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Friday, April 29, 2016

Report of the Day

Strategy Report (Economic): 2Q16 Malaysia Economic Outlook - "To Embrace Slower Growth"

Strategy Report (Top Pick): SapuraKencana - "Fundamentals Remain Solid"

At a Glance

FBMKLCI down 17.58 points to close at 1,674.76 hampered by weak US' GDP numbers registered at 0.5% annualized.....(See full report next page)

Strategy

"Bad Signals from Japan"

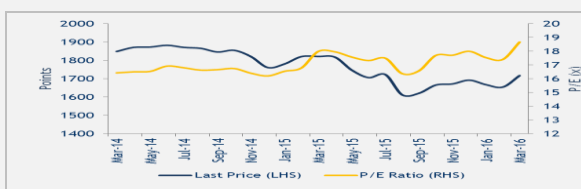
In sum, it will be treacherous time for global equity market (See full report next page)

Corporate Highlights

- **Nestle (CP: RM75.10):** Plans RM130m capex to boost capacity
- **Sime Darby (CP: RM7.81):** In talks to sell Singapore property to Blackstone
- **Westports (CP: RM4.20):** Q1 earnings up 42% to RM171m

Economic Update

- **Malaysia:** BNM issues compound to 1MDB, orders payment by May 30
- **U.S.:** Economy stalls in first quarter as activity weakens broadly
- **South Korea:** Plans mini-stimulus to shore up economic growth



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
US	25-Apr	10:00 PM	New Home Sales	522k	512k
US	26-Apr	8:30 PM	Durable Goods Orders	1.7%	-3.0%
US	26-Apr	8:30 PM	Durables Ex Transportation	0.5%	-1.3%
US	26-Apr	9:00 PM	SBP/CaseShiller 20-City Index	-	182.56
US	26-Apr	9:45 PM	Markit US Services PMI	-	51.3
US	26-Apr	9:45 PM	Markit US Composite PMI	-	51.3
US	26-Apr	10:00 PM	Consumer Confidence Index	96.0	96.2
US	26-Apr	10:00 PM	Richmond Fed Manufacturing Index	10	22
US	27-Apr	7:00 PM	MBA Mortgage Applications	-	1.3%
US	27-Apr	10:00 PM	Pending Home Sales MoM	-	3.5%
EU	27-Apr	4:00 PM	M3 Money Supply YoY	-	5.0%
US	28-Apr	2:00 AM	FOMC Rate Decision	0.5%	0.5%
US	28-Apr	8:30 PM	Initial Jobless Claims	-	-
US	28-Apr	8:30 PM	GDP Annualized QoQ	0.7%	1.4%
US	28-Apr	8:30 PM	Continuing Claims	-	-
US	28-Apr	8:30 PM	Personal Consumption	-	2.4%
EU	28-Apr	5:00 PM	Consumer Confidence	-	-
CN	28-30 Apr	-	Leading Index	-	99.00
JP	28-Apr	7:30 AM	Jobless Rate	-	3.3%
JP	28-Apr	7:50 AM	Retail Trade YoY	-	0.5%
JP	28-Apr	7:50 AM	Retail Trade MoM	-	-2.3%
JP	28-Apr	7:50 AM	Industrial Production MoM	-	-5.2%
JP	28-Apr	7:50 AM	Industrial Production YoY	-	-1.2%
JP	28-Apr	1:00 PM	Housing Starts YoY	-	7.8%
JP	28-Apr	1:00 PM	Annualized Housing Starts	-	0.974m
JP	28-Apr	1:00 PM	Construction Orders YoY	-	-12.4%
US	29-Apr	8:30 PM	Personal Income	0.3%	0.2%
US	29-Apr	8:30 PM	Personal Spending	0.2%	0.1%
US	29-Apr	8:30 PM	PCE Core MoM	0.1%	0.1%
US	29-Apr	10:00 PM	University of Michigan Sentiment	90.2	89.7
EU	29-Apr	5:00 PM	Unemployment Rate	-	10.3%
EU	29-Apr	5:00 PM	CPI Estimate YoY	-	-
EU	29-Apr	5:00 PM	CPI Core YoY	-	1.0%
EU	29-Apr	5:00 PM	GDP SA QoQ	-	0.3%
EU	29-Apr	5:00 PM	GDP SA YoY	-	1.6%
MY	29-Apr	-	Money Supply M3 YoY	-	2.7%

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,674.76	-17.58	-1.04
FBMEMAS	11,659.95	-96.63	-0.82
FBMEMAS SHA	12,217.53	-102.42	-0.83
FBM100	11,357.10	-96.14	-0.84
Volume (mn)	1,782.36	54.28	3.14
Value (RMmn)	2,311.40	442.70	23.69
FBMKLCI YTD Chg			-1.05

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	17.5	-6.9
Local Institution	60.1	-50.2
Foreign Investors	22.4	57.1

Top Gainers

	Close	Change+/-	(+/- %)
AJINOMOTO	11.20	0.80	7.69
FRASER & NEAVE	23.00	0.40	1.77
HEINEKEN	15.18	0.20	1.34

Top Losers

	Close	Change+/-	(+/- %)
BAT	47.70	-4.40	-8.45
PANASONIC	28.40	-0.40	-1.39
DUTCH LADY	53.46	-0.34	-0.63

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,830.76	-210.79	-1.17
NASDAQ	4,805.29	-57.85	-1.19
S&P 500	2,075.81	-19.34	-0.92
FTSE 100	6,322.40	2.49	0.04
DAX	10,321.15	21.32	0.21
Nikkei 225	16,666.05	-624.44	-3.61
HSI	21,388.03	26.43	0.12
KOSPI	2,000.93	-14.47	-0.72
STI	2,862.30	-12.42	-0.43
KLCI Futures	1,656.50	(23.00)	(0.01)
USDMYR 3M	12.72	0.04	0.00
USDMYR 6M	12.39	0.03	0.00
USDMYR 12M	12.19	0.02	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	46	-0.3	-0.7%
Brent (USD/bbl)	48.1	1.0	2.0%
Gold(USD/ounce)	1,266	0.1	0.0%
Coal (USD/mt)	51.0	0.0	0.1%
CPO (RM/mt)	2,601	-32.0	-1.2%
Rubber	182	-3.0	-1.6%
RM/USD	3.90	-0.018	0.46%
EUR/USD	0.88	0	0.00%
YEN/USD	108.09	-0.02	0.02%

What To Expect

U.S. Market

- The Dow Jones Industrials Average tumbled 210.79 points and closed at 17,830.76, S&P 500 slid 19.34 points to close at 2,075.81 points. Nasdaq fell 57.85 points to 4,805.29. The Dow Jones Industrial Average suffered its biggest drop since February in a broad selloff Thursday. Investors snapped up assets considered havens, like gold and U.S. government debt.
- U.S. tech shares have been hit hard in recent sessions as some high-profile companies reported disappointing quarterly results. Traditional tech stalwarts such as Microsoft tumbled last week, and shares of Apple and Twitter also slumped following their quarterly earnings.

The Local Market

- FBMKLCI down 17.58 points to close at 1,674.76 hampered by weak US' GDP numbers registered at 0.5% annualized. There were 274 gainers and 570 decliners in total value traded of RM2.31 billion.
- Among the losers on Bursa Malaysia were BAT dropped RM4.40 to RM47.70, Panasonic Manufacturing slid by 40 cent to RM28.40, Dutch Lady decreased 34 cent to RM53.46 and Axiata slipped 24 cent to RM5.56.

Strategy

- **“Bad Signals from Japan”**
Wall Street tanked on Thursday amidst Japan's BoJ decision to cap monetary stimulus as Japan sink into deeper economic mess. This has also hammered the regional market quite deeply. S&P 500 and DJIA lost 19.34 (-0.92%) and 210.79 (-1.17%) points to end at 2,075.81 and 17,830.76 respectively. It didn't help also by the negative news flow that Japan's BoJ may go into deeper negative interest rate environment. Added to that, Yen jumped yesterday to close at almost year high of Yen108.11 per Dollar. This is against Yen's year best level of Yen107 recorded on the 11th April. Yen's lowest level was Yen125 and this is decisively a bad news for an export oriented country that has been hoping to kick starts its export drive to save the economy. For once, being a save haven asset in bad for a country as demand for Yen jumped following the protracted volatility in the global economy. In sum, it will be treacherous time for global equity market.
- 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

Nestle (CP: RM75.10): Plans RM130m capex to boost capacity

Nestle (M) Bhd hopes to continue its export sales momentum in the next few quarters amid the volatile economic landscape. Speaking to reporters after its AGM on Thursday, managing director Alois Hofbauer said the company would invest RM130mil for capacity extension and automation in its plants as well as better water management. Commenting on whether the company would increase prices of Nestle products, he said this would be the last resort. "We want to hold on to our pricing as much as possible as we hold consumers to our hearts," said Hofbauer. (Source: *The Star*)

Sime Darby (CP: RM7.81): In talks to sell Singapore property to Blackstone

Sime Darby Bhd is in talks with private equity giant Blackstone to sell a majority interest in three Singapore properties. "[Blackstone] is expected to take a stake of about 75% in entities owning the properties; the deal values the properties at about S\$300 million (RM870 million). The yield, on an ungeared basis, is estimated at 6%," said Singapore's *The Business Times* newspaper. The properties, it said, are Sime Darby Centre at Dunearn Road; Sime Darby Enterprise Centre, a light industrial building along Jalan Kilang off Jalan Bukit Merah; and Sime Darby Business Centre at Alexandra Road, which has a second-hand BMW showroom. Performance Motors, a subsidiary of Sime Darby, distributes BMWs. (Source: *The Edge*)

Westports (CP: RM4.20): Q1 earnings up 42% to RM171m

Westports Holdings Bhd net profit for the first quarter ended March 31 increased by 42.3% to RM171.1mil from RM120.18mil a year ago due to higher revenue as it handled more container volume. The port operator said on Thursday revenue rose 16.5% to RM464.7mil from RM398.7mil a year ago. Earnings per share were 5.02 sen from 3.52 sen last year. Westports handled 2.4 million twenty-foot equivalent units (TEUs) in the first quarter this year that saw transshipment containers increased to 1.8 million TEUs while the Group handled 600,000 TEUs of gateway containers. Its conventional throughput was at 2.6 million tonnes for items such as wheat, soy, sugar, steel billets and project cargoes for domestic consumption and economic activities. (Source: *The Star*)

Tasek Corp (CP: RM15.70): 1Q profit slips near 4% on lower interest income, associate contribution

Cement maker Tasek Corp Bhd's net profit slipped 3.8% to RM22.67 million in its first quarter ended March 31, 2016 (1QFY16) from RM23.57 million last year, largely on lower interest income and contribution from an associated company. Its interest income of RM2.4 million for 1QFY16 was lower compared to RM2.9 million last year because of lesser amount of funds placed on term deposits, while the share of profit from the associate fell 76.6% on lower volume of sales and higher cost. Revenue for the quarter, however, rose 3% to RM171 million from RM166 million a year ago, as revenue from its cement and concrete segments improved, according to its bourse filing. (Source: *The Edge*)

MRCB (CP: RM1.21): To expand 9 Seputeh development via RM6.9m land acquisition

Malaysian Resources Corp Bhd (MRCB) has proposed the acquisition of two tracts of land for RM6.9 million to be integrated with its ongoing 9 Seputeh development. The group said the two pieces of land, measuring 9.665 sq ft and 10,576 sq ft, will be acquired by its wholly-owned unit Gapurna Land Sdn Bhd from Kejora Kinta Sdn Bhd. "The subject properties shall be integrated with the 9 Seputeh development and is expected to enhance the project's residential components whilst improving its accessibility.

Sasbadi (CP: RM1.29): Units secure three contracts worth RM7.71m

Sasbadi Holdings Bhd's units have secured three textbook contracts worth a total of RM7.71 million from the Ministry of Education (MoE). Sasbadi said its wholly-owned unit Sasbadi Sdn Bhd (SSB) has signed and accepted a letter of acceptance from the ministry dated April 28 to publish, print and supply the textbook package on Mathematics for Year 1 of the Chinese national-type primary schools (SJKC) throughout Malaysia. The Mathematics textbook contract, which starts today, will last till Dec 31, 2018. The deal is valued at RM3.89 million.

Atlan (CP: RM5.25): 4Q net profit down 19.2% to RM11.8m

Atlan Holdings Bhd reported a 19.2% drop in net profit to RM11.8 million or 4.66 sen per share for the fourth quarter ended Feb 29 (4QFY16) from RM14.6 million or 5.77 sen per share a year ago. The lower earnings were mainly due to lower contributions from the duty free, automotive and property segments, it said in a filing with Bursa Malaysia today. Revenue fell 3.7% to RM195.57 million from RM203.12 million in 4QFY15, it said.

Gadang (CP: RM2.03): 3Q net profit leaps 55% on higher contributions from construction, utility

Gadang Holdings Bhd's net profit jumped 55% to RM25.11 million or 11.23 sen a share in the third quarter ended Feb 29, 2016 (3QFY16), from RM16.17 million or 7.47 sen a share, on improved profit margins from construction activities and higher contributions from its utility division. Gadang said revenue grew 3.67% to RM175.92 million, from RM169.69 million in 3QFY15.

Pavilion REIT (CP: RM1.68): NPI rises to RM75.6m in 1Q

Pavilion Real Estate Investment Trust's (REIT) net property income (NPI) for the first quarter ended March 31, 2016 (1QFY16) stood at RM75.64 million, up from RM72.94 million in 1QFY15. Its net profit edged up by 1.62% to RM61.47 million from RM60.49 million in the corresponding quarter last year, mainly due to higher NPI. For the quarter under review, the Group registered a revenue growth of 1.49% to RM106.7 million from RM105.1 million a year ago.

Muhibbah (CP: RM2.35): Proposes to raise RM111.93m via private placement

Muhibbah Engineering (M) Bhd is proposing to undertake a private placement of up to 10% of its issued share capital to third party investors to raise gross proceeds of up to RM111.93 million. Muhibbah said the investors and the issue price will be announced later, after all relevant approvals for the proposed private placement have been received. "As the proposed private placement may

be implemented in one or more tranches with the board's decision, there could potentially be several price fixing dates and issue prices," it added.

Homeritz (CP: RM0.875): Q2 net profit jumps 23% on higher sales, stronger US dollar

Homeritz Corporation Bhd's second quarter net profit for financial year ended Feb 29, 2016 (2QFY16) jumped 23% to RM8.07 million from RM6.56 million in the corresponding quarter a year ago, as a result of higher registered sales and the strengthening of the US dollar. The group's revenue for Q2FY16 improved by 12.3% to RM42.5 million, compared with RM37.8 million in Q2FY15. In a note to Bursa today, Homeritz said the stronger revenue was mainly attributed to stronger US dollar.

Perdana Petroleum (Suspended): Issues RM635m under its sukuk murabahah programme

Perdana Petroleum Bhd (PPB) today issued RM635 million under its sukuk murabahah programme, for a tenure of up to five years. Danajamin Nasional Bhd, the guarantor of PPB's sukuk programme, said the issuance falls under PPB's 12-year RM650 million sukuk murabahah programme. The sukuk is rated AAA(fg) by RAM Rating Services Bhd, it added. *(Source: The Edge)*

Ekuinas: Maintains IRR above 12% in 2015

Government-linked private equity fund management company Ekuiti Nasional Bhd (Ekuinas) has recorded financial year 2015 gross portfolio return of RM591.3mil and RM133.3mil for its Ekuinas Direct (Tranche I) and Ekuinas Direct (Tranche II) funds respectively. Ekuinas has successfully maintained its Internal Rate of Return (IRR) above the minimum target of 12% per annum for the sixth year running. For the Ekuinas Direct (Tranche I) fund, there is net annualised IRR of 10.9% and gross annualised IRR of 14.8%, amidst a global oil price slump. Meanwhile, Ekuinas Direct (Tranche II) fund recorded a net annualised IRR of 5.7% and gross annualised IRR of 13%. *(Source: The Star)*

ECONOMIC UPDATES

Malaysia: BNM issues compound to 1MDB, orders payment by May 30

Bank Negara Malaysia (BNM) has issued a letter of administrative compound to debt laden 1Malaysia Development Bhd (1MDB) for the fund's failure to repatriate monies remitted abroad following the revocations of three permissions granted by the central bank between 2009 and 2011. In a statement today, BNM said the strategic investment fund had failed to fully comply with directions it issued under the Financial Services Act 2013. "This includes requirement for 1MDB to repatriate monies remitted abroad following the revocations of the three permissions granted by BNM to 1MDB in 2009, 2010 and 2011," it said. It said the fund had also failed to provide evidence to justify its inability to fully comply with the repatriation order, and has given 1MDB until May 30, 2016 to pay the compound. *(Source: The Edge)*

U.S.: Economy stalls in first quarter as activity weakens broadly

U.S. economic growth braked sharply in the first quarter to its slowest pace in two years as consumer spending softened and a strong dollar continued to undercut exports, but a pick-up in activity is anticipated given a buoyant labor market. Gross domestic product increased at a 0.5% annual rate, the weakest since the first quarter of 2014, the Labor Department said on Thursday in its advance estimate, also as businesses stepped up efforts to reduce unwanted merchandise clogging up warehouses. The economy was also blindsided by cheap oil, which has hurt the profits of oil field companies like Schlumberger and Halliburton, resulting in business spending contracting at its fastest pace since the second quarter of 2009, when the recession was ending. *(Source: The Edge)*

Japan: BoJ keeps policy steady

The Bank of Japan (BoJ) held off on expanding monetary stimulus on Thursday, defying market expectations for action even as soft global demand, an unwelcome yen rise and weak consumption threatened to derail a fragile economic recovery. The yen soared against the dollar and euro after the announcement, as investors unwound bets that the central bank will loosen monetary policy again. In a quarterly review of its projections, the BoJ cut its inflation forecasts and pushed back the timing for hitting its 2% price target by six months. But it maintained its optimism that the world's third-largest economy will expand moderately as a trend. *(Source: Reuters)*

South Korea: Plans mini-stimulus to shore up economic growth

South Korea has increased its planned spending for this year, the finance ministry said on Thursday, in its latest bid to jump-start the economy and pre-emptively address risks to growth. At the same time, the country's central bank will keep monetary policy "flexible" to support economic activity and maintain financial stability, the finance ministry said in a statement. For 2016, the government will aim to spend 96.4% of its budget, up from the originally planned 95.9%. "We have avoided a sharp downturn in the economy through aggressive responses but momentum in the private sector remains weak," said the ministry. *(Source: Reuters)*

Taiwan: Economy seen shrinking again in Q1

Taiwan's trade-reliant economy is expected to have contracted by 0.6% in the first quarter from a year earlier as exports continued to slump, reinforcing views that the island's central bank will cut interest rates further. Any chance of a recovery in the current quarter looks touch-and-go after Apple Inc posted its first-ever decline in iPhone sales and a lower-than-expected revenue outlook, clouding the outlook for Taiwan's technology giants which make a lot of the phone's components. Still, orders for electronic goods, a key category of the island's export orders, rose for the first time in a year in March. And there are some nascent signs that a prolonged economic slowdown in China - Taiwan's top market - may be starting to ease. *(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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