

PP14767/09/2012(030761)

Monday, April 18, 2016

## Report of the Day

**Strategy Report (Economic):** 2Q16 Eurozone economic Outlook - "Same Old Same Old"

**Company Update:** TM - "Bigger Things About to Happen"

## At a Glance

FBMKLCI rose 4.21 points to close at 1,727.99 lifted by the gain in selected heavyweight counters.....(See full report next page)

## Strategy

## "Expect the Market to Have a Leg Up Today"

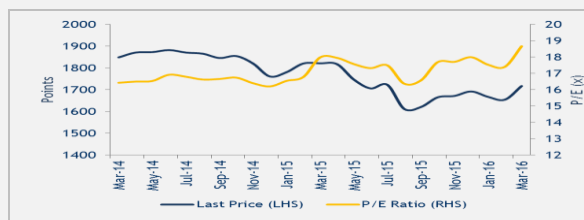
Needful to say that oil price may test USD50 per barrel in the immediate term (WTI and Brent).....(See full report next page)

## Corporate Highlights

- **AirAsia (CP: RM2.13):** Gets Bursa nod to list 559m new shares for Tony, Kamarudin
- **Mesiniaga (CP: RM0.93):** Telekom Malaysia extends contract with Mesiniaga by RM146m
- **Brahim's (CP: RM0.95):** Brahim's subsidiary to leverage on 7-Eleven network

## Economic Update

- **Malaysia:** Bank Negara sticks with Malaysia growth target
- **U.S.:** Industrial output falls, signals weak Q1 GDP growth
- **China:** Property sector making greater contribution to economic growth



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
CN	18-Apr	9:30 AM	China March Property Prices	-	-
US	19-Apr	8:30 PM	Housing Starts	1156k	1178k
US	19-Apr	8:30 PM	Building Permits	1205k	1167k
US	20-Apr	7:00 PM	MBA Mortgage Applications	-	-
US	20-Apr	10:00 PM	Existing Home Sales	5.27m	5.08m
US	20-Apr	10:00 PM	Existing Home Sales MoM	3.7%	-7.1%
JP	20-Apr	7:50 AM	Trade Balance	-	¥242.8b
JP	20-Apr	7:50 AM	Trade Balance Adjusted	-	¥166.1b
MY	20-Apr	12:00 PM	CPI YoY	-	4.2%
US	21-Apr	8:30 PM	Initial Jobless Claims	-	-
US	21-Apr	8:30 PM	Continuing Claims	-	-
US	21-Apr	10:00 PM	Leading Index	0.4%	0.1%
EU	21-Apr	7:45 PM	ECB Main Refinancing Rate	-	0.0%
EU	21-Apr	7:45 PM	ECB Deposit Facility Rate	-	-0.40%
EU	21-Apr	7:45 PM	ECB Marginal Lending Facility	-	0.25%
EU	21-Apr	10:00 PM	Consumer Confidence	-	-9.7
US	22-Apr	9:45 PM	Markit US Manufacturing PMI	-	51.5
EU	22-Apr	4:00 PM	Markit Eurozone Manufacturing PMI	-	51.6
EU	22-Apr	4:00 PM	Markit Eurozone Services PMI	-	53.1
EU	22-Apr	4:00 PM	Markit Eurozone Composite PMI	-	53.1
MY	22-Apr	6:00 PM	Foreign Reserves	-	\$97.0b

## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,727.99	4.21	0.24
FBMEMAS	11,997.07	26.75	0.22
FBMEMAS SHA	12,539.76	12.31	0.10
FBM100	11,693.21	28.67	0.25
Volume (mn)	1,585.13	-44.24	-2.72
Value (RMmn)	1,705.39	-240.72	-12.37
FBMKLCI YTD Chg			2.10

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	15.6	4.4
Local Institution	61.2	-158.2
Foreign Investors	23.2	153.8

## Top Gainers

	Close	Change+/-	(+/- %)
BAT	55.54	0.48	0.87
GAB	14.64	0.26	1.81
RHB CAP	6.28	0.18	2.95

## Top Losers

	Close	Change+/-	(+/- %)
NESTLE	74.60	-0.40	-0.53
FAR EAST	7.72	-0.25	-3.14
SCIENTEX	12.98	-0.20	-1.52

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,897.46	-28.97	-0.16
NASDAQ	4,938.22	-7.67	-0.16
S&P 500	2,080.73	-2.05	-0.10
FTSE 100	6,343.75	-21.35	-0.34
DAX	10,051.57	-42.08	-0.42
Nikkei 225	16,848.03	-63.02	-0.37
HSI	21,316.47	-21.34	-0.10
KOSPI	2,014.71	-1.22	-0.06
STI	2,922.03	8.10	0.28
KLCI Futures	1,713.00	3.00	0.00
USDMYR 3M	12.89	0.02	0.00
USDMYR 6M	12.65	(0.01)	(0.00)
USDMYR 12M	12.48	0.01	0.00

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	38	-2.2	-5.4%
Brent (USD/bbl)	40.9	-2.2	-5.1%
Gold(USD/ounce)	1,236	1.6	0.1%
Coal (USD/mt)	50.9	0.0	0.0%
CPO (RM/mt)	2,641	-15.0	-0.6%
Rubber	169	-2.2	-1.3%
RM/USD	3.90	0.0132	-0.34%
EUR/USD	0.89	-0.0012	-0.14%
YEN/USD	108.21	-0.55	0.51%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average declined 28.97 points to close at 17,897.46, S&P 500 dropped 2.05 to close at 2,080.73 points. Nasdaq slid 7.67 points to 4,938.22. Stocks fell Friday, the final day of a week in which the Standard & Poor's 500 Index reached the highest level in four months, as a retreat by energy producers overshadowed better-than-expected earnings from Citigroup.
- Equities extended declines in the afternoon as Apple dropped 1.3 percent after Japan's Nikkei reported that the company will continue a production cut of its iPhones amid sluggish sales, citing unidentified parts suppliers notified of the plan. Energy companies halted a three-day gain as crude retreated before major suppliers meet in Doha this weekend to discuss an output freeze.

### The Local Market

- FBMKLCI rose 4.21 points to close at 1,727.99 lifted by the gain in selected heavyweight counters. There were 326 gainers and 422 decliners in total value traded of RM1.71 billion.
- Among the gainers on Bursa Malaysia were BAT surged 48 cent to RM55.54, GAB jumped by 26 cent to RM14.64, RHB Cap increased 18 cent to RM6.28 and MAHB up 17 cent to RM6.68.

### Strategy

- **"Expect the Market to Have a Leg Up Today"**  
Wall Street ended up in cautious mode last Friday as investors turned nervous over the impending global oil producers meeting on Sunday. But we expect sentiment to turn into brightly lit fireworks today. S&P 500 and DJIA erased 2.05 (-0.10%) and 28.97 (-0.16%) points to end at 2,080.73 and 17,897.46 respectively. Note that Saudi Arabia and Russia have approved a deal to freeze output until 1st October, at January level, in order to address oil oversupply issue. Other producers are expected to follow suit. This piece of news will be the catalyst the market has been longing for especially when lethargic oil price has been the menace that weighed on market equity market for over a year. Although the freeze is only for about 6 months but it is good enough to buy time. Disappointingly, Iran decided not to chip in in the oil freeze plan. Needful to say that oil price may test USD50 per barrel in the immediate term (WTI and Brent) and subsequently USD70 per barrel in medium term and that would mean a leg up on the equity market as well.
- 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

**AirAsia (CP: RM2.13): Gets Bursa nod to list 559m new shares for Tony, Kamarudin**

AirAsia Bhd has received approval from Bursa Malaysia Securities to list the 559 million new shares which will be issued to its owner, Tan Sri Tony Fernandes and his business partner Datuk Kamarudin Meranun. The low-cost carrier said on Friday Bursa's approval for the new shares, which will enable it to raise RM1bil, would be subject to several conditions. Among the conditions were an approval by shareholders at an extraordinary general meeting (EGM) and also confirmation that all the relevant authorities' approval had been obtained. (Source: The Star)

**Mesiniaga (CP: RM0.93): Telekom Malaysia extends contract with Mesiniaga by RM146m**

IT solutions company Mesiniaga Bhd's contract with Telekom Malaysia Bhd was extended by another year with a value not exceeding RM145.9mil. It said on Friday it had accepted an additional letter of award from TM which extends the contract period involving the supply, maintenance and support services of the new Internet protocol and service edge. Mesiniaga said with the award of the supplementary agreement, the expiry of the contract is now extended from June 11, 2019 to May 31, 2020. (Source: The Star)

**Brahim's (CP: RM0.95): Brahim's subsidiary to leverage on 7-Eleven network**

Airline caterer Brahim's Holdings Bhd will leverage on 7-Eleven Holdings Bhd's wide network on convenience stores to market its food products. Brahim's said on Friday its 51%-owned Brahim's SATS Food Services Sdn had inked an MoU with 7-Eleven Malaysia Sdn Bhd to collaborate and cooperate in the food chain supply. Under the plan, Brahim's SATS will plan, develop and create menu specifications and products to be marketed through 7-Eleven's convenience stores. It said 7-Eleven would provide a centralised distribution centre for Brahim's SATS to deliver all its products and to arrange for delivery of the products. (Source: The Star)

**Melati Ehsan (CP: RM0.80): Buying Selayang land for RM77.7m**

Melati Ehsan Holdings Bhd (MEHB) is acquiring three parcels of leasehold land measuring a total of 37,078 sq m in Bandar Selayang for RM77.74 million cash. In a filing with Bursa Malaysia last Friday, MEHB said its wholly-owned subsidiary Bayu Melati Sdn Bhd had entered into a conditional sale and purchase agreement with Aturan Utama Sdn Bhd for the proposed acquisition. Aturan Utama is wholly owned by Malaysian Allied Health Sciences Academy Sdn Bhd (Mahsa). With a total land area of 37,078 sq m, the three parcels are vacant and are proposed to be developed into a mixed project. The original cost of the land was RM1.79 mil. (Source: The Sun)

**Kian Joo (CP: RM3.14): RM1.47b takeover offer for Kian Joo called off**

The RM1.47 billion takeover offer for Kian Joo Can Factory Bhd was called off last Friday on mutual termination by the company and the offeror, Aspire Insight Sdn Bhd. In a filing with the stock exchange last Friday, Kian Joo said they had mutually agreed to terminate the business sale agreement (BSA) and its

ancillary agreements. "The BSA, ASA (asset sale agreement) and PSA (property sale agreement) will cease to have any effect and will become null and void and neither party shall have any claim whatsoever against the other," it said. To recap, Aspire Insight, which is controlled by the Employees Provident Fund and Kian Joo COO Freddie Chee Khay Leong, had in November 2013 launched a takeover offer for Kian Joo, with a price tag of RM1.47 billion, or RM3.30 per share. (Source: *The Sun*)

#### **QL Resources (CP: RM4.30): Springs surprise move**

QL Resources Bhd, one of the largest poultry companies in the country, has taken the market by surprise by tying up with FamilyMart, the world's second largest convenience store chain after 7-Eleven. Notably, QL was in the limelight last year for its takeover plan of another local poultry player, Lay Hong Bhd, but the deal fell through. The company, which has been on an acquisition spree, was said to have reached a stage where growth has hit a plateau, according to market observers. Bringing FamilyMart into the Malaysian market marks QL's first foray into convenience store franchising. (Source: *The Star*)

#### **AHB (CP: RM0.205): Exits PN17 status next Monday**

AHB Holdings Bhd, formerly Artwright Holdings Bhd, will be exiting Practice Note 17 (PN17) status in the coming Monday. According to the premium office furniture maker's filing with Bursa Malaysia today, it will be uplifted from being classified as a PN17 company effective 9 am on April 18, 2016. AHB slipped into PN17 status in October 2014 after its external auditors expressed a disclaimer in the group's audited financial statements for the financial year ended June 30, 2014 (FY14). The disclaimer was caused by uncertainties on various effects on the financial statements, in the event of deconsolidation of one of its wholly-owned subsidiary which has been wound up. For the third quarter ended Dec 31, 2015 (3QFY16), AHB posted a net profit of RM552,000, an increase of 46.42% from RM377,000 the year before (3QFY15). Revenue rose 12.5% to RM4.5 million, from RM4.01 million. (Source: *The Edge*)

#### **Coastal Contract (CP: RM1.69): Unit slapped with counter-claim**

Coastal Contract Bhd's (CCB) wholly-owned unit Thaumaz Marine Ltd (TML) has on Monday (April 11) received the Statement of Defence and Counterclaim from Yantai CIMC Raffles Offshore Ltd (Yantai) and Dynamic Driller Limited (DDL) for a sum of US\$2.52 million (RM9.85 million), arising from alleged change of proposal or additional work carried out by them and other damages. In a filing to the Bursa Malaysia today, CCB said TML would be reviewing the Statement of Defence internally and will take necessary action pursuant to the procedures applicable to the current arbitration proceedings. "[The procedures] include but [are] not limited to filing its Statement of Reply in accordance with the aforementioned procedures," it said. Both companies are counter-claiming from TML, the sum of approximately US\$ 2.52 million arising from alleged Change Proposals and/or additional work carried out by them. (Source: *The Edge*)

#### **Tiger Synergy (CP: RM0.055): Calls off RM16m acquisition of semiconductor services company**

Property developer Tiger Synergy Bhd has called off its RM16 million acquisition of semiconductor services company, BPE Synergy Engineering Sdn Bhd. In its

filing to Bursa Malaysia today, Tiger Synergy said it has aborted the memorandum of understanding (MoU) entered between both parties on Jan 6, 2016, as a consensus on the terms and conditions of the proposed acquisition could not be reached by both parties, during the negotiation period. To recap, Tiger Synergy had signed the MoU to acquire printed circuit board manufacturer, BPE Synergy, through a share swap, totaling RM16 million of consideration. (Source: The Edge)

#### ECONOMIC UPDATES

##### Malaysia: Bank Negara sticks with Malaysia growth target

Malaysia will meet its economic expansion target even as risks to global growth mount and greater volatility may persist in capital flows, Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz said. Price pressures are “quite contained” due to lower fuel and commodity costs and slightly slower demand, Zeti said in an interview here last Saturday. Until there is more clarity to the growth and inflation outlook, the current monetary stance remains accommodative and supportive, she said. Zeti, who leaves her position at the end of the month when her term is up, has helped to curb inflation and keep monetary policy steady to support domestic demand. (Source: The Star)

##### U.S.: Industrial output falls, signals weak Q1 GDP growth

U.S. industrial production fell more than expected in March as manufacturing and mining production decreased, the latest indication that economic growth braked sharply in the first quarter. Industrial output declined 0.6% last month, after a downwardly revised 0.6% drop in February, the Federal Reserve said on Friday. Industrial production has fallen in six of the last seven months. Economists polled by Reuters had forecast industrial production slipping only 0.1% last month, after a previously reporting a 0.5% drop in February. Industrial production fell at an annual rate of 2.2% in the first quarter, after decreasing at a 3.3% pace in the fourth quarter. The report joined data on retail sales, business spending, trade and wholesale inventories in suggesting that economic growth slowed to crawl at the turn of the year. (Source: The Edge)

##### China: Property sector making greater contribution to economic growth

China sees its property sector showing a greater contribution to economic growth in the first quarter this year, the statistics bureau said on Friday. Spokesman Sheng Laiyun said there was increased divergence between property prices in major cities and smaller cities, while prices would continue to come under pressure from big inventories. Sheng's remarks follow news that China's property investment growth quickened to 6.2 percent in the first three months of 2016, as national sales growth accelerated to a near three-year high on a range of official stimulus measures. The growth in real estate investment, a major driver of the economy which affects more than 40 other sectors from cement to furniture, was up from an increase of 3 percent in the January to February period. (Source: Reuters)

##### Indonesia: Central bank to adopt new policy benchmark

Indonesia's central bank said on Friday it will adopt a new benchmark policy rate starting Aug 19 to make its monetary policy more effective in guiding



money market rates. The new benchmark is the seven-day reverse repurchase rate, Governor Agus Martowardojo said in a teleconference from Washington DC. The seven-day reverse repo rate was 5.50% in Bank Indonesia's last auction. The current benchmark rate is 6.75% and it is not tied directly to the money market. Martowardojo stressed that the change does not mean Bank Indonesia is changing its monetary stance. (Source: Reuters)

**Japan: Auto, electronics sector face disruption due to quake damage**

Toyota Motor Corp said on Sunday it would suspend production at plants across Japan after earthquakes in the country's south disrupted the automaker's supply chain, while other manufacturers extended stoppages due to damaged factories. Japanese companies have been affected by supply chain disruptions caused by natural disasters in the past few years, most notably when a devastating earthquake and tsunami in northern Japan in March 2011 temporarily knocked out part of the auto supply chain. (Source: The Star)

**U.K.: Economy faces permanent hit with Brexit**

British finance minister George Osborne said a vote to leave the European Union in a referendum in June would do permanent damage to the country's economy, which he warned would be 6 percent smaller by 2030 than if it stayed in the bloc. The government is due to present on Monday a "serious, sober analysis" of the long-term economic impact of a so-called Brexit, a source familiar with the document said. Osborne was quoted as saying the loss to the economy would be the equivalent to each household of 4,300 pounds (\$6,100) a year by 2030. (Source: The Star)

# 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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A Participating Organisation of Bursa Malaysia Securities Berhad

Level 1,2,3 No.45-47 & 43-6  
The Boulevard, Mid Valley City,  
Lingkaran Syed Putra,  
59200 Kuala Lumpur  
Tel: +603 – 2282 1820 Fax: +603 – 2283 1893  
Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)

Head Of Research



Rosnani Rasul  
M&A Securities