

PP14767/09/2012(030761)

Friday, November 06, 2015

## Report of the Day

**Company Update:** SapuraKencana- "Green Light for SK310 B15 field"

## At a Glance

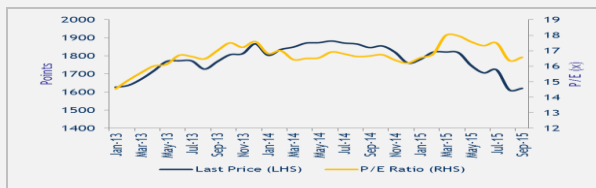
FBMKLCI gained 2.92 points to finish at 1,688.54 lifted by the gain in selected heavyweight counters.....(See full report next page)

## Corporate Highlights

- **Hartalega, BUY (TP: RM7.40):** Boosts Q2 profit by 25%
- **Tenaga, BUY (TP: RM14.60):** Eyes big role as Malaysia develops solar market
- **MRCB-Quill REIT (CP: RM1.15):** Q3 earnings jump to nearly RM16m

## Economic Update

- **Malaysia:** Bank Negara maintains key interest rate, sees risks to growth
- **U.S.:** Jobless claims rise to highest in eight months
- **China:** Fuel surplus to double by 2020 as refining sector opens



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	2-Nov	5:00 PM	Markit Eurozone Manufacturing PMI	-	52.0
CN	2-Nov	9:45 AM	Caixin China PMI Mfg	47.6	47.2
JP	2-Nov	9:35 AM	Nikkei Japan PMI Mfg	-	52.5
US	2-Nov	10:45 PM	Markit US Manufacturing PMI	-	54.0
US	2-Nov	11:00 PM	Construction Spending MoM	0.5%	0.7%
US	2-Nov	11:00 PM	ISM Manufacturing	49.7	50.2
US	2-Nov	11:00 PM	ISM Price Paid	-	38.0
US	3-Nov	11:00 PM	Factory Orders	-1.0%	-1.7%
EU	4-Nov	5:00 PM	Markit Eurozone Services PMI	-	54.2
EU	4-Nov	5:00 PM	Markit Eurozone Composite PMI	-	54.0
EU	4-Nov	6:00 PM	PPI MoM	-	-0.8%
EU	4-Nov	6:00 PM	PPI YoY	-	-2.6%
CN	4-Nov	9:45 AM	Caixin China PMI Composite	-	48.0
CN	4-Nov	9:45 AM	Caixin China PMI Services	-	50.5
JP	4-Nov	9:32 AM	Nikkei Japan PMI Services	-	51.4
JP	4-Nov	9:32 AM	Nikkei Japan PMI Composite	-	51.2
US	4-Nov	8:00 PM	MBA Mortgage Applications	-	-3.5%
US	4-Nov	9:15 PM	ADP Employment Change	178K	200K
US	4-Nov	9:30 PM	Trade Balance	(\$46.50b)	0.9%
US	4-Nov	10:45 PM	Markit US Composite PMI	-	54.5
US	4-Nov	10:45 PM	Markit US Services PMI	-	54.4
US	4-Nov	11:00 PM	ISM Non-Manuf. Composite	56.5	56.9
EU	5-Nov	5:10 PM	Markit Eurozone Retail PMI	-	51.9
EU	5-Nov	6:00 PM	Retail Sales MoM	-	0.0%
EU	5-Nov	6:00 PM	Retail Sales YoY	-	2.3%
MY	5-Nov	6:00 PM	BNM Overnight Policy Rate	-	3.25%
US	5-Nov	9:30 PM	Initial Jobless Claims	-	-
US	5-Nov	9:30 PM	Nonfarm Productivity	0.3%	3.3%
US	5-Nov	9:30 PM	Continuing Claims	-	-
US	5-Nov	10:45 PM	Bloomberg Consumer Comfort	-	-
MY	6-Nov	12:00 PM	Exports YoY	2.5%	4.1%
MY	6-Nov	12:00 PM	Imports YoY	1.4%	-6.1%
MY	6-Nov	-	Foreign Reserves	-	\$94.1b
JP	6-Nov	1:00 PM	Leading Index CI	-	103.5
JP	6-Nov	1:00 PM	Coincident Index	-	112.2
US	6-Nov	9:30 PM	Change in Nonfarm Payrolls	177K	142K
US	6-Nov	9:30 PM	Change in Manufact. Payrolls	OK	(9K)
US	6-Nov	9:30 PM	Unemployment Rate	5.1%	5.1%

## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,688.54	2.92	0.17
FBMEMAS	11,732.74	21.18	0.18
FBMEMAS SHA	12,565.94	48.97	0.39
FBM100	11,411.23	23.46	0.21
Volume (mn)	2,183.65	-487.58	-18.25
Value (RMmn)	2,169.79	-296.14	-12.01
FBMKLCI YTD Chg			-4.13

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	18.1	-23.2
Local Institution	66.4	-2.1
Foreign Investors	15.5	25.3

## Top Gainers

	Close	Change+/-	(+/- %)
TENAGA	13.20	0.56	4.43
HUAT LAI	4.85	0.45	10.23
NESTLE (MALAY)	73.00	0.40	0.55

## Top Losers

	Close	Change+/-	(+/- %)
TALIWORKS	1.43	-0.01	-0.42
BAT	59.62	-1.20	-1.97
PPB GROUP	15.62	-0.38	-2.38

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,863.43	-4.15	-0.02
NASDAQ	5,127.74	-14.74	-0.29
S&P 500	2,099.93	-2.38	-0.11
FTSE 100	6,364.90	-47.98	-0.75
DAX	10,887.74	42.50	0.39
Nikkei 225	19,116.41	189.50	1.00
HSI	23,051.04	-2.53	-0.01
KOSPI	2,049.41	-3.36	-0.16
STI	3,025.65	-14.83	-0.49
KLCI Futures	1,644.50	-	-
USDMYR 3M	15.10	(0.12)	(0.01)
USDMYR 6M	15.12	(0.07)	(0.00)
USDMYR 12M	15.09	(0.01)	(0.00)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	45	0.2	0.5%
Brent (USD/bbl)	48.0	-0.6	-1.2%
Gold(USD/ounce)	1,105	1.4	0.1%
Coal (USD/mt)	52.3	0.0	0.0%
CPO (RM/mt)	2,345	-3.0	-0.1%
Rubber	121	-0.9	-0.7%
RM/USD	4.30	0.0335	-0.78%
EUR/USD	0.92	0.0001	0.01%
YEN/USD	121.71	-0.04	0.03%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average declined 4.15 points to 17,863.43 points, S&P 500 down 2.38 points to 2,099.93. Nasdaq fell by 14.74 points to 5,127.74. Stocks closed little changed near a three-month high Thursday as the specter of an interest rate increase this year left investors looking to Friday's jobs report for fresh signs the economy is strong enough to withstand tightening.
- Stocks are coming off their strongest month in four years, bolstered as central banks in Europe and China pledged more stimulus and the Federal Reserve refrained from boosting interest rates in October. Traders now price in a 56 percent chance the Fed will increase rates at next month's meeting, up from 50 percent earlier this week, after Fed Chair Janet Yellen said yesterday the economy is performing well enough to possibly raise rates in December.

### The Local Market

- FBMKLCI gained 2.92 points to finish at 1,688.54 lifted by the gain in selected heavyweight counters. There were 453 gainers and 412 decliners in total value traded of RM2.17 billion.
- Among the gainers on Bursa Malaysia were Tenaga surged 56 cent to RM13.20, Huat Lai Resources soared 45 cent to RM4.85, Nestle grew 40 cent to RM73.00 and BLD Plantation rose 35 cent to RM8.85.

### 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

### Hartalega, BUY (TP: RM7.40): Boosts Q2 profit by 25%

Latex glove maker Hartalega Holdings Bhd reported a strong performance for its second quarter (Q2) ended Sept 30, three weeks after market leader Top Glove also announced a set of excellent results. In a press statement, the company said its after-tax profit jumped 25.3% to RM60.55mil in Q2 from the previous year's corresponding quarter while revenue improved by 37.8% to RM379.34mil. The group also recorded improved results for the cumulative half-year period ended Sept 30, with an after-tax profit of RM123.34mil compared with RM105.55mil in the same period of 2014. However, the pre-tax profit margin was reduced from 23.6% to 19.8% due to the recognition of fair value loss on derivatives of RM21.05mil versus loss of RM6.92mil in the previous corresponding quarter. (Source: The Star)

**Tenaga, BUY (TP: RM14.60): Eyes big role as Malaysia develops solar market**

Tenaga Nasional Bhd, Malaysia's largest listed utility, is aiming to win more than half of the solar capacity being offered through government auctions at home in the next five years. The state-linked company plans to be a big player, as Malaysia pushes ahead with plans to develop 200 megawatts of solar farms annually starting next year, said Roslina Zainal, vice president of the utility's regulatory economics and planning division. The move is aimed at capitalizing on surging demand for green energy in Asia. Asia-Pacific outside India and China was the third-biggest center for clean-energy investment in the third quarter with \$11.4 billion, according to Bloomberg New Energy Finance. *(Source: The Edge)*

**MRCB-Quill REIT (CP: RM1.15): Q3 earnings jump to nearly RM16m**

MRCB-Quill real estate investment trust's (MQREIT) net income rose 76.1% to RM15.7mil for the third quarter (3Q) ended Sept 30, 2015, from RM8.93mil a year ago. The net income growth was mainly due to the recognition of the income contribution from Platinum Sentral in Q3, gain on sale of Quill Building 10 – Section 13, and higher net property income. MRCB Quill Management Sdn Bhd, the manager of MQREIT, said on Thursday, in Q3 MQREIT's realised earnings per unit (EPU) rose 3.9% to 2.38 sen from 2.29 sen a year ago. *(Source: The Star)*

**Kulim (CP: RM3.30): Johor Corp offers RM4.10 a share to take Kulim private**

Johor Corp has launched a takeover offer for Kulim (Malaysia) Bhd through a selective capital reduction (SCR) and repayment exercise, with an intention to delist Kulim. The offer price of RM4.10 per share, represents an 80 sen or 24.24% premium against the closing price of RM3.30 on Wednesday. In a filing with the stock exchange, Johor Corp, which held a 61.87% stake in Kulim as at Oct 28, said the privatisation is due to Kulim's disposal of a 48.97% stake in New Britain Palm Oil Ltd (NBPOL) for RM2.8 billion in last February. *(Source: The Sun)*

**Handal (CP: RM0.34): Inks MoU with Nabors Drilling International**

Integrated offshore crane service provider Handal Resources Bhd has signed a memorandum of understanding (MoU) with the US' Nabors Drilling International Ltd to cooperate in developing new business opportunities in Malaysia's oil and gas (O&G) rig sector. The MoU was signed here today through its subsidiary Handrill Sdn Bhd. Under the MoU, Handrill and Nabors would jointly strive to secure new businesses comprising workover projects, fabrication of offshore pedestal cranes and related overhaul and maintenance services, as well as offshore crane rentals. Both companies would also collaborate in the development and marketing of conventional workover rigs, which are primarily used for workover operations on production oil wells. *(Source: The Edge)*

**UOA Development (CP: RM2.12): Unit gets RM103.9m Setapak job**

Property developer UOA Development Bhd's wholly-owned subsidiary Resodex Construction Sdn Bhd has clinched a RM103.9 million contract from Nova Metro Development Sdn Bhd for the proposed development of Setapak V in Mukim Setapak. In a filing with Bursa Malaysia today, UOA Development noted that it owned an 84% stake in Nova Metro, a property investment company, while

Resodex is its construction outfit. "The transaction is a recurrent related party transaction and is necessary for the day-to-day operations in the ordinary course of business of Resodex. (It) is on normal commercial terms consistent with the usual business practices and policies of UOA Development. "The contract was awarded to Resodex in view of the experience, capability and resources of its holding company and its management and staff to undertake the contract efficiently. The duration of the contract is 24 months," the group said. (Source: *The Edge*)

#### **Ho Wah Genting (CP: RM0.13): May sell off non-core businesses**

Ho Wah Genting Bhd, whose share price soared 62.5% to close at 13 sen on Thursday, said it is not aware of any trigger except an exercise that was announced last month and its discussion to dispose of loss-making non-core businesses. In reply to an unusual market activity query from Bursa Malaysia Securities, the loss-making electrical wire and cable manufacturer said it was not aware of any explanation for the price and volume surge except the various proposals announced on Oct 20 -- including par value reduction and rights issue with warrants -- and the possible disposal of non-core businesses, whose terms had not been finalised. "The company will make the necessary announcement to Bursa Securities of any further material development in compliance with Paragraph 9.03 of the Main Market Listing Requirements of Bursa Securities," it added. (Source: *The Star*)

#### **RCE Capital (CP: RM0.30): Proposes capital repayment of up to RM98.3mil**

RCE Capital Bhd has proposed capital repayment to the company's shareholders of up to about RM98.3mil or 7.5 sen for each ordinary 10 sen share. The general loan service provider, which is part of the Amcorp group (via the 60.7% stake owned by Cempaka Empayar Sdn Bhd), told Bursa Malaysia that this would be done through a reduction of the issued and paid-up share capital of RCE, whereby the par value of each share would be cut from 10 sen to 2.5 sen. The proposed share consolidation will involve the consolidation of every four ordinary 2.5 sen shares into one ordinary 10 sen share after the proposed share capital reduction. RCE expects to complete the proposal by the end of this financial year ending March 31, 2016. (Source: *The Star*)

#### **Acoustech (CP: RM0.59): Benefits from weaker ringgit**

Audio equipment manufacturer Acoustech Bhd said the weakening of ringgit against the greenback has brought a windfall for the company, as it gains on export activities. Acoustech's core business is in the manufacturing of speaker units on an original equipment manufacturing basis for major consumer electronic brand names, including Sony, Panasonic, JVC and Kenwood. Speaking to SunBiz after the company's EGM yesterday, Director Leong Ngai Seng said that almost all of its products are directly and indirectly exported to the US and European countries with business transactions done in US dollars. "The depreciation of the ringgit by and large for exporters is always a good thing, because we sell in US dollars," he added, saying that the company's manufacturing business contributes 80-90% of its revenue. (Source: *The Sun*)

## ECONOMIC UPDATES

**Malaysia: Bank Negara maintains key interest rate, sees risks to growth**

Bank Negara Malaysia (BNM) kept its overnight policy rate at 3.25% yesterday, as expected, citing a weaker external environment, slowing private consumption and higher inflation. Southeast Asia's third largest economy has been hit hard by weak global prices for its energy and commodity exports, the ringgit currency's fall to 17-year lows, and political developments affecting investors' confidence. "The performance of the Malaysian economy continues to be affected by the weak external environment," BNM's monetary policy committee said in a statement. The central bank said it recognises that "downside risks to growth remain high" but that domestic demand would be the key driver of growth. (Source: *The Sun*)

**U.S.: Jobless claims rise to highest in eight months**

New U.S. applications for unemployment benefits last week recorded their largest increase in eight months, but remained at levels consistent with a fairly healthy labor market. Other data on Thursday showed a surprise rise in productivity in the third quarter after a drop in self-employment led to overall hours worked falling for the first time in six years, restraining labor-related production costs. Initial claims for state unemployment benefits increased 16,000 to a seasonally adjusted 276,000 for the week ended Oct.31, the Labor Department said. It was the largest weekly increase since late February. (Source: *The Star*)

**China: Fuel surplus to double by 2020 as refining sector opens**

Surplus annual production of diesel, gasoline and kerosene in China will double to nearly 30 million tonnes by 2020 from last year's level, boosted by increasing output from independent refiners, according to an industry research paper. Smaller and independently operated refineries, known as "teapots", are set to churn out more and higher-grade oil products after Beijing allowed them to import crude for the first time to encourage competition and boost private investment. That could stoke exports of finished products from the world's second-largest refining industry after the United States, dragging on Asian refining margins (DUB-SIN-REF) already pressured by rising supplies from mega-sized new refineries in the Middle East. (Source: *Reuters*)

**Thailand: Stimulus lifts consumer mood for first time in nearly a year**

Thai consumer confidence rose for the first time in 10 months, a university survey showed on Thursday, boosted by stimulus measures from the military government as it tries to revive the economy. South-East Asia's second-largest economy has been in the doldrums since a military coup last May ended months of political unrest, with exports and consumption sluggish amid high household debt and shaky consumer confidence. Falling commodity prices have cut farmers' incomes. The consumer confidence index of the University of the Thai Chamber of Commerce increased to 73.4 in October from 72.1 in September, when it struck a 16-month low. (Source: *Reuters*)

**Indonesia: To process more of its oil as South-East Asian supplies fall**

Indonesia's state-owned energy firm Pertamina plans to process more domestic crude oil in a bid to limit the impact on the country of declining production, a plight that is also affecting oil-rich neighbours Malaysia and Brunei. All three countries, which rely heavily on energy revenues, are running out of oil. Reuters research based on government, industry and consultancy data shows they could run dry within the next 25 years. The three South-East Asian nations are heavily dependent on oil revenues, with oil rent - the value of oil production after costs - equal to about 15% of the national budget in Indonesia, rising to 40% in Malaysia and almost 100% in Brunei. *(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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