

PP14767/09/2012(030761)

Thursday, June 02, 2016

## Report of the Day

**Results Review:** Scientex 3Q16 – “Recession-Proof with Bright Prospects”

**Sector Update:** Banking April Statistics – “Poise to Drop Further

## At a Glance

FBMKLCI rose 0.50 points to close at 1,626.50, driven by the gain in selected heavyweight counters.....(See full report next page)

## Strategy

## “Investors Prefer to Sideline”

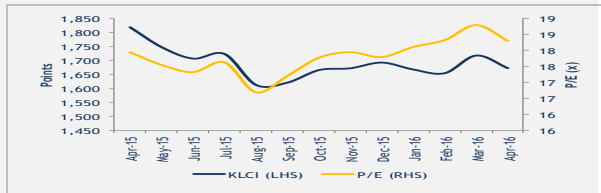
Unexciting trading mood is largely expected and would have a bearing on the local and regional sentiment today.....(See full report next page)

## Corporate Highlights

- **Scientex, BUY (TP: RM16.66):** Chalks up 43% higher net profit of RM61.3mil for Q3
- **FGV (CP: RM1.33):** To maintain policy of paying out half of net profits to shareholders
- **Ranhill (CP: RM1.02):** Eyes power plant projects in Myanmar, Sabah

## Economic Update

- **Malaysia:** PMI records 47.2 in May
- **U.S.:** Rise in U.S. manufacturing activity masks underlying weakness
- **Australia:** Economy outpaces global peers, rates seen on hold



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	30-May	5:00 PM	Consumer Confidence	-7	-7
JP	30-May	7:50 AM	Retail Sales MoM	-0.50%	-1.40%
US	31-May	8:30 PM	Personal Income	0.40%	0.40%
US	31-May	8:30 PM	Personal Spending	0.10%	0.10%
US	31-May	8:30 PM	PCE Core MoM	0.20%	0.10%
US	31-May	8:30 PM	PCE Core YoY	1.60%	1.60%
EU	31-May	9:00 PM	S&P/CasShiller 20-City Index NSA	182.79	182.79
EU	31-May	4:00 PM	M3 Money Supply YoY	5.00%	5.00%
EU	31-May	5:00 PM	Unemployment Rate	10.20%	10.20%
EU	31-May	5:00 PM	CPI Estimate YoY	-0.20%	-0.20%
EU	31-May	5:00 PM	CPI Core YoY	0.70%	0.70%
JP	31-May	7:50 AM	Industrial Production MoM	-1.50%	3.80%
JP	31-May	7:50 AM	Industrial Production YoY	-5.20%	0.20%
JP	31-May	1:00 PM	Housing Starts YoY	4.00%	8.40%
JP	31-May	1:00 PM	Annualized Housing Starts	0.950m	0.993m
JP	31-May	1:00 PM	Construction Orders YoY	...	19.80%
CN	31-May	12:00 AM	Leading Index	...	99.1
US	1-Jun	7:00 PM	MBA Mortgage Applications	...	2.30%
US	1-Jun	9:45 PM	Markit US Manufacturing PMI	50.5	50.5
US	1-Jun	10:00 PM	ISM Manufacturing	50.5	50.8
US	1-Jun	10:00 PM	Construction Spending MoM	0.50%	0.30%
EU	1-Jun	4:00 PM	Markit Eurozone Manufacturing PMI	51.5	51.5
EU	1-Jun	5:00 PM	OECD Economic Outlook	...	8.50%
JP	1-Jun	7:50 AM	Capital Spending YoY	2.90%	7.20%
JP	1-Jun	1:00 PM	Vehicle Sales YoY	...	7.20%
CN	1-Jun	9:00 AM	Manufacturing PMI	50	50.1
CN	1-Jun	9:00 AM	Non-manufacturing PMI	...	53.5
CN	1-Jun	9:45 AM	Cixin China PMI Mfg	49.3	49.4
US	2-Jun	8:15 PM	ADP Employment Change	178k	156k
US	2-Jun	8:30 PM	Initial Jobless Claims	...	268k
US	2-Jun	8:30 PM	Continuing Claims	...	2163k
US	2-Jun	9:45 PM	Bloomberg Consumer Comfort	...	42
EU	2-Jun	5:00 PM	PPI MoM	...	0.30%
EU	2-Jun	5:00 PM	PPI YoY	...	-4.20%
EU	2-Jun	7:45 PM	ECB Main Refinancing Rate	0.00%	0.00%
EU	2-Jun	7:45 PM	ECB Deposit Facility Rate	-0.40%	-0.40%
EU	2-Jun	7:45 PM	ECB Marginal Lending Facility	0.25%	0.25%
JP	2-Jun	7:50 AM	Monetary Base YoY	...	26.80%
US	3-Jun	8:30 PM	Trade Balance Revisions: U.S. International Trade in Goods and Services	-\$41.9b	-\$40.4b
US	3-Jun	8:30 PM	Change in Nonfarm Payrolls	160k	160k
US	3-Jun	8:30 PM	Unemployment Rate	4.90%	5.00%
US	3-Jun	9:45 PM	Markit US Services PMI	51.4	51.2
US	3-Jun	9:45 PM	Markit US Composite PMI	50.8	50.8
US	3-Jun	10:00 PM	ISM Non-Manuf. Composite	55.3	55.7
US	3-Jun	10:00 PM	Factory Orders	...	1.10%
US	3-Jun	10:00 PM	Factory Orders Ex Trans	...	0.80%
US	3-Jun	10:00 PM	Durable Goods Orders	...	3.40%
US	3-Jun	10:00 PM	Durable Ex Transportation	...	0.40%
EU	3-Jun	4:00 PM	Markit Eurozone Services PMI	53.1	53.1
EU	3-Jun	4:00 PM	Markit Eurozone Composite PMI	52.9	52.9
EU	3-Jun	5:00 PM	Retail Sales MoM	0.20%	-0.50%
EU	3-Jun	5:00 PM	Retail Sales YoY	...	2.10%
CN	3-Jun	9:45 AM	Cixin China PMI Services	51.8	51.8
CN	3-Jun	9:45 AM	Cixin China PMI Composite	...	50.8
MY	3-Jun	12:00 PM	Exports YoY	2.00%	0.20%
MY	3-Jun	12:00 PM	Imports YoY	-1.10%	-5.50%
MY	3-Jun	12:00 PM	Trade Balance MYR	9.68b	11.19b

## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,626.50	0.50	0.03
FBMEMAS	11,391.45	0.76	0.01
FBMEMAS SHA	11,934.23	11.59	0.10
FBM100	11,085.56	0.78	0.01
Volume (mn)	1,346.21	-1,346.80	-50.01
Value (RMmn)	1,660.68	-5,047.93	-75.25
FBMKLCI YTD Chg			-3.90

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	13.5	-6.9
Local Institution	54.9	196.4
Foreign Investors	31.6	-189.5

## Top Gainers

	Close	Change+/-	(+/- %)
BAT	50.58	0.52	1.04
AJINOMOTO	12.52	0.32	2.62
POWER ROOT	2.37	0.18	8.22

## Top Losers

	Close	Change+/-	(+/- %)
MNRB	2.82	-0.21	-6.93
PUBLIC BANK	18.92	-0.20	-1.05
KLUANG RUBBER	3.06	-0.20	-6.14

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,789.67	2.47	0.01
NASDAQ	4,952.25	4.20	0.08
S&P 500	2,099.33	2.37	0.11
FTSE 100	6,191.93	-38.86	-0.62
DAX	10,204.44	-58.30	-0.57
Nikkei 225	16,955.73	-279.25	-1.62
HSI	20,760.98	-54.11	-0.26
KOSPI	1,982.72	-0.68	-0.03
STI	2,785.85	-5.21	-0.19
KLCI Futures	1,613.00	3.00	0.00
USDMYR 3M	12.79	0.01	0.00
USDMYR 6M	12.68	(0.03)	(0.00)
USDMYR 12M	12.58	0.02	0.00

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	49	-0.1	-0.2%
Brent (USD/bbl)	49.7	-0.2	-0.3%
Gold(USD/ounce)	1,214	1.0	0.1%
Coal (USD/mt)	53.1	-0.4	-0.7%
CPO (RM/mt)	2,598	-22.0	-0.8%
Rubber	151	-1.2	-0.8%
RM/USD	4.15	0.0193	-0.47%
EUR/USD	0.89	0.0002	0.02%
YEN/USD	109.52	-0.02	0.02%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average edged up 2.47 points to 17,789.67 yesterday, S&P 500 inched 2.37 points higher to 2,099.33 points. Nasdaq was up 4.20 points to 4,852.25 at the closing. U.S. stocks eked out a gain Wednesday as investors focused on the positive aspects of the latest batch of data that showed the U.S. economy plodding along.
- Meanwhile, the Institute for Supply Management's manufacturing index showed U.S. manufacturing expanded in May, but at a very slow pace that suggests the sector is unlikely to speed up soon. Construction spending tumbled in April, due in part to a decline in residential spending. U.S. auto sales slumped in May as fewer selling days in the month led to less foot traffic in showrooms.

### The Local Market

- FBMKLCI rose 0.50 points to close at 1,626.50, driven by the gain in selected heavyweight counters. There were 323 gainers and 455 decliners in total value traded of RM1.66 billion.
- Among the gainers on Bursa Malaysia were BAT surged 52 cent to RM50.58, Ajinomoto jumped 32 cent to RM12.52, Power Root up 18 cent to RM2.37 and SAM Engineering increased 17 cent to RM6.64.

### Strategy

- **"Investors Prefer to Sideline"**  
Wall Street had a flat affair on Wednesday as investors refused to dip deeper amid a reversal in oil price. **S&P 500** and **DJIA** gained a marginal **2.37 (0.11%)** and **2.47 (0.01%)** points to end at **2,099.33** and **17,789.67** respectively. At the back of key economic release tomorrow, as in the US May unemployment rate, investors in Wall Street preferred to stay at the sideline with uninspiring sentiment. This was added by a slight reversal of oil price which tanked by a mild 0.16% to end at USD48.93 per barrel (WTI). This unexciting trading mood is largely expected given the aforementioned and would have a bearing on the local and regional sentiment today.
- Our 2016 year-end FBMKLCI target is 1,790 based on PER of 17.1x. FBMKLCI is **NEUTRAL**. We have **OVERWEIGHT** call on construction, telco and oil and gas respectively. We predict Malaysia to grow by 4.3% in 2016.

## CORPORATE HIGHLIGHTS

**Scientex, BUY (TP: RM16.66): Chalks up 43% higher net profit of RM61.3mil for Q3**

Global packaging manufacturer and property developer Scientex Bhd posted a net profit of RM61.3mil in the third quarter ended April 30, 2016 (Q3), a jump of 42.6%, compared with RM43mil a year ago. Group revenue for the quarter rose 19.5% to RM543.9mil from RM455.3mil previously. It announced on Wednesday that Q3 manufacturing sales increased 20.1% to RM382.8 mil from RM318.8mil previously, as it expanded its customer coverage in the Asia Pacific region. The property segment meanwhile noted 18.0% higher revenue of RM161.1mil versus RM136.5mil a year ago, on the back of progress billings and steady take-up rates for properties in Melaka as well as Pasir Gudang, Skudai, Kulai and Senai in Johor. *(Source: The Star)*

**Lay Hong (CP: RM9.15): Q4 net loss due to share scheme expense**

Lay Hong Bhd's net loss of RM12.6mil in its fourth quarter for the financial year ended March 31, 2016 (Q4FY2016) was due to a one-time charge of a share-based expense of RM15.09mil, according to the poultry company. In a statement, it said the share-based expense was related to the full grant of 5.25 million shares under the share issuance scheme (SIS) option to eligible directors and employees in the current quarter. Excluding the share-based expense, Lay Hong would have a profit before tax of RM3.58mil, contributed by operational profit and the expense of RM15.09mil does not affect the operational profit of the company, it said. *(Source: The Star)*

**FGV (CP: RM1.33): To maintain policy of paying out half of net profits to shareholders**

Felda Global Ventures Holdings Bhd (FGV) is maintaining its dividend policy of paying out half of its net profits to shareholders, be it in good times or bad, said group president and chief executive officer (CEO) Datuk Zakaria Arshad. "Since FGV was listed on Bursa Malaysia in June 2012, the dividend commitment to shareholders is to pay out half of its profits. This policy is still ongoing," he told Business Times after the company's shareholders meeting held here today. In its first quarter ended March 2016, FGV slipped into the red with RM70.35 million in losses, compared with RM72.88 million pre-tax profits, a year ago. The losses were dragged by lower oil palm fruit harvest at the estates. *(Source: Business Times)*

**Ranhill (CP: RM1.02): Eyes power plant projects in Myanmar, Sabah**

Ranhill Holdings Bhd, which is close to partially divesting its waste water company in China, is eyeing a gas-fired power plant project in Myanmar and submitted a proposal to build a new power plant in Sabah. Its president and CEO Tan Sri Hamdan Mohamad said the Myanmar government is calling for expressions of interest for a 400MW gas-fired power plant. We are participating in a bid in Myanmar for 400MW. I think we are in an advantageous position because we did prepare a feasibility study two years ago for the same project. We thought we could do a direct negotiation but the government decided to call for a tender, so we will participate in the tender," he told reporters after the company's AGM here yesterday. *(Source: The Sun)*

**Ekovest (CP: RM1.54): To fund DUKE Phase-3 with RM3.6b sukuk**

Ekovest Bhd which was awarded the concession for the construction and management of the DUKE Phase-3 expressway, is planning a RM3.64 billion sukuk to partially fund the project cost. In a statement yesterday, Malaysian Rating Corporation Bhd (MARC) said it has assigned a rating of AA-IS with a stable outlook on toll concessionaire Lebuhraya DUKE Fasa 3 Sdn Bhd, a unit of Ekovest. The proceeds from the sukuk will part fund the estimated RM5.05 billion project cost; the remaining funding will come from a RM560 million interest-free government reimbursable interest assistance (RIA) and RM850 million equity. *(Source: The Sun)*

**Scomi (CP: RM0.225): Wins RM504m deal for extra works on Sao Paulo monorail**

Scomi Engineering Bhd has been awarded additional works for its Line 17 - Gold Sao Paulo monorail project in Brazil worth RM504.6 million. As a result, the remaining adjusted contract value for the project for Scomi has increased from R\$83.7million to R\$521 million. The Sao Paulo Metropolitan Company had approached Scomi to take on additional scopes and to fast track the project to completion. This is testimony of the client's confidence in Scomi's competencies and capabilities, and we are committed to take on this challenge," its CEO Rohaida Ali Badaruddin said in a separate statement yesterday. *(Source: The Sun)*

**WZ Satu (CP: RM1.17): To acquire SILK SB**

WZ Satu Bhd yesterday entered into a heads of agreement (HOA) with SILK Holdings Bhd to acquire the entire share capital of Sistem Lingkaran-Lebuhraya Kajang Sdn Bhd (SILK SB) for RM368 million. SILK SB is a single-purpose company that holds the concession to design, construct, operate and maintain the Kajang Traffic Dispersal Ring Road. The purchase consideration for the proposed acquisition will be satisfied via RM239.25 million cash and the issuance of 125 million shares of 50 sen each in WZ Satu at an issue price RM1.03 per share. *(Source: The Sun)*

**Matrix Concepts (CP: RM2.49): Launches apartments in Melbourne**

Property developer Matrix Concepts Holdings Bhd (MCHB) has made its maiden venture abroad with the launch of the M.Carnegie boutique low-rise apartments in Melbourne. MCHB group managing director Datuk Lee Tian Hock said 52 apartments would be built on 1,865 sq m in the suburb of Carnegie, located some 15km from the Melbourne central business district. The entire project will have a gross development value of RM100mil. *(Source: The Star)*

**Barakah (CP: RM0.70): Bidding for RM1.7b of jobs**

Barakah Offshore Petroleum Bhd is bidding for RM1.7bil worth of jobs in the local and international markets. Group president and chief executive officer Nik Hamdan Daud said on Wednesday the company had also secured RM1.6bil of orders despite the overall slowdown in the oil and gas industry. Last year, the group only managed to secure RM170mil of work orders. The company said that most of its new jobs, such as the Petronas Carigali's pipeline inspective gauges trap maintenance for Malaysia, as well as the repair and maintenance of Sabah-Sarawak Gas Pipeline will keep the group busy until 2018. *(Source: The Star)*

## ECONOMIC UPDATES

**Malaysia: PMI records 47.2 in May**

Production and new orders decreased at marked rates in Malaysia in May, the sharpest rate in over three-and-a-half years. According to the latest indications of Malaysia's manufacturing performance, manufacturers cut back on purchasing activity for the 12th month. The headline Nikkei Malaysia Manufacturing Purchasing Managers' Index (PMI) posted at 47.2 in May, little-changed from April's five-month low, thereby indicating a solid deterioration in operating conditions at Malaysian manufacturers. *(Source: Business Times)*

**U.S.: Rise in U.S. manufacturing activity masks underlying weakness**

U.S. manufacturing grew for a third straight month in May, but factories appeared to be taking in fewer deliveries from their suppliers, which could hamper production in the months ahead. Other data on Wednesday showed automobile sales slowing last month and a sharp drop in construction spending in April, bucking the recent flow of relatively strong data that suggested economic growth was regaining speed in the second quarter. The Institute for Supply Management (ISM) said its index of national factory activity rose half a percentage point to a reading of 51.3 last month, with a jump in prices paid by factories for raw materials also accounting for the increase. *(Source: Reuters)*

**Australia: Economy outpaces global peers, rates seen on hold**

Australia's economic growth boomed past expectations in the first quarter with the annual pace speeding to its fastest in over three years, an upbeat result that all but assures the central bank will be on hold at its policy meeting next week. The official data on Wednesday showed gross domestic product (GDP) grew 1.1% in the three months to March, accelerating from an upwardly revised 0.7% and well above the median forecast of 0.8%. That pushed the annual growth rate to 3.1% - a pace not seen since late 2012 - from a downwardly revised 2.9%, keeping the economy well on track to meet the Reserve Bank of Australia's (RBA) forecast of 2.5%-3.5% by June. *(Source: Reuters)*

**Brazil: Economy shrinks for fifth consecutive quarter**

Brazil's economy continued to shrink in the first quarter of 2016, contracting by 0.3%. It was the fifth consecutive quarter in which the economy has shrunk. However, the figure was not as bad as the 0.8% contraction that had been predicted by economists. As well as its worst recession in decades, Brazil is grappling with political crisis, following the removal from office of President Dilma Rousseff pending an impeachment trial. The Instituto Brasileiro de Geografia e Estatística (IBGE) also said that Brazil's GDP fell by 5.4% year-on-year - which was also better than the 6.1% contraction forecast by Itau Unibanco. *(Source: BBC)*

**China: China's factories steady but weak, hopes for quick recovery fade**

China's manufacturing activity showed signs of steadying in May but remained weak amid soft demand at home and abroad, suggesting the world's second-largest economy is still struggling to regain traction. A rebound in March had raised hopes that China's economy was reviving, breathing life into global financial and commodity markets, but analysts said the soggy activity readings



and weak April data suggest no quick recovery is in sight. The May Purchasing Managers' Index (PMI) was unchanged from April at 50.1, barely above the neutral 50-mark. To be sure, higher commodity prices, a better housing market and plenty of government spending have helped the industrial sector, but questions remain as to whether the upturn will last. *(Source: Reuters)*

#### **Europe: ECB seen firmly on hold, set to raise inflation forecast**

Keeping interest rates firmly on hold, the European Central Bank will probably raise growth and inflation forecasts on Thursday, a rare positive step even as it emphasises persistent negative risks and a readiness to provide more stimulus. The ECB is buying assets to the tune of 1.74 trillion euros (\$1.94 trillion) to lift growth and boost inflation, which has been stuck in negative territory for months, raising the risk the 19-member currency bloc sinks into a deflation spiral. With oil prices LCOc1 almost doubling since early January, the ECB will nudge up its inflation projections, breaking a cycle of having to cut forecasts quarter after quarter, and supporting ECB President Mario Draghi's call for patience with measures already taken. *(Source: Reuters)*

#### **German: Manufacturing growth hits four-month high in May**

Rising demand at home lifted German factory activity to a four-month high in May, a survey showed on Wednesday, while subdued demand from abroad prevented a stronger expansion. Markit's Purchasing Managers' Index for manufacturing, which accounts for about a fifth of the economy, rose to 52.1 in May from 51.8 in April. The reading was the highest since January and above the 50 line that separates growth from contraction. It was lower than the flash reading of 52.4, however. Production also posted its strongest increase since January, while manufacturers raised hiring for the second month running even as job creation remained unchanged from April and modest overall. *(Source: Reuters)*

#### **Japan: Urged to use Malaysia to tap into US\$2.5 trillion Asean economy**

Malaysia can serve as Japan's gateway to the US\$2.5 trillion Asean economy, with its strategic geographical location and sound business policies. Deputy Prime Minister Datuk Seri Dr Ahmad Zahid Hamidi said Japan could leverage on Malaysia's investor-friendly policies and benefit immensely through investments in the region. Asean, with a 620 million population, he added, could be developed into a regional hub for Japan's various industries. The Trans-Pacific Partnership, which is set to come into effect in 2018, he told government officials and the Japanese business community here, was be an important initiative that would expand both nations' market access opportunities. *(Source: Business Times)*

#### **U.K.: Manufacturing sector scrapes back to growth in May**

UK manufacturing activity rose slightly in May, raising concerns over the economy's strength in the run-up to the 23 June European Union referendum. The Markit/CIPS manufacturing Purchasing Managers' Index grew to 50.1 from 49.4 in April, which had been the lowest reading since early 2013. The 50 mark separates manufacturing growth from contraction, with the sector now just on the positive side. *(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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