

PP14767/09/2012(030761)

Tuesday, June 28, 2016

Report of the Day

Company Visit: KPJ Healthcare – “Prepared For Next Phase of Growth”

At a Glance

FBMKLCI closed at 4.53 points lower at 1,629.52 as the Brexit pressure on the local and regional market receded(See full report next page)

Strategy

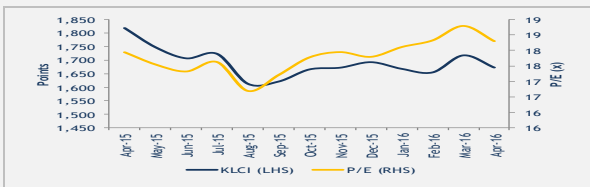
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Corporate Highlights

- **RHB Bank, HOLD (TP: RM6.20):** Assumes RHB Cap's listing status, announces board composition
- **Sunway Engineering, BUY (TP: RM1.92):** Secures RM66.3m contract
- **MMC, BUY (TP: RM2.80), Gamuda, BUY (TP: RM5.80):** KVMRT, MRT Corp sued for RM303.5mil

Economic Update

- **Malaysia: Mustapa:** We'll monitor developments in the EU
- **U.S.:** Banks' stress tests may offer comfort in Brexit tumult
- **Brazil:** Is Back to Pre-Junk Levels as Swaps Traders Bet on Temer



KEY ECONOMIC RELEASE				
Date	Local Time	Event	Survey	Prior
US 27-Jun	9:45 PM	Markit US Services PMI	51.9	51.3
US 27-Jun	9:45 PM	Markit US Composite PMI	--	50.9
CN 27-Jun	12:00 AM	Leading Index	--	99.1
US 28-Jun	8:30 PM	GDP Annualized QoQ	1.00%	0.80%
US 28-Jun	8:30 PM	Personal Consumption	2.00%	1.90%
US 28-Jun	8:30 PM	GDP Price Index	0.60%	0.60%
US 28-Jun	8:30 PM	Core PCE QoQ	2.10%	2.10%
US 28-Jun	9:00 PM	S&P/Case-Shiller US HPI MoM SA	--	0.09%
US 28-Jun	9:00 PM	S&P/Case-Shiller 20-City Index NSA	--	184.5
US 28-Jun	9:00 PM	S&P/CS 20 City MoM SA	0.50%	0.85%
US 28-Jun	9:00 PM	S&P/CS Composite-20 YOY NSA	5.50%	5.43%
US 28-Jun	10:00 PM	Consumer Confidence Index	93.1	92.6
US 29-Jun	7:00 PM	MBA Mortgage Applications	--	2.90%
US 29-Jun	8:30 PM	Personal Income	0.30%	0.40%
US 29-Jun	8:30 PM	PCE Deflator MoM	0.20%	0.30%
US 29-Jun	8:30 PM	PCE Deflator YoY	1.00%	1.10%
US 29-Jun	10:00 PM	Pending Home Sales MoM	-1.00%	5.10%
US 29-Jun	10:00 PM	Pending Home Sales NSA YoY	4.80%	2.90%
EU 29-Jun	5:00 PM	Consumer Confidence	-7.3	-7.3
JP 29-Jun	7:50 AM	Retail Trade YoY	-1.60%	-0.80%
JP 29-Jun	7:50 AM	Retail Sales MoM	0.10%	0.00%
US 30-Jun	8:30 PM	Initial Jobless Claims	--	259k
US 30-Jun	8:30 PM	Continuing Claims	--	2142k
EU 30-Jun	5:00 PM	CPI Estimate YoY	0.00%	-0.10%
EU 30-Jun	5:00 PM	CPI Core YoY	0.80%	0.80%
JP 30-Jun	1:00 PM	Housing Starts YoY	4.80%	9.00%
JP 30-Jun	1:00 PM	Construction Orders YoY	--	-16.90%
US 1-Jul	9:45 PM	Markit US Manufacturing PMI	--	51.4
US 1-Jul	10:00 PM	ISM Manufacturing	51.5	51.3
US 1-Jul	10:00 PM	ISM Prices Paid	63.8	63.5
US 1-Jul	10:00 PM	ISM New Orders	--	55.7
US 1-Jul	10:00 PM	Construction Spending MoM	0.60%	-1.80%
EU 1-Jul	4:00 PM	Markit Eurozone Manufacturing PMI	52.6	52.6
EU 1-Jul	5:00 PM	Unemployment Rate	10.10%	10.20%
CN 1-Jul	9:00 AM	Manufacturing PMI	50	50.1
CN 1-Jul	9:00 AM	Non-manufacturing PMI	--	53.1
MY 1-Jul	11:30 AM	Nikkei Malaysia PMI	--	47.2
MY 1-Jul	12:00 PM	Exports YoY	2.00%	1.60%
MY 1-Jul	12:00 PM	Imports YoY	-2.00%	-2.30%
MY 1-Jul	12:00 PM	Trade Balance MYR	7.80b	9.06b

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,629.52	-4.53	-0.28
FBMEMAS	11,355.06	-38.25	-0.34
FBMEMAS SHA	11,919.75	-49.09	-0.41
FBM100	11,067.84	-38.39	-0.35
Volume (mn)	1,267.59	-959.57	-43.08
Value (RMmn)	1,296.40	-1,060.50	-45.00
FBMKLCI YTD Chg			-3.72

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	58.5	97.3
Local Retail	17.2	25.0
Foreign Investors	24.3	-122.3

Top Gainers

	Close	Change+/-	(+/- %)
AJINOMOTO	12.46	0.36	1.70
BATU KAWAN	18.00	0.26	1.47
MICROLINK SOLUT	1.45	0.20	16.00

Top Losers

	Close	Change+/-	(+/- %)
PANASONIC MAN	29.40	-0.30	-1.01
LAFARGE MALAYS	7.76	-0.23	-2.88
PETRON MALAYS	3.68	-0.22	-5.64

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,140.24	-260.51	-1.50
NASDAQ	4,594.44	-113.54	-2.41
S&P 500	2,000.54	-36.87	-1.81
FTSE 100	5,982.20	-156.49	-2.55
DAX	9,268.66	-288.50	-3.02
Nikkei 225	15,309.21	357.19	2.39
HSI	20,227.30	-31.83	-0.16
KOSPI	1,926.85	1.61	0.08
STI	2,735.91	0.52	0.02
KLCI Futures	1,611.50	(1.50)	(0.00)
USDMYR 3M	13.38	0.05	0.00
USDMYR 6M	13.33	0.06	0.00
USDMYR 12M	13.25	0.07	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	47	0.4	0.8%
Brent (USD/bbl)	47.2	-1.3	-2.6%
Gold(USD/ounce)	1,325	0.7	0.1%
Coal (USD/mt)	54.1	-0.2	-0.3%
CPO (RM/mt)	2,379	0.0	0.0%
Rubber	174	4.2	2.5%
RM/USD	4.10	0.0067	-0.16%
EUR/USD	0.91	0.0006	0.07%
YEN/USD	101.90	-0.1	0.10%

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What To Expect

U.S. Market

- The Dow Jones Industrials Average plunged 260.51 points to 17,140.24 and S&P 500 tumbled 36.87 points to 2,037.41. Nasdaq fell 113.54 points to 4,594.44. Stocks on Monday continued a rout sparked by Britain's shock vote to leave the European Union, with the Dow falling more than 250 points after equities on Friday tumbled the most in 10 months.
- The U.K.'s Brexit vote left investors around the world scurrying toward safe havens for a second session after the S&P 500 on Friday fell 3.6 percent to erase its advance for the year. Investors are watching for policy action by central banks worldwide to ease the turmoil and pump liquidity into financial markets. European equities continued to bear the brunt of the selling, with the Stoxx Europe 600 Index losing 4.1 percent to its lowest since February.

The Local Market

- FBMKLCI closed at 4.53 points lower at 1,629.52 as the Brexit pressure on the local and regional market receded. There were 295 gainers and 457 decliners in total value traded of RM1.29 billion.
- Among the decliners on Bursa Malaysia were Panasonic which dropped 30 cents to RM29.40, Lafarge fell 23 cents to RM7.76 and F&N down 22 cents to RM3.68.

Strategy

- **"Tremor of Brexit Still There"**
The reverberating impact of Brexit is still being felt with the ripple effect had hit Wall Street yet again on Monday, with no sign of closure. S&P 500 and DJIA hemorrhaged 36.87 (-1.81%) and 260.51 (-1.50%) points to end at 2,000.54 and 17,140.24 respectively. It was brutal 2-trading days for Wall Street given a total of almost 7% wipe out of market capitalisation since the announcement of Brexit last week. The global capital market is still licking the wound and the immediate danger is that 1) when the break-up of the UK from EU would take place and 2) what will the term of the separation. This is the issues that weighing on investors mind. As if that is not enough, S&P had cut the UK credit rating by 2-notches, citing rising risks as a result of Brexit. All these uncertainty is negative for global equity market and we predict volatility to persist. However, we think that Malaysia is largely shielded and able to absorb the tremor arising from Brexit due to her strong fundamentals. Hence, despite the shaking effect of Wall Street overnight performance, we think FBMKLCI may able to deal with it and perhaps swing to the positive side today, more so after the last few days of mild bleeding.
- 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

RHB Bank, HOLD (TP: RM6.20): Assumes RHB Cap's listing status, announces board composition

RHB Bank Bhd, which assumes the listing status of RHB Capital Bhd (RHB Cap) on Tuesday, has released the compositions of the bank's board of directors as well as its audit committee and nominating and remuneration committee. RHB Bank said in a stock exchange filing that the board would be headed by chairman Tan Sri Azlan Zainol, who was appointed the chairman of RHB Bank in July 2005 and RHB Cap on June 14. Azlan was previously the Employees Provident Fund chief executive officer (CEO) until his retirement in April 2013. He has also served as the managing director (MD) of AmBank Bhd and AmFinance Bhd. (Source: The Star)

Sunway Engineering, BUY (TP: RM1.92): Secures RM66.3m contract

Sunway Construction Group Bhd's (SunCon) sub-subsidiary Sunway Engineering Sdn Bhd was awarded a RM66.3 million project by Zecon Medicare Sdn Bhd for electrical services and air conditioning & mechanical ventilation system for the proposed development of University Kebangsaan Malaysia Children Specialist Hospital. The project is a public-private partnership initiative and is to be completed on April 30, 2018. It is expected to contribute positively to the earnings of SunCon group from the financial year ending Dec 31, 2016 onwards. The project is subject to normal construction risk of materials price fluctuation. However, with the past experiences and expertise of Sunway Engineering in mechanical and engineering projects, this risk could be mitigated," SunCon said in a filing with the stock exchange yesterday. (Source: The Sun)

MMC, BUY (TP: RM2.80), Gamuda, BUY (TP: RM5.80): KVMRT, MRT Corp sued for RM303.5mil

MMC Gamuda KVMRT (PDP) Sdn Bhd, a joint venture between MMC Corp Bhd and Gamuda Bhd, and Mass Rapid Transit Corp Sdn Bhd (MRT Corp) are among the parties being jointly sued for RM303.53mil with interest and costs by Accolade Land Sdn Bhd. MMC Corp told Bursa Malaysia that the suit was premised on "an alleged breach of an alleged contract" between Accolade and MRT Corp in relation to MRT Corp's acquisition of land belonging to Accolade for the Klang Valley MRT project. MMC Gamuda KVMRT (PDP) Sdn Bhd, which is the project delivery partner, would take steps to defend itself and oppose the suit, it said. (Source: The Star)

AirAsia (CP: RM2.57): Buys into supplier of its inflight tea and coffee

AirAsia Bhd is acquiring an 80% stake in T&Co Coffee Sdn Bhd, which has been supplying inflight coffee and tea solutions to the airline since December 2013, for RM914,000. In a filing with Bursa Malaysia, the budget carrier said it had entered into a share sale agreement with Datin Charlene Yeo Ming Ling to buy 881,873 ordinary shares of RM1 in T&Co, or 80% of the share capital of the company. AirAsia said the purchase consideration would be satisfied in part by cash of RM814,000 and in part by AirAsia credit shell of RM100,000 which may be used to pay for flights on all carriers within the AirAsia group. (Source: The Star)

Sunway Bhd (CP: RM3.00): Maintains presence in FTSE4GOOD Index

Sunway Bhd maintained its presence in the FTSE4GOOD Bursa Malaysia Index for the third year in a row in 2016. Out of the thirty-nine constituents that made the list this year, two came from within Sunway Group. Sunway Bhd and Sunway REIT have been officially acknowledged as socially responsible investment communities by the UK-based FTSE Group. Meanwhile, Sunway Construction Group Bhd also remains on the FTSE4GOOD Bursa Malaysia Index since 2015. Launched in Dec 2014, the FTSE4GOOD Bursa Malaysia Index measures the environmental, social and governance practices within the top 200 Malaysian stocks in the FTSE Bursa Malaysia EMAS Index, based on 14 separate themes. (Source: The Edge)

Tomypak (CP: RM1.88): Rights issue with warrants oversubscribed by 29%

Tomypak Holdings Bhd said its rights issue of 54.73 million rights shares, together with the corresponding number of warrants, was oversubscribed 29.39%. In a filing with Bursa Malaysia today, the plastic package manufacturer said total valid acceptances and total excess applications received were 70.82 million rights shares, together with the corresponding number of warrants. The rights shares and warrants are expected to be listed on the Main Market of Bursa Malaysia on July 5. (Source: The Edge)

Tadmax (CP: RM0.395): Sells an apartment block to Labuan Corp for RM50mil

Tadmax Resources Bhd has signed an agreement (SPA) with Labuan Corp, an agency under the Federal Territories Ministry, for the en bloc sale of Block C in the Ganggarak Permai housing development (phase 2), Labuan, for RM50mil. In a filing with Bursa Malaysia, the property development, construction and plantation company said its unit Ganggarak Development Sdn Bhd sold 260 units of affordable residential apartments in total, with each unit measuring either 800 sq ft or 850 sq ft. "The development has commenced since the first quarter of 2016 and is expected to complete and vacant possession delivered within 36 months from the date of the sale and purchase agreement," Tadmax said. (Source: The Star)

YTL (CP: RM1.59): Hunting for UK acquisitions amid Brexit shock

YTL Corp., the Malaysian conglomerate which snapped up a British utility from the now defunct Enron Corp. more than a decade ago, is looking for bargains again after the U.K. vote to leave the European Union sent assets plummeting. The company, one of Malaysia's biggest investment holding groups with utilities and property in Britain, will look for infrastructure utility assets in the U.K. over the next two to three years, Tan Sri Francis Yeoh, its managing director, said in an interview. Not since 2008 has there been an opportunity for it to scout for assets at attractive prices till now, he said. The company has about 13.5 billion ringgit (\$3.3 billion) in cash that could be used to fund expansion. (Source: The Star)

Genting Plantations (CP: RM10.50): Buys 2 firms for US\$42m

Genting Plantations Bhd's 73.685% indirect subsidiary Palmindo Holdings Pte Ltd has entered into agreements with Green Palm Capital Corp (GPCC) for the acquisition of Cahaya Agro Abadi Pte Ltd (CAA) and Palm Capital Investment Pte Ltd (PCI) for US\$42.15 million (RM173.26 million), in a related party deal. GPCC

is owned by the Sepanjang Group, which is also a major shareholder in PalmIndo where it owns an effective interest of 26.315%. CAA holds, through its 95.0% owned subsidiary in Indonesia, PT Agro Abadi Cemerlang (PT AAC) the rights to develop 8,095ha of land in Kabupaten Sanggau, Provinsi Kalimantan Barat, Indonesia into an oil palm plantation. (Source: *The Sun*)

Berjaya Land (CP: RM0.70): Fourth quarter revenue up 5%

Berjaya Land Bhd's (BLand) revenue for the fourth quarter ended April 30, 2016 rose 5.08% to RM1.70 billion from RM1.62 billion a year ago due to higher contribution from the property development and investment business and foreign hotels. In a filing with Bursa Malaysia yesterday, it said the property development and investment business saw the completion of sales of several parcels of vacant land while foreign hotels enjoyed a favourable effect from the foreign exchange translation to ringgit despite reporting overall lower occupancy rates and average room rates. In addition, the BToto Group saw higher revenue contribution from H.R. Owen Plc (HRO) due to additional sales outlets and introduction of new models by car manufacturers. HRO's results also benefited from the favourable effect of foreign exchange translation. (Source: *The Sun*)

Scomi Engineering (CP: RM0.245): Denies delay caused by unit

Scomi Engineering Bhd has denied that its unit, Scomi Transit Projects Sdn Bhd (STP), is responsible for the delay in the Kuala Lumpur Monorail expansion project. In a statement to Bursa Malaysia, Scomi said the delays were caused by "various matters over which STP had no control and in respect of which STP was entitled to (and did not) receive extensions of time and prolongation costs". It claimed STP was not afforded its rights under the contract in connection with the delay and/or variations to the specifications and did not receive payments when due. (Source: *The Star*)

Ahmad Zaki (CP: RM0.635): To build RM152.3m bridge in Pahang

Ahmad Zaki Resources Bhd has bagged a contract to build a new bridge in Pahang worth RM152.3 million from Public Works Department (JKR). The construction company said it has received the letter of award from JKR last Friday (June 24) for building a new bridge across Sungai Kuantan, connecting Bandar Kuantan to Bandar Putra, Tanjung Lumpur in Pahang. "The works is expected to contribute positively to the group's future earnings," said Ahmad Zaki. Shares of Ahmad Zaki were traded unchanged at 63 sen, giving the company a market capitalisation of RM304.63 million. (Source: *The Edge*)

Hubline (CP: RM0.01): Completes disposal of subsidiary

Hubline Bhd has completed the disposal of its entire business and equity interest in Wonder Link Sdn Bhd to Brilliant Mesra Sdn Bhd for RM1. In a filing with Bursa Malaysia yesterday, Hubline said the disposal is not expected to have any material impact on the group's earnings or net assets for the financial year ending Sept 30, 2016. Wonder Link is an investment holding company owning 100% of Hub Marine Pte Ltd. Incorporated in Singapore, Hub Marine was principally the Singapore shipping agent for the container business arm of the group and has a paid up capital of S\$3 million (RM9.05 million). (Source: *The Sun*)

ECONOMIC UPDATES

Malaysia: Mustapa: We'll monitor developments in the EU

International Trade and Industry Minister Datuk Seri Mustapa Mohamed said the ministry will keep a close watch on the possibility of more countries leaving the European Union (EU) following the Brexit vote last week. "I think the concern is what will happen next with the two-year period and some statements that some countries might be thinking of a similar course of action. Those are the countries that we need to monitor. In the event that the EU gets smaller then certainly that's a development that we will be monitoring very closely," he told reporters at the 15th anniversary celebration of Scope International (M) Sdn Bhd yesterday. He said so far, trade and investments in Malaysia have been smooth and there have been no disruptions since the announcement of Brexit last Friday. *(Source: The Sun)*

U.S.: Banks' stress tests may offer comfort in Brexit tumult

The stress tests created for banks by U.S. regulators after the 2008 financial crisis may prove their worth this week, providing a timely message on banks' hardiness in the midst of turbulence over last week's vote by Britain to leave the European Union. The Federal Reserve on Wednesday will release the second set of results from stress tests it has conducted annually on large banks since 2009. The tests look at how strong banks would be in an unforeseen crisis, with economies in freefall, stock markets dropping precipitously and market counterparties at risk of failure. And while the stresses that the Fed is testing for in this case are imagined, analysts say the results should be reassuring to investors worried about banks' exposure to Brexit, an outcome that took the world and markets by surprise. *(Source: Investing.com)*

Brazil: Is Back to Pre-Junk Levels as Swaps Traders Bet on Temer

Brazil is winning over derivatives traders as Acting President Michel Temer seeks to repair the nation's finances. The cost to hedge against losses in Brazil's bonds with credit-default swaps has tumbled by almost a third in the past six months, the biggest drop among the world's major economies. Prices of the swaps are also now back to levels that prevailed before S&P Global Ratings cut the country's rating to junk in September. The turnaround is part of a rebound in Brazil's financial assets this year fueled by the removal of President Dilma Rousseff from office while she faces an impeachment trial. Since taking the reins last month, Temer has proposed spending caps to help shrink a near-record budget deficit and struck a deal to ease a fiscal crisis roiling Brazilian states amid the longest recession in more than a century. *(Source: Bloomberg)*

German: UK exit talks with EU 'shouldn't drag on forever'

German Chancellor Angela Merkel (pic) signalled she wants to avoid punishing the UK as it leaves the European Union, though the exit talks "shouldn't drag on forever." "Great Britain will remain a close partner," including through economic ties and membership in the North Atlantic Treaty Organisation, Merkel told reporters on Saturday in Potsdam, near Berlin. "Britain now needs to define for itself - and that will surely be a process of discussion - how it wants to shape its relations with the EU." Merkel, speaking at the end of a two-day retreat of her Christian Democratic-led bloc that was dominated by discussion

on Brexit, rejected the notion that the EU should take a hard line to blunt calls for similar referendums in member nations such as France and the Netherlands. (Source: Bloomberg)

Japan: Bond Yields Drop to Records as Brexit Spurs Haven Demand

Japan's 20- and 30-year bond yields dropped to record lows as the U.K.'s decision to leave the European Union reinforced demand for the haven of government debt. Yields are likely to stay low after the shock of so-called Brexit subsidies, bond investors said at a regular meeting with Japan's Ministry of Finance in Tokyo Monday, according to an official who spoke on condition of anonymity in line with policy. They also said that while Japanese bonds have become slightly expensive, any increase in yields will probably attract buyers, the official said. (Source: Bloomberg)

Taiwan: Seen Lowering Rates This Week as Brexit Damps Outlook

Taiwan is seen cutting its benchmark interest rate for the fourth consecutive quarter at a policy board meeting this week amid fresh export uncertainty brought by Britain's vote to exit the European Union and a weaker economic growth outlook. Twenty-three of 26 economists in a Bloomberg survey taken June 22-27 predicted another benchmark rate cut when the board of the Central Bank of the Republic of China (Taiwan) meets June 30. The monetary authority has lowered its policy rate at every meeting since September 2015 to the current 1.5 percent, from 1.875 percent, amid waning demand for the island's exports. Shipments have contracted year on year every month since February 2015. (Source: Bloomberg)

U.K.: Rating Cut Two Levels by S&P, One by Fitch After Brexit

The U.K. was stripped of its top credit grade by S&P Global Ratings, and Fitch Ratings also lowered the country's rank, the latest crushing verdicts on the country's decision to leave the European Union that has left it in political and economic paralysis. S&P lowered the grade by two steps to AA from AAA, citing the risk of a less predictable, stable, and effective policy framework in the U.K. Fitch cut its credit rank by one step, to an equivalent level. Both have negative outlooks. The downgrade "reflects the risks of a marked deterioration of external financing conditions" and constitutional issues arising from the majority of voters in Scotland and Northern Ireland having opted to remain in the EU, according to S&P. Fitch cited the likelihood of "an abrupt slowdown" in economic growth. (Source: Bloomberg)

U.K.: Ten-year government bond yields fall below 1 percent for first time

British 10-year government bond yields sank below 1 percent on Monday for the first time, as government debt prices hit a new record high after investors continued to pile into safe assets following the country's vote to leave the European Union. British debt prices soared on Friday after the country voted to leave the European Union, and on Monday Chancellor George Osborne said the economy would have to face up to "an adjustment" as it dealt with the economic fallout. Osborne said the public finances would suffer as a result of the vote to leave, but against a backdrop of sliding share prices, a falling currency and an uncertain economic outlook, investors continued to seek the safety of government bonds. (Source: Euro News)

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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