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Thursday, November 19, 2015

Report of the Day

Results Review: MBM Resources 1Q16 – “Lack of Associates Contribution”

Results Review: Tan Chong 3Q15 – “Margin Deterioration”

Results Review: Amway 3Q15 - “Losing Its Grip”

At a Glance

FBMKLCI declined 5.03 points to finish at 1,656.50 impacted by losses in selected heavyweight counters.....(See full report next page)

Strategy

“Dollar Rally on Fed’s Clear Signal of Rate Hike”

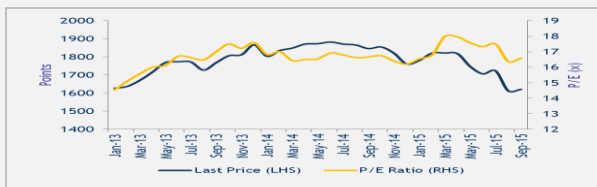
Despite the rally in Wall Street, the rest of the world will bear the brunt should the US starts snapping its policy rate.....(See full report next page)

Corporate Highlights

- **Amway, HOLD (TP: RM10.50):** Q3 revenue halved on higher incentive provisions
- **Tan Chong, SELL (TP: RM2.47):** Profit hit by promotion cost and falling ringgit
- **MBM Resources, BUY (TP: RM3.20):** 3Q net profit plunges 66.8%

Economic Update

- **Indonesia:** Douses talk of curbs to capital, exchange rate
- **U.S.:** Fed officials again flag December; see smooth rates liftoff
- **U.S.:** Housing starts hit seven-month low



| KEY ECONOMIC RELEASE | | | | | |
|----------------------|--------|------------|---|--------|---------|
| | Date | Local Time | Event | Survey | Prior |
| EU | 16-Nov | 6:00 PM | CPI MoM | - | 0.2% |
| EU | 16-Nov | 6:00 PM | CPI YoY | - | 0.0% |
| EU | 16-Nov | 6:00 PM | CPI Core YoY | - | 1.0% |
| JP | 16-Nov | 7:50 AM | GDP SA QoQ | -0.1% | -0.3% |
| JP | 16-Nov | 7:50 AM | GDP Annualized SA QoQ | -0.3% | -1.2% |
| JP | 16-Nov | 7:50 AM | GDP Deflator YoY | 1.7% | 1.5% |
| US | 16-Nov | 9:30 PM | Empire Manufacturing | -5.0 | -11.4 |
| US | 17-Nov | 9:30 PM | CPI MoM | 0.2% | -0.2% |
| US | 17-Nov | 9:30 PM | CPI Ex Food and Energy MoM | 0.2% | 0.2% |
| US | 17-Nov | 9:30 PM | CPI YoY | 0.1% | 0.0% |
| US | 17-Nov | 9:30 PM | CPI Ex Food and Energy YoY | 1.8% | 1.9% |
| US | 17-Nov | 10:15 PM | Industrial Production MoM | 0.1% | -0.2% |
| CN | 18-Nov | 9:30 AM | China October Property Prices | - | - |
| US | 18-Nov | 8:00 PM | MBA Mortgage Applications | - | - |
| US | 18-Nov | 9:30 PM | Housing Starts | 1157K | 1206K |
| US | 18-Nov | 9:30 PM | Buildings Permits | 1139K | 1103K |
| JP | 19-Nov | 7:50 AM | Exports YoY | - | 0.6 |
| JP | 19-Nov | 7:50 AM | Imports YoY | - | -11.1 |
| US | 19-Nov | 9:30 PM | Initial Jobless Claims | - | - |
| US | 19-Nov | 9:30 PM | Continuing Claims | - | - |
| US | 19-Nov | 10:45 PM | Bloomberg Consumer Comfort | - | - |
| US | 19-Nov | 11:00 PM | Leading Index | 0.5% | -0.2% |
| EU | 20-Nov | 11:00 PM | Consumer Confidence | - | -7.7 |
| CN | 20-Nov | 10:00 AM | Conference Board China October Leading Economic Index | - | - |
| MY | 20-Nov | 12:00 PM | CPI YoY | - | 2.6% |
| MY | 20-Nov | - | Foreign Reserves | - | \$94.0B |

Bursa Malaysia

| | Close | Change+/- | (+/- %) |
|-----------------|-----------|-----------|---------|
| FBMKLCI | 1,656.50 | -5.03 | -0.30 |
| FBMEMAS | 11,555.32 | -26.96 | -0.23 |
| FBMEMAS SHA | 12,490.66 | -10.92 | -0.09 |
| FBM100 | 11,228.54 | -28.90 | -0.26 |
| Volume (mn) | 2,418.36 | 237.20 | 10.88 |
| Value (RMmn) | 2,025.79 | -11.17 | -0.55 |
| FBMKLCI YTD Chg | | | -5.95 |

Daily Trading Position (RM'mn)

| | Participation (%) | Net(RMm) |
|-------------------|-------------------|----------|
| Local Retail | 24.7 | 8.4 |
| Local Institution | 56.0 | 74.2 |
| Foreign Investors | 19.3 | -82.6 |

Top Gainers

| | Close | Change+/- | (+/- %) |
|-----------------|-------|-----------|---------|
| DUTCH LADY MILK | 48.82 | 1.10 | 2.31 |
| BATU KAWAN | 17.56 | 0.44 | 2.57 |
| BAT | 58.38 | 0.36 | 0.62 |

Top Losers

| | Close | Change+/- | (+/- %) |
|----------------|-------|-----------|---------|
| ASIA POLY HOL | 0.29 | -0.04 | -12.91 |
| TASEK CORP BHD | 14.26 | -0.14 | -0.97 |
| PETRONAS GAS | 22.70 | -0.09 | -0.40 |

World Indices

| | Close | Change+/- | (+/- %) |
|--------------|-----------|-----------|---------|
| DJIA | 17,737.16 | 247.66 | 1.42 |
| NASDAQ | 5,075.20 | 89.19 | 1.79 |
| S&P 500 | 2,083.58 | 33.14 | 1.62 |
| FTSE 100 | 6,278.97 | 10.21 | 0.16 |
| DAX | 10,959.95 | -11.09 | -0.10 |
| Nikkei 225 | 19,649.18 | 18.55 | 0.09 |
| HSI | 22,188.26 | -75.99 | -0.34 |
| KOSPI | 1,962.88 | -0.70 | -0.04 |
| STI | 2,890.68 | -26.10 | -0.89 |
| KLCI Futures | 1,603.50 | - | - |
| USDMYR 3M | 14.41 | (0.01) | (0.00) |
| USDMYR 6M | 14.26 | (0.01) | (0.00) |
| USDMYR 12M | 14.10 | (0.05) | (0.00) |

Other Key Economics Data

| | Close | Change+/- | (+/- %) |
|-----------------|--------|-----------|---------|
| WTI (USD/bbl) | 41 | 0.0 | 0.0% |
| Brent (USD/bbl) | 44.1 | 0.6 | 1.3% |
| Gold(USD/ounce) | 1,072 | 1.3 | 0.1% |
| Coal (USD/mt) | 52.8 | 0.0 | 0.1% |
| CPO (RM/mt) | 2,317 | -1.0 | 0.0% |
| Rubber | 121 | 0.2 | 0.2% |
| RM/USD | 4.39 | 0.006 | -0.14% |
| EUR/USD | 0.94 | -0.0009 | -0.10% |
| YEN/USD | 123.52 | -0.12 | 0.10% |

What To Expect

U.S. Market

- The Dow Jones Industrials Average surged 247.66 points to 17,737.16 points, S&P 500 soared 33.14 points to 2,083.58. Nasdaq grew by 89.19 points to 5,075.20. Stocks rallied the most in four weeks while Treasuries pared losses Wednesday after Federal Reserve meeting minutes bolstered confidence in the strength of the economy and reinforced speculation that interest rate increases will be gradual.
- The central bank signaled “it may well be appropriate” to raise rates next month, said minutes of the Oct. 27-28 meeting. Economic data since then have been encouraging, with payrolls logging the biggest gain this year and unemployment falling to 5 percent. Job openings climbed to the second highest on record, while the consumer price index, minus food and energy, rose 1.9 percent last month.

The Local Market

- FBMKLCI declined 5.03 points to finish at 1,656.50 impacted by losses in selected heavyweight counters. There were 400 gainers and 516 decliners in total value traded of RM2.02 billion.
- Among the losers on Bursa Malaysia were Asia Poly fell 4 cent to RM0.29, Tasek Corp dropped 14 cent to RM14.26, PetGas Shed 9 cent to RM22.70, Top Glove removed 19 cent to RM9.95.

Strategy

- **“Dollar Rally on Fed’s Clear Signal of Rate Hike”**
Wall Street made a steady comeback on Wednesday driven by the rally in USD underpinned by the clear signal of Fed’s rate hike this December. S&P 500 and DJIA gained 33.14 (1.62%) and 247.66 (1.42%) points to finish at 2,083.33 and 17,737.16 respectively. US Fed’s policy meeting minutes for October revealed an imminent rate hike this December, pushing the USD to touch a 7-month high. Investors appreciated the clear forward guidance and hence, the rally in Wall Street. Although investors in the US could be jubilant over this but we think that major global commodity producers will be on the losing end as global commodity prices may suffer protracted weakness as result. Elsewhere, US October Housing Starts report was a disappointment as starts declined 11.0% to a seasonally adjusted annual rate of 1.060 million units from a downwardly revised 1.191 million in September (from 1.206 million). Above all, despite the rally in Wall Street, the rest of the world will bear the brunt should the US starts snapping its policy rate. This could be harbinger for a series of rate hike in 2016 given that the US normalisation rate of above 4%. This could be a precursor for protracted volatility that could have a resonating impact the global market over.

- 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

Amway, HOLD (TP: RM10.50): Q3 revenue halved on higher incentive provisions

Amway (Malaysia) Holdings Bhd's net profit for the third quarter ended Sept 30, 2015 fell 52.9% to RM11.78 million from RM25.02 million a year ago due to adjustments made to reflect higher incentive provisions as a result of higher sales. Its revenue was 10.3% higher at RM241.68 million in the third quarter compared with RM219.12 million in the previous year due primarily to continuous strong momentum coupled with the successful launch of BodyKey, the Nutrilite personalised weight management programme in September 2015. For the nine months period, net profit dropped 23.2% to RM58.85 million from RM76.62 million a year ago due mainly to higher import costs (primarily caused by a weaker ringgit and transfer price impacts), as well as product mix impacts and higher sales incentive provisions driven by higher sales. *(Source: The Sun)*

Tan Chong, SELL (TP: RM2.47): Profit hit by promotion cost and falling ringgit

Tan Chong Motor Holdings Bhd (TCM) saw a 28.3% drop in earnings to RM69.69mil for the nine months ending Sept 30 due to the competitive business environment and currency headwinds. Earnings for the Jan-Sept period fell despite a 20.3% increase in revenue to RM4.21bil in that period and a spectacular profit jump in the third quarter (Q3). TCM, which is the exclusive distributor of Nissan passenger and light commercial vehicles in Malaysia, told Bursa Malaysia that its bottom line was hit by sales promotion activities and the weakening ringgit versus the US dollar. Its automotive division (vehicles assembly, manufacturing, distribution and after-sales service) boosted its revenue by 20.5% to RM4.15bil as more vehicles were sold during the sales promotion campaigns. *(Source: The Star)*

MBM Resources, BUY (TP: RM3.20): 3Q net profit plunges 66.8%

Auto parts maker MBM Resources Bhd saw its net profit fall 66.8% to RM8.62 million or 2.21 sen a share for the third quarter ended Sept 30, 2015 (3QFY15), from RM26.01 million or 6.66 sen a share a year ago, mainly due to lower contributions from its joint venture (JV) with Autoliv Hirotako Sdn Bhd and associates. Revenue for 3QFY15 dropped 2.8% to RM411.18 million, from RM423.09 million in 3QFY14, due to lower sales of continental makes of higher value, despite better overall volume sales. In a filing with Bursa Malaysia today, MBM Resources said share of results of JV fell by 39.1% to RM2.7 million in 3QFY15, while share of results of associate companies declined by 54.3% to RM13.2 million. The share of the JV's results declined 39.1% due to lower production deliveries to one of its major customers, as well as unfavourable foreign exchange movement. *(Source: The Edge)*

TSH Resources, HOLD (TP: RM1.95): Q3 core profit before tax at RM20mil

Plantation firm TSH Resources Bhd said its core profit before taxation for the third quarter ended Sept 30 was halved to RM20.1mil from RM40.1mil a year ago due to lower average crude palm oil (CPO) prices and lower crop production. The group's performance was also impacted by higher unrealised foreign translation losses. For the year-to-date, the average CPO selling price has been reduced from RM2,393 per tonne in 2014 to RM2,099 per tonne. Fresh fruit bunch (FFB) production also decreased from 483,048 tonnes in 2014 to 449,988 tonnes. These adverse factors primarily resulted in a lower operating profit of RM88.2mil, the company said. *(Source: The Star)*

KL Kepong, HOLD (TP: RM: 21.21) Net profit jumps 9% to RM186m

Oil palm plantation company Kuala Lumpur Kepong Bhd (KL Kepong) saw its net profit for the last quarter (Q4) ended Sept 30, 2015 jump 9.14% to RM186.3 million, compared with RM170.7 million in the previous corresponding quarter, on favourable fair value changes. Revenue for the quarter climbed 41% to RM3.93 billion, from RM2.78 billion a year ago. In a filing with Bursa Malaysia yesterday, the group said its plantation business dropped 24.2% to RM766.8 million, due to lower selling prices of commodities realised and increase in crude palm oil (CPO) cost of production. However, it said, the unrealised gain of RM32.5 million from the fair value changes on outstanding derivative contracts had mitigated the reduction in profit. *(Source: The Sun)*

CIMB, HOLD (TP: RM4.90): Ties up with Philippines telco to provide digital financial services

CIMB Group Holdings Bhd (CIMB) has tied up with the Philippines' largest telecommunications company by customer base — Philippine Long Distance Telephone Company (PLDT) — to offer digital financial offerings and solutions for customers in the Philippines and across Asean. The country's second largest lender said its unit CIMB Group Sdn Bhd had yesterday (Nov 17), inked a strategic collaboration agreement with PLDT's wireless services provider, Smart Communications Inc (Smart) and its wholly-owned digital unit, Voyager Innovations Inc (Voyager), for the above collaboration. Commenting on the partnership agreement, CIMB's group chief executive officer (CEO) Tengku Datuk Zafrul Aziz said through the partnership, the banking group will be able to offer innovative and differentiated digital banking and financial technology solutions in the Philippines and across Asean.

Ho Hup (CP: RM1.10): 3Q earnings down 6.4% on lower revenue

Ho Hup Construction Co Bhd saw its third-quarter net profit fall 6.4% to RM17.3 million or 5.01 sen a share from RM18.48 million or 6 sen a share a year ago, mainly due to lower profit recognition on progress billings from its property development business. Revenue for the three months ended Sept 30, 2015 (3QFY15) also dropped 33.9% to RM62.85 million from RM95.05 million in 3QFY14. In a filing with Bursa Malaysia today, Ho Hup said its property development division registered a 27% decline in net profit to RM14 million in 3QFY15 from RM19.3 million in 3QFY14, while its revenue fell by 34% year-on-year to RM41 million from RM62.1 million. *(Source: The Edge)*

Encorp (CP: RM0.84): To share in profits from Aussie JV

Encorp Bhd said the A\$6mil joint venture with Australian property development company Tew Investments Pty Ltd (TIPL) will allow it a share of the development profits and to recover its original cost of investment. The total consideration of A\$6mil comprises land value of A\$3.6mil and minimum return of A\$4.2mil. Encorp said it would also allow its subsidiary Encorp Development Pty Ltd (EDPL) to participate in the share of development profit once the project is completed. Encorp added in its filing with Bursa Malaysia that the A\$6mil in respect of the joint venture is above the net book value of A\$4.8mil as at Dec 31, 2014. (Source: The Star)

Lafarge Malaysia (CP: RM9.20): Acquires Holcim for RM325.5mil

Lafarge Malaysia Bhd has acquired Holcim (M) Sdn Bhd from PT Holcim Indonesia for RM325.5mil on Monday. In a statement on Wednesday, Lafarge said this newly-combined entity of Lafarge and Holcim Malaysia offered the most comprehensive network of facilities and widespread solutions in Malaysia. With this merger, our annual installed cement capacity will rise to 14.14 million metric tonnes (MT) from 12.95 million MT through the combined strength of three integrated cement plants, two grinding stations, over 40 ready-mix concrete batching plants and six aggregate quarries. Lafarge Malaysia president and chief executive officer, Thierry Legrand, said the combined entity enhanced the company's standing as the preferred partner with technical expertise, support and experience for challenging construction projects. (Source: The Star)

Kulim (CP: RM3.93): Board to present JCorp offer to shareholders

Kulim (Malaysia) Bhd, which received takeover offer from major shareholder Johor Corporation, will present the offer to the shareholders at an EGM. Kulim said on Wednesday the board, except the interested directors, had a meeting the previous day and discussed the offer. "(The board) has decided to present the proposed SCR (selective capital reduction and repayment exercise) to shareholders of Kulim for their consideration," it said. It also explained the rationale why shareholders should take up the JCorp offer of RM4.10 cash a share. On Nov 5, Johor Corp which owns 55.36% of Kulim, and parties acting in concert had put forward the SCR under its proposed takeover. Kulim said barring any unforeseen circumstance, the proposed SCR was expected to be completed in the third quarter of 2016. (Source: The Star)

PDZ Holdings (CP: RM0.08): Posts losses amid challenging shipping market

PDZ Holdings Bhd posted a net loss of RM1.06 million in the first quarter ended Sept 30, 2015 versus a net loss of RM1.67 million a year earlier. Shipping firm PDZ said revenue rose to RM40.91 million, from RM37.88 million. The severe over tonnage continued to plague the container shipping industry causing freight rates to be stagnant. However, we expect to see some improvements in business volume in the coming quarters. On an ongoing basis, the group continues to look for new businesses, which will provide enhancement to the future earnings of the group. (Source: The Edge)

IPO: Red Sena To Be Listed On Dec 10

Red Sena Bhd will be listed on the Main Market of Bursa Malaysia on Dec 10, 2015, making it the first food and beverage (F&B) special purpose acquisition

company (SPAC) to be listed on the stock market. It is reported that only four listed oil and gas (O&G) SPACs. Red Sena will be raising RM400 million from its initial public offering (IPO), with RM360 million, or 90 per cent of the RM400 million, already secured from private placement. *(Source: Bernama)*

Auto Sector (Neutral): October vehicle sales climb ahead of price hikes in 2016

Sales of vehicles in October rose 9% to 55,754 units from September as consumers bought ahead of expected price hikes in 2016 as the ringgit weakened against the major currencies. The Malaysian Automotive Association said on Wednesday the higher sales volume was due to aggressive year-end promotional campaigns by car companies. When compared to a year ago, the vehicle sales were 3% or 1,563 units higher. However, year-to-date vehicle sales slipped 1% to 541,142 units from the 546,513 in the previous corresponding period. On the outlook for November, the MAA expected sales volume to be maintained at October levels. *(Source: The Star)*

ECONOMIC UPDATES

Indonesia: Douses talk of curbs to capital, exchange rate

Indonesia reaffirmed its commitment to allowing the free movement of capital and a floating exchange rate, putting to bed concerns the government would impose capital controls to manage rupiah and dollar liquidity. Edi Prio Pambudi, Assistant Deputy Minister at the Economics Ministry, told Reuters on Wednesday the government was focused on getting exporters to bring home their offshore earnings. "We have no plan in the short run to change the law. Our current focus is to attract exporters to bring offshore earnings back home," he said. Indonesia adopted free capital flows and a floating exchange rate policy after the Asian financial crisis of the late 1990s. *(Source: The Star)*

U.S.: Fed officials again flag December; see smooth rates liftoff

Federal Reserve officials on Wednesday continued to flag December as a likely time for interest rates to rise after seven years near zero, with two expressing confidence they will be able to pull off a rate hike smoothly despite fears of an abrupt market reaction. Investors reacted by increasing the odds for a rate increase next month to 72 percent, from 64 percent on Tuesday, based on interest rate futures prices. Cleveland Fed President Loretta Mester repeated her position that the U.S. economy is now strong enough to absorb a modest policy tightening. Atlanta Fed President Dennis Lockhart, sitting alongside her on a panel in New York, said global financial markets have settled since the August turmoil that caused the U.S. central bank to delay raising rates. *(Source: Reuters)*

U.S.: Housing starts hit seven-month low

U.S. housing starts in October fell to a seven-month low, weighed down by a steep decline in the construction of multi-family homes, but a surge in building permits suggested the housing market remained on solid ground. While the drop in groundbreaking activity reported by the Commerce Department on Wednesday implied a moderation in residential investment early in the fourth quarter, it did little to change the view that the Federal Reserve would hike interest rates next month. Groundbreaking dropped 11 percent to a seasonally adjusted annual pace of 1.06 million units last month, the lowest level since

March, the Commerce Department said. October marked the seventh straight month that starts remained above 1 million units, the longest stretch since 2007. Building permits increased 4.1 percent to a 1.15 million-unit rate. (Source: Reuters)

U.K.: Energy policy 'deters investors'

The UK's international reputation for a strong and well-balanced energy policy has taken another knock. It has lost its previous triple-A rating from the World Energy Council (WEC) - a global body representing the energy sector. The authors of the WEC report said a vacuum in energy policy since the election was deterring investors needed to create new electricity supplies. But the government said it was still a world leader in energy policy. It said it was committed to securing energy supplies through nuclear and shale gas. The criticism from the WEC follows a complaint from the UN's chief environment scientist that the UK was turning away from renewables, just as they were being embraced by the rest of the world in the run-up to Paris climate talks this month. (Source: BBC)

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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