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Friday, May 20, 2016

Report of the Day

Results Review: KPJ 1Q16 – “Unfazed by Escalating Cost of Living”

Company Update: UMW Oil and Gas – “Cost Rationalisation Measures”

At a Glance

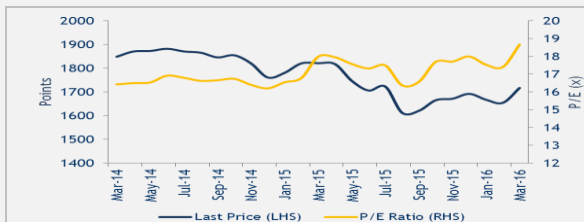
FBMKLCI declined 1.96 points to close at 1,633.76 due to profit taking activities.....(See full report next page)

Corporate Highlights

- **KPJ Healthcare, HOLD (TP: RM4.27):** KPJ Healthcare's 1Q net profit up slightly
- **IJM Corp, BUY (TP: RM4.20):** Gets LoA for RM1.47b MRT2 job
- **UMW, BUY (TP: RM6.66):** Sets RM750m as capex for aviation tie-up with Rolls-Royce

Economic Update

- **Malaysia:** Bank Negara retains OPR at 3.25%
- **U.S.:** Drop in US jobless claims boosts hopes of economic rebound
- **Australia:** Aussies Tax Foreigners Extra for Buying Homes



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	18-May	5:00 PM	CPI MoM	0.00%	1.20%
EU	18-May	5:00 PM	CPI YoY	-0.20%	-0.20%
EU	18-May	5:00 PM	CPI Core YoY	0.70%	0.70%
JP	16-May	7:50 AM	PPI YoY	-3.70%	-3.80%
JP	16-May	2:00 PM	Machine Tool Orders YoY	--	-21.20%
JP	17-May	12:30 PM	Industrial Production MoM	--	3.60%
JP	17-May	12:30 PM	Capacity Utilization MoM	--	-5.40%
JP	18-May	7:50 AM	GDP SA QoQ	0.10%	-0.30%
JP	18-May	7:50 AM	GDP Annualized SA QoQ	0.30%	-1.10%
JP	18-May	7:50 AM	GDP Deflator YoY	1.00%	1.50%
JP	19-May	7:50 AM	Machine Orders YoY	1.40%	-0.70%
MY	18-May	12:00 PM	CPI YoY	--	2.60%
MY	19-May	6:00 PM	BNM Overnight Policy Rate	3.25%	3.25%
MY	20-May	6:00 PM	Foreign Reserves	--	\$97.0b
US	17-May	8:30 PM	Housing Starts	1120k	1089k
US	17-May	8:30 PM	Building Permits	1132k	1086k
US	17-May	8:30 PM	CPI MoM	0.40%	0.10%
US	17-May	8:30 PM	CPI Ex Food and Energy MoM	0.20%	0.10%
US	17-May	8:30 PM	CPI YoY	1.10%	0.90%
US	17-May	9:15 PM	Industrial Production MoM	0.30%	-0.60%
US	17-May	9:15 PM	Capacity Utilization	75.00%	74.80%
US	18-May	7:00 PM	MBA Mortgage Applications	--	0.40%
US	19-May	8:30 PM	Initial Jobless Claims	--	--
US	19-May	9:45 PM	Bloomberg Consumer Comfort	--	--
US	19-May	10:00 PM	Leading Index	0.40%	0.20%
US	20-May	10:00 PM	Existing Home Sales	5.40m	5.33m
US	20-May	10:00 PM	Existing Home Sales MoM	1.30%	5.10%

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,633.76	-1.96	-0.12
FBMEMAS	11,430.36	5.78	0.05
FBMEMAS SHA	11,943.89	38.52	0.32
FBM100	11,121.42	6.13	0.06
Volume (mn)	1,393.46	-487.75	-25.93
Value (RMmn)	1,804.87	-189.12	-9.48
FBMKLCI YTD Chg			-3.47

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	14.7	-17.3
Local Institution	53.2	313.7
Foreign Investors	32.1	-296.4

Top Gainers

	Close	Change+/-	(+/- %)
BAT	49.70	0.62	1.26
SCIENTEX	12.70	0.58	4.79
AJINOMOTO	12.82	0.28	2.23

Top Losers

	Close	Change+/-	(+/- %)
ATURMAJU	0.92	-0.39	-29.77
GENTING	8.65	-0.25	-2.81
MAYBANK	8.48	-0.18	-2.08

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,435.40	-91.22	-0.52
NASDAQ	4,712.53	-26.59	-0.56
S&P 500	2,040.04	-7.59	-0.37
FTSE 100	6,053.35	-112.45	-1.82
DAX	9,795.89	-147.34	-1.48
Nikkei 225	16,646.66	1.97	0.01
HSI	19,694.33	-132.08	-0.67
KOSPI	1,946.78	-9.95	-0.51
STI	2,740.11	-37.00	-1.33
KLCI Futures	1,615.00	-	-
USDMYR 3M	13.19	0.06	0.00
USDMYR 6M	12.86	-	-
USDMYR 12M	12.59	0.03	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	48	0.2	0.4%
Brent (USD/bbl)	48.8	-0.1	-0.2%
Gold(USD/ounce)	1,258	3.3	0.3%
Coal (USD/mt)	51.0	0.1	0.2%
CPO (RM/mt)	2,519	-42.0	-1.6%
Rubber	163	-9.1	-5.3%
RM/USD	4.08	0.0315	-0.77%
EUR/USD	0.89	0.0001	0.01%
YEN/USD	109.94	-0.02	0.02%

What To Expect

U.S. Market

- The Dow Jones Industrials Average closed 91.22 lower at 17,435.40, S&P 500 fell 7.59 points to 2,040.04 points. Nasdaq cut 26.59 points to 4,712.53 at the closing. U.S. stocks recovered some of the early losses but ended lower Thursday on mounting fears that the Federal Reserve's next interest-rate hike could come as early as June.
- U.S. crude's June contract, which expired as front-month at Thursday's settlement, settled at \$48.16, down 3 cents, or 0.1 percent. Oil tumbled in early trade, extending losses from the previous session that followed release of the Fed's April policy meeting minutes that fed expectations of a June rate hike.

The Local Market

- FBMKLCI declined 1.96 points to close at 1,633.76 due to profit taking activities. There were 355 gainers and 415 decliners in total value traded of RM1.80 billion.
- Among the losers on Bursa Malaysia were Aturmaju Resources dropped 39 cent to RM0.92, Genting Bhd down 25 cent to RM8.65, Maybank slipped 18 cent to RM8.48 and UMW Holdings slid 14 cent to RM5.48.

Strategy

- 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

KPJ Healthcare, HOLD (TP: RM4.27): KPJ Healthcare's 1Q net profit up slightly

KPJ Healthcare Bhd reported a marginal 0.8% rise in its net profit for the first quarter ended March 31, 2016 (1QFY16) to RM34.17 million or 3.25 sen a share compared with RM33.89 million or 3.23 sen a share a year ago, largely due to better performance contributed by its healthcare operations in Malaysia and Indonesia. However, this was offset by higher losses recorded by its Australian operations due to a decrease in revenue, as well as increased operating expenses. Revenue grew 4.8% to RM743.95 million in 1QFY16 from RM709.89 million in 1QFY15. In a filing with Bursa Malaysia today, KPJ Healthcare said it was evidenced in 2015 that demand for healthcare services has increased in line with population growth, better life expectancy, rapid ageing and rising middle income group. (Source: The Star)

IJM Corp, BUY (TP: RM4.20): Gets LoA for RM1.47b MRT2 job

IJM Corp Bhd's wholly-owned subsidiary IJM Construction Sdn Bhd has accepted the letter of acceptance from Mass Rapid Transit Corporation Sdn Bhd (MRT Corp) for a RM1.47 billion contract to undertake a package of the MRT Sungai

Buloh-Serdang-Putrajaya (SSP) line (MRT2) project. In a filing with Bursa Malaysia today, IJM Corp said the written confirmation from MRT Corp for Package V203, which involves the construction and completion of a viaduct guideway and other associated works from Jinjang to Jalan Ipoh North Portal, was received today. *(Source: The Edge)*

UMW, BUY (TP: RM6.66): Sets RM750m as capex for aviation tie-up with Rolls-Royce

UMW Holdings Bhd, through its unit UMW Aerospace Sdn Bhd, has allocated RM750 million for capital expenditure over the next two-and-a-half years. President/Group Chief Executive Officer Badrul Feisal Abdul Rahim said the funds would come from external and internal sources to undertake the company's expansion into the aviation industry. The expansion into the aviation industry is a significant step for the UMW group. Badrul also said UMW was delighted that the group was the first Malaysian company to become a tier 1 supplier for Rolls-Royce. *(Source: The Star)*

Hock Seng Lee (CP: RM1.69): Sees record new contracts

Construction company Hock Seng Lee Bhd's (HSL) net profit fell 17.17% to RM16.25mil in the first quarter ended March 31 from RM19.62mil previously. Its revenue for the quarter stood at RM142.25mil, down from RM186.46mil in the same period a year ago. Earnings per share for the quarter stood at 2.96 sen from 3.57 sen last year. During the quarter, HSL said the value of projects in hand reached a record RM2.7bil, with new contracts secured in the period worth RM1.89bil. It secured two new mega projects – a 76km section of the Pan-Borneo Highway and the second package of Kuching's Centralised Wastewater Management System. *(Source: The Star)*

MSM (CP: RM5.02): Q1 earnings slip on higher costs

Sugar refiner and distributor MSM Holdings Bhd's earnings fell 16.4% to RM59.34mil in the first quarter ended March 31, 2016 due to higher raw sugar cost and a weakening ringgit. It said on Thursday the earnings were lower compared with RM71.02mil a year ago. Selling and distribution costs rose to RM22.03mil from RM18mil while administrative expenses increased to RM24.86mil from RM14.41mil. Its revenue was up 8.7% to RM553.16mil from RM508.48mil on higher to higher tonnage sold for the domestic and export markets which increased by 11% and 21% respectively. Earnings per share were 8.44 sen compared with 10.1 sen previously. *(Source: The Star)*

Hup Seng Industries (CP: RM1.38): Biscuits maker Hup Seng's 1Q earnings up 2.8% on higher sales

Hup Seng Industries Bhd saw its net profit for the first quarter ended March 31, 2016 (1QFY16) nudge up by 2.77% to RM13.6 million from the RM13.23 million recorded in 1QFY15, mainly driven by higher sales. The group's revenue for 1QFY16 rose 1.83% to RM72.41 million from RM71.11 million in the corresponding quarter a year ago, the biscuits and confectionery maker's bourse filing showed. The group said higher local market demand for biscuits mainly contributed to the positive growth in sales. On prospects, the group expects 2016 to be challenging and to prepare for tougher market conditions

this year; it will focus more on productivity improvement in all areas of operations. (Source: The Edge)

Hap Seng (CP: RMx): 1Q net profit up 26.4% on land sale gains, declares 15 sen dividend

Hap Seng Consolidated Bhd saw its net profit for the first financial quarter ended March 31, 2016 (1QFY16) increase by 26.4% to RM140.21 million or 6.45 sen a share, from RM110.89 million or 5.18 sen a share a year ago, due to the gains derived from the disposal of land. The group has also declared a first interim dividend of 15 sen per share, with an ex-date of June 8 and payment date of June 28. In a filing with Bursa Malaysia today, Hap Seng reported a 1QFY16 revenue of RM1.05 billion, which was 2.7% lower than its 1QFY15 revenue of RM1.08 billion. Higher revenue was recorded by its credit financing, automotive, fertilizer trading and building materials divisions but was offset by lower revenue from the plantation and property divisions. (Source: The Edge)

Aeon Co (CP: RM2.80): 1Q net profit falls 42% on lower margin

Aeon Co (M) Bhd's net profit for the first quarter ended March 31 (1QFY16) fell 41.9% to RM28.7 million from RM49.4 million a year ago, due to lower margin, higher operating costs, interest expenses and initial costs associated with newly opened stores. In a filing with Bursa Malaysia today, the group said revenue slipped 2.84% to RM1.08 billion from RM1.11 billion due to weaker consumer sentiments. It added that 1QFY15 revenue was also higher because of the pre-goods and services tax implementation buying by consumers during that quarter. Aeon said its retail business saw a 3.9% drop in revenue to RM932.5 million, but revenue from its property management services segment grew 5.1% to RM143.2 million due to contributions from its new shopping centres. (Source: The Edge)

Ta Ann (CP: RM3.89): 1Q net profit more than halves on lower revenue, pays 5 sen dividend

Ta Ann Holdings Bhd's net profit for the first quarter ended March 31, 2016 (1QFY16) more than halved to RM12.55 million or 3.39 sen a share from RM27.08 million or 7.31 sen a share a year ago, as its plywood sales volume, export logs and export logs average selling price fell by 13%, 33% and 6% year-on-year respectively. Revenue also slipped 1.6% to RM218.53 million in 1QFY16 from RM222.15 million in 1QFY15. Nevertheless, the group declared a first interim dividend of 5 sen per share for the financial year ending Dec 31, 2016, payable on June 23. It also declared a one-for-five bonus issue of up to 74.15 million new shares for FY16. (Source: The Edge)

Matrix Concepts (CP: RM2.57): Latest quarterly net profit at RM47.97m, pays 4.4 sen dividend

Matrix Concepts Holdings Bhd recorded a net profit of RM47.97 million for the three months ended March 31, 2016, on a revenue of RM211.28 million. It also reported a fifth interim dividend of 4.40 sen per share that will go ex on June 15, and be payable on July 1. According to its bourse filing, there were no comparative figures, as the company had changed its financial year end from Dec 31 to March 31. But for reference purposes, its filing showed that the group's profit before tax (PBT) had more than halved to RM70.84 million in the

current quarter, compared to the three months ended March 31, 2015 (3MFY15) when it netted a PBT of RM155.38 million. *(Source: The Edge)*

IOI Corp (CP: RM4.26): Loders Croklaan, LCK Nutrition call off JV plan

IOI Corporation Bhd unit Loders Croklaan Group B.V. and Ireland's LCK Nutrition Ltd have called off their joint venture which would have involved the development of the nutrition lipid Betapol. IOI Corp said on Thursday the agreement, which was entered into on June 23, 2015, was for Loders Croklaan to subscribe for a stake in LCK Nutrition Ltd for US\$25mil. Under the corporate exercise, the Betapol business (consisting business intellectual property, goodwill, contracts, sales book and records) would be transferred from Loders Croklaan to LCK Nutrition for US\$25mil. *(Source: The Star)*

UEM Sunrise (CP: RM1.04): Expects contribution from Melia Residences in Q4

Melia Residences, a freehold strata landed housing project in Gerbang Nusajaya, is expected to start contributing to the bottom line of UEM Sunrise Bhd in the fourth quarter of this year. Chief operating officer, commercial, Raymond Cheah said that the first and second phases of 206 units, as well as 51% of 160 units in the third, had already been taken up. "We have tendered and awarded contractors for the first phase. Construction is expected to start by year-end," he told reporters at the project's launch preview in Iskandar Puteri, Johor, on Thursday. Cheah said given the overwhelming response from homebuyers, the launch of the third phase has been brought forward to this year from 2017. *(Source: The Star)*

ECONOMIC UPDATES

Malaysia: Bank Negara retains OPR at 3.25%

Bank Negara has decided to keep the benchmark overnight policy rate (OPR), to which commercial banks based their deposit and lending rates, at 3.25%. The move was not unexpected with almost all economists surveyed expecting the central bank to maintain the benchmark interest rate. The central bank, which released a statement following the monetary policy committee meeting chaired for the first time by Datuk Muhammad Ibrahim (pic) as Bank Negara Governor, said "the stance of monetary policy is accommodative and supportive of economic activity". It said policymakers were cognizant of downside risks in the global economic and financial environment and would be closely monitoring and assessing their implications on domestic price stability and growth to ensure policy stance remains consistent with sustainable growth of the economy. *(Source: The Star)*

U.S.: Drop in US jobless claims boosts hopes of economic rebound

The number of Americans filing for unemployment aid fell from a 14-month high last week, the latest sign that the economy was regaining speed after stumbling in the first quarter. Another report on Thursday showed factory activity in the mid-Atlantic region contracted further in May, although manufacturers continued to anticipate a pickup in activity over the next six months. Initial claims for state unemployment benefits declined 16,000 to a seasonally adjusted 278,000 for the week ended May 14, the Labor Department said. *(Source: The Edge)*

Australia: Aussies Tax Foreigners Extra for Buying Homes

Homebuyers from China have been getting a clear message from Australian banks: Look elsewhere. Citigroup's local bank will no longer approve mortgage applications in Australia that rely on foreign income denominated in Chinese yuan and four other Asian currencies, spokesman Matthew Coleman said in an e-mailed statement on May 10. Citi had been receiving more applications after a decision by Commonwealth Bank of Australia, National Australia Bank, and Australia & New Zealand Banking Group that restricted lending to nonlocals. The banks are being pressured to help local homebuyers who feel crowded out by rising prices. Westpac Banking in April said it would stop lending to offshore customers who aren't citizens or residents. *(Source: Bloomberg)*

Europe: EU exit to see house values fall

A UK exit from the European Union could wipe thousands of pounds off house values over the next three years, estate agents have claimed. Homeowners in London could lose as much as £7,500, while homes elsewhere in the UK could lose £2,300, the National Association of Estate Agents said. The report, jointly commissioned by the Association of Residential Letting Agents, said rents could also fall. The Vote Leave campaign said first-time buyers would welcome a drop in prices. The study suggests that prices in London would be hit by a slump in demand from foreign buyers, particularly those from EU countries. *(Source: BBC)*

Indonesia: C.bank holds rates, trims :2016 growth forecast

Indonesia's central bank on Thursday kept its main policy rates steady, as expected, and trimmed its projection for economic growth this year after the first-quarter number was below forecasts. Bank Indonesia (BI) left its current and future benchmark rates at 6.75% and 5.50%, respectively, for a second monthly meeting. The central bank trimmed its growth forecast for this year to 5.0%–5.4% from 5.2%–5.6%. Annual growth in the first quarter was 4.92%, lower than BI's and markets' expectation of 5.1%. In 2015, Indonesia had growth of 4.8%, the lowest level in six years. BI started an easing cycle early this year with three rate cuts totalling 75 basis points (bps) to try to prop up economic growth. The central bank has also reduced banks' reserve requirement ratio to effectively inject money into the financial system. *(Source: The Edge)*

Philippines: Economy grows 6.9%, beats forecasts

The Philippines' economy grew a better-than-expected 6.9% in the first quarter, the government said on Thursday, putting it on track to meet full-year targets and making it one of Asia's best performers for the three-month period. The gross domestic product (GDP) figure beat economist forecasts of about 6.6%, and marks the highest quarterly growth in the Philippines since the end of 2014. It was achieved despite a drought-ravaged farm sector and relatively weak exports, and also coincided with months of campaign spending for May 9 presidential elections, Economic Planning Secretary Emmanuel Esguerra said. The economy expanded by 5.2% in the same period last year. *(Source: AFP)*

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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