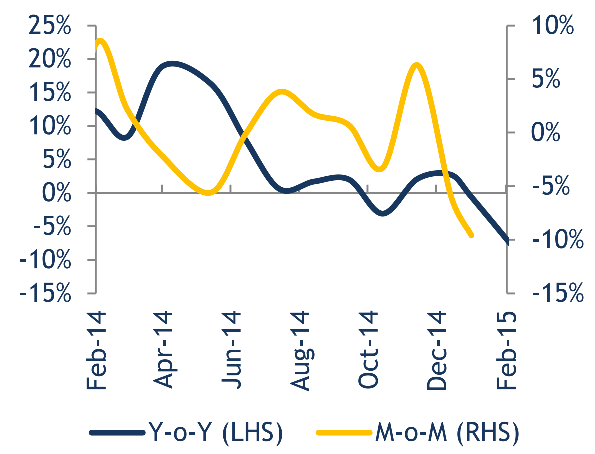
PP14767/09/2012(030761)

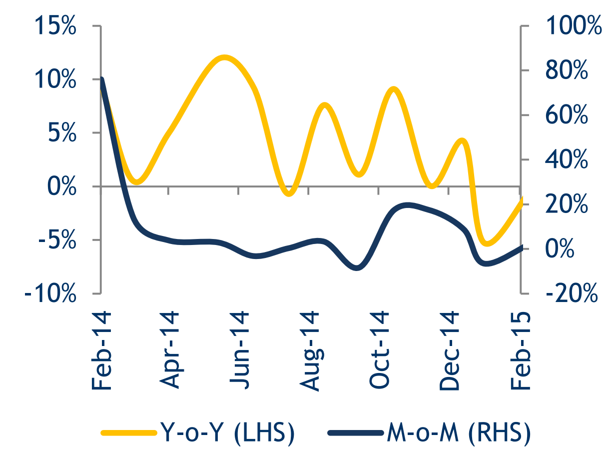
Friday, April 03, 2015

"Malaysia Export Feeling the Pain"

Malaysia Export Growth
(February 2014 - February 2015)



Malaysia Import Growth
(February 2014 - February 2015)



Source: DOS, M&A Securities

Table 1: Trade Info (Growth)

February 2015	Y-o-y	M-o-m
Export	-9.7%	-9.6%*
Import	+0.4%	+3.8%*
Trade Surplus	-56.7%	-49.5%
Trade surplus (value)	February: RM4.5 billion (January 2014: RM9.0 billion)	

Source: DOS, M&A Securities
**seasonally adjusted*

Overall View - February 2015 Trade

Malaysia's export contracted back-to-back in February, with the second month of the year export contraction came in at bigger magnitude. It plummeted by 9.7% y-o-y and 9.6% m-o-m (seasonally adjusted), pushing YTD average export to sink to -5.15%, an alarming trend given a year ago month of February growth of 12.2% and first 2-month average of also 12.20%. This suggests that despite the reprieve from cheaper Ringgit, it does not necessarily translate into improving export competitiveness as demand among our biggest trading partners have been sapped no thanks to their challenging economic outlook, chief of this is China. Import, meanwhile, managed to reverse a month ago trend after clocking-in a growth of 0.4% y-o-y (January: -5.3%) while jumping at bigger growth of 3.8% m-o-m, on seasonally adjusted basis.

Thankfully, trade surplus managed to hold up after registering a surplus of RM4.5 billion although it is a markedly 56.7% lower than a year ago and 49.5% smaller than a month ago. YTD trade surplus averaged at RM6.5 billion vs. the same period a year ago average of RM8.35 billion, essentially 22% lower. Again, the deceleration of global commodity prices have taken a painful toll on Malaysia's export including the drop in export unit value for refined petroleum product (-32.5%), palm oil and palm-based product (-9.9%), LNG (-8.7%), crude petroleum (-46%) and natural rubber (-28.4%). Although Malaysia was able to offset the soft commodity prices with higher production but the

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former was too steep to be neutralized, leading to a deeper scare for Malaysia's February export. Note that for refined petroleum product, Malaysia's February output had gained by 0.5%, followed by crude petroleum at +49.1%. The rest of our commodity production namely palm oil and palm-based product, LNG and natural rubber had all suffered a drop in production to the tune of 23.0%, 5.5%, 25% respectively, pulling down further Malaysia's overall export value. Electrical and electronics products (E&E), which has always been our fair weather friend, disappoint us this time after export from E&E dropped by 0.9%, despite the attractiveness of Ringgit. Ringgit had average at RM3.60 per Dollar in February against a year ago same month average of RM3.31 per Dollar and even that it failed to push hard Malaysia's E&E export.

1H15 will essentially be a challenging period for the country. Risk to growth is more of external basis and Malaysia may not be able to counter that given our small position in the world trade. We note the fact that Ringgit attractiveness may not necessarily equate to solid export as demand and economic well-being of our trading partners are also key. At this juncture, since the economic expectation, be it regionally and globally, will continue to be challenging, the demand for our goods and commodity, may also sap. Hence, we need to embrace for the rainy days ahead.

Export and import Analysis February 2015

For export, China remained our largest trading partners after it made up about 14.5% of our trade (January: 14.7%) followed by Singapore 12.6% (January: 12.3%), Japan 10.4% (January: 9.9%), the EU 10.4% (January: 10.1%) and the US 8.4% (January: 8.5%). Export wise, China was our largest destination after it made up 19% of our export (January: 20%) followed by Singapore at 10.9% (January: 10.7%), Japan 8.1% (January: 7.8%) and the EU at 10.9% (January: 10.5%). For import, China also became our largest source of goods after import from China representing 10.5% share (January: 10.1%) followed by Singapore 14.1% (January: 13.7%) and Japan at 12.4% (January: 11.7%).

As for import, intermediate goods import registered positive performance after registering the month of February growth of 5.9% y-o-y (-11.2% m-o-m), reversing the month before contraction of 3.0%. Consumption good import also grew by 13.2% y-o-y although it dipped by 15.9% m-o-m. As for capital goods, it gained by 6.6% y-o-y but dipped by 10.3% on m-o-m basis. The share of intermediate, capital and consumption goods for January was at 87%:12%:1%, not alarming in our view given the tepid share of consumption goods which suggest that imported inflation is under control.

Trade Outlook

Briefly, it will be a challenging outlook for Malaysia in 1H15, a situation that is not unique only to us. As long as advanced countries continue to be mired with economic doldrums and China not growing within its potential, the world's trade may suffer in 2015. What good does it do for global commodity prices to tank to incomprehensible level when there is a supply glut and demand is sapping, one would ask. Hence, until and unless the situation gets corrected, we think that it is wiser to be cautiously optimistic on our outlook.

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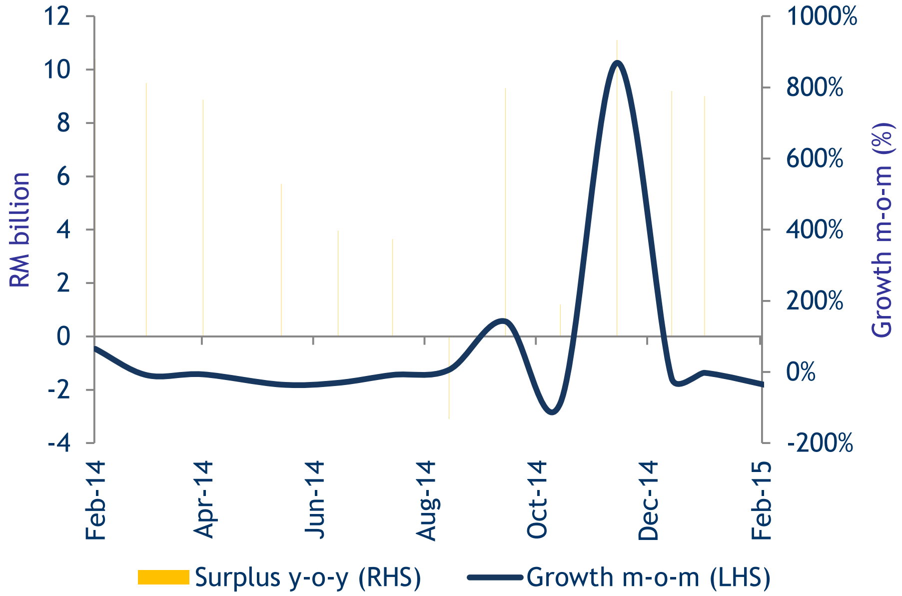
Malaysia Economic Forecast (2012-2015F)

	2012	2013	2014	2015F
BNM	5.6%	4.7%	6.0%	4.5%-5.5%
MoF				4.5%-5.5%
MIER				5.0%-5.5%
M&A Securities				5.0%

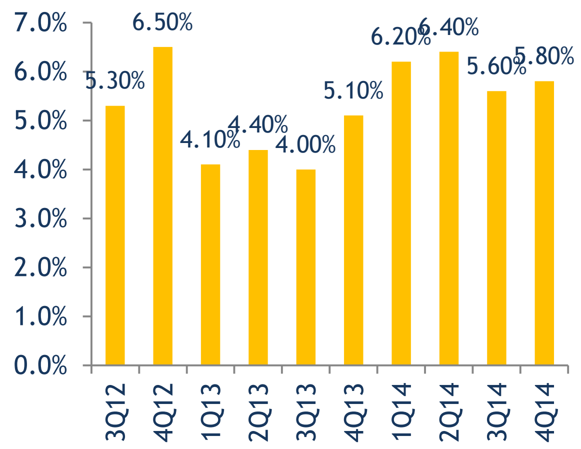
Source: Various, M&A Securities

Malaysia Trade Balance (February 2014 - February 2015)

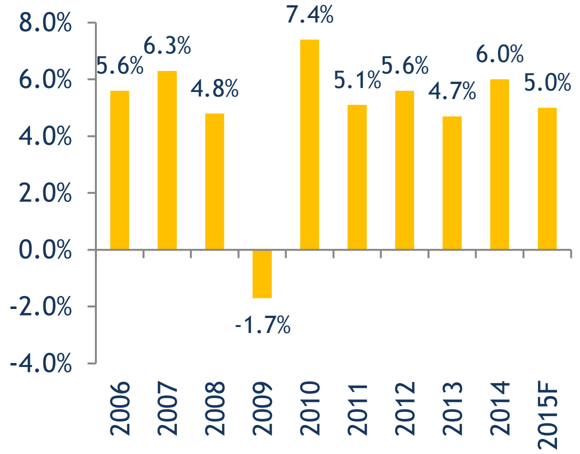


Source: Bloomberg, DOS, M&A Securities

Malaysia Quarterly GDP Growth (3Q12-4Q14)



Malaysia Annual GDP Growth (2006-2015F)



Source: Bloomberg, M&A Securities

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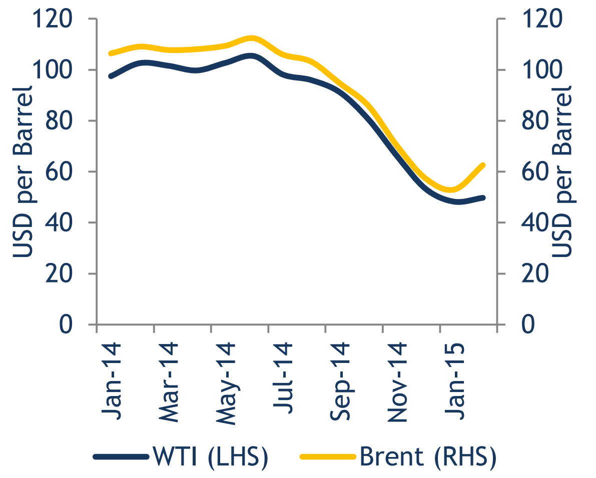
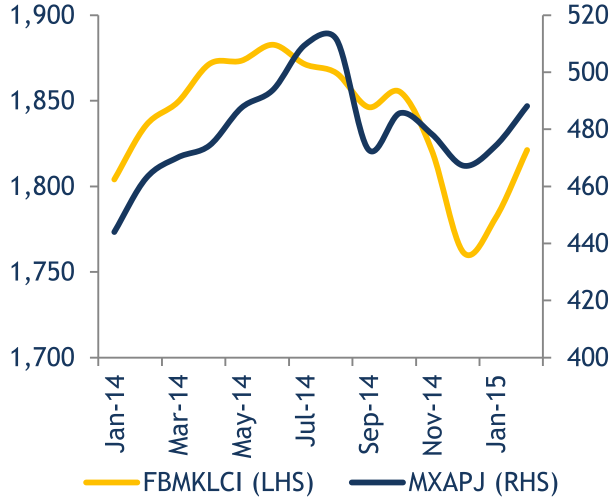
Market Access

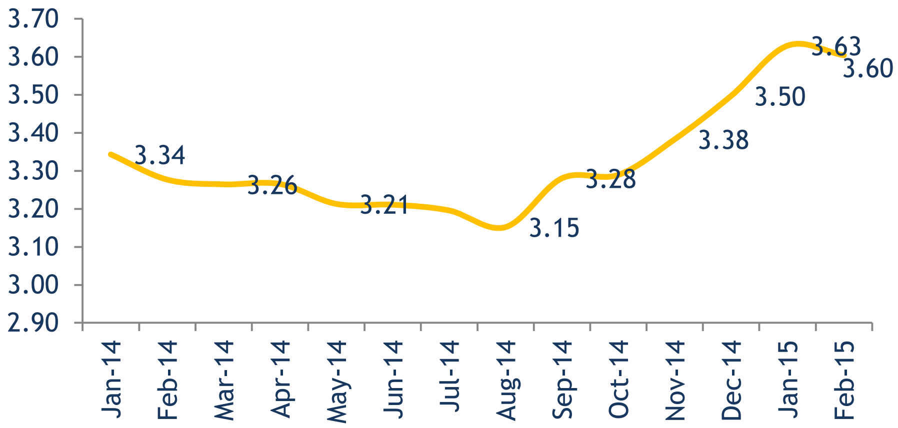
Oil (WTI and Brent)
(January 2014 - YTD)



FBMKLCI vs. MSCI AP ex-Japan
(January 2014-February 2015)



Ringgit per USD
(January 2014 - YTD)



Source: Bloomberg, M&A Securities

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M&A Securities

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+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 ≥-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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Market Access

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