expanded 1%, after two consecutive monthly falls, thanks to brisk production of electronics devices and chemical products. The reading beat market forecasts for a 0.5% decline and marks a sharp bounce from the previous month, while the economy ministry also lifted its assessment on factory output. The surprisingly positive data dampened predictions the Bank of Japan (BoJ) would announce an expansion of its huge easing programme after a meeting Friday. Japan publishes inflation and unemployment figures on Friday morning, which could also be key to the BoJ's

decision on whether to unleash more stimulus in the face of slowing global growth. (Source: *The Star*)

Japan: BoJ seen holding fire as output rebound offers some relief

The Bank of Japan (BoJ) is expected to hold monetary policy steady on Friday even while diluting its rosy inflation forecasts, sources say, clinging to the hope a tightening job market will underpin consumption and help the economy emerge from a soft patch. Some BoJ policymakers have worried that sluggish demand in emerging Asian markets could hurt output and corporate sentiment enough to delay planned capital investment and wage hikes. (Source: *The Star*)

South Korea: September factory output growth at three-month high

South Korea's industrial output rose by a seasonally adjusted 1.9 percent in September from the previous month, official data showed on Friday, gaining for a second month and far outperforming market expectations - lending strength to the ongoing recovery. It was the fastest growth since a 2.4 percent gain in June and far higher than the median 0.4 percent increase forecast in a Reuters survey of 14 analysts. August's industrial output growth, however, was revised down to a rise of 0.2 percent from the provisional 0.4 percent gain reported earlier. The data showed growth was mainly propped up by semiconductor and car production, which jumped 17.2 percent and 5.0 percent in September on monthly terms, respectively. (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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