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Tuesday, July 12, 2016

Report of the Day

Result Review: Digi 2Q16 – “Moving Into Digital Transformation”

At a Glance

FBMKLCI surged 9.33 points and closed at 1,653.87 in line with the upbeat regional markets after Japan's ruling coalition won the parliament's Upper House Election.....(See full report next page)

Strategy

“Cheer from Japan”

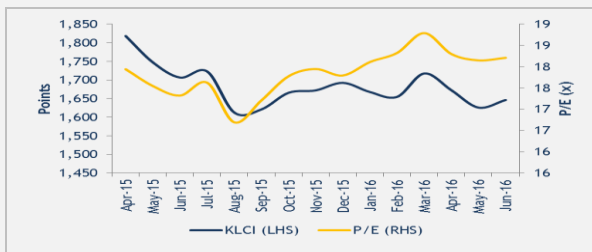
We expect upside potential to be capped to some extent (See full report next page)

Corporate Highlights

- **DiGi, BUY (TP: RM5.75):** 2Q net profit falls 9.4%, pays 5.4 sen dividend
- **SapuraKencana (CP: RM1.40):** Units reach deal with Petronas to end Berantai RSC
- **GHL System (CP: RM0.90):** Partners bank to acquire merchants in the Philippines

Economic Update

- **Malaysia:** May factory output growth seen slowing to 2% y/y
- **U.S.:** Bank regulator toughens commercial real estate oversight
- **China:** Q2 economic growth seen cooling to 6.6%, weakest in 7 years



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	4-Jul	5:00 PM	PPI MoM	0.30%	-0.30%
EU	4-Jul	5:00 PM	PPI YoY	-4.10%	-4.40%
US	5-Jul	10:00 PM	Factory Orders	-0.80%	1.90%
US	5-Jul	10:00 PM	Durable Goods Orders	-2.20%	-2.20%
EU	5-Jul	4:00 PM	Markit Eurozone Services PMI	52.4	52.4
EU	5-Jul	4:00 PM	Markit Eurozone Composite PMI	52.8	52.8
EU	5-Jul	5:00 PM	Retail Sales MoM	0.40%	0.00%
EU	5-Jul	5:00 PM	Retail Sales YoY	1.70%	1.40%
CN	5-Jul	9:45 AM	Caixin China PMI Services	--	51.2
CN	5-Jul	9:45 AM	Caixin China PMI Composite	--	50.5
MY	5-Jul	6:00 PM	Foreign Reserves	--	\$97.4b
US	6-Jul	7:00 PM	MBA Mortgage Applications	--	-2.60%
US	6-Jul	8:30 PM	Trade Balance	-\$40.0b	-\$37.4b
US	6-Jul	9:45 PM	Markit US Services PMI	51.5	51.3
US	6-Jul	9:45 PM	Markit US Composite PMI	--	51.2
US	6-Jul	10:00 PM	ISM Non-Manf. Composite	53.4	52.9
EU	6-Jul	4:10 PM	Markit Eurozone Retail PMI	--	50.6
US	7-Jul	2:00 AM	U.S. Fed Releases Minutes from June 14-15 FOMC Meeting	--	--
US	7-Jul	2:00 AM	FOMC Meeting Minutes	--	--
US	7-Jul	8:15 PM	ADP Employment Change	150k	173k
US	7-Jul	8:30 PM	Initial Jobless Claims	--	268k
US	7-Jul	8:30 PM	Continuing Claims	--	2120k
CN	7-Jul	12:00 AM	Foreign Reserves	\$3166.0b	\$3191.7b
US	8-Jul	8:30 PM	Change in Nonfarm Payrolls	180k	38k
US	8-Jul	8:30 PM	Unemployment Rate	4.80%	4.70%
US	8-Jul	8:30 PM	Labor Force Participation Rate	--	62.60%
JP	8-Jul	7:50 AM	Trade Balance BoP Basis	¥57.4b	¥697.1b

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,653.87	9.33	0.57
FBMEMAS	11,528.95	61.30	0.53
FBMEMAS SHA	12,090.13	70.92	0.59
FBM100	11,238.58	62.70	0.56
Volume (mn)	1,613.12	383.84	31.22
Value (RMmn)	1,600.84	156.10	10.81
FBMKLCI YTD Chg			-2.28

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	52.7	-43.2
Local Retail	16.1	3.6
Foreign Investors	31.2	39.6

Top Gainers

	Close	Change+/-	(+/- %)
BRIT AMER TOBAC	55.00	0.58	1.70
CARLSBERG	14.70	0.50	3.52
BOUSTEAD HLDGS	3.19	0.39	13.93

Top Losers

	Close	Change+/-	(+/- %)
DUTCH LADY MILK	59.50	-1.80	-2.94
PWF CONSOLIDAT	0.72	-0.06	-7.74
HONG LEONG FIN	14.96	-0.34	-2.22

World Indices

	Close	Change+/-	(+/- %)
DJIA	18,226.93	80.19	0.44
NASDAQ	4,988.64	31.88	0.64
S&P 500	2,137.16	7.26	0.34
FTSE 100	6,682.86	92.22	1.40
DAX	9,833.41	203.75	2.12
Nikkei 225	15,708.82	601.84	3.98
HSI	20,880.50	316.33	1.54
KOSPI	1,988.54	25.44	1.30
STI	2,874.03	26.99	0.95
KLCI Futures	1,646.00	13.00	0.01
USDMYR 3M	11.80	0.06	0.00
USDMYR 6M	11.83	0.04	0.00
USDMYR 12M	11.88	0.03	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	45	-0.1	-0.2%
Brent (USD/bbl)	46.3	-0.5	-1.1%
Gold(USD/ounce)	1,354	-1.8	-0.1%
Coal (USD/mt)	59.6	0.4	0.6%
CPO (RM/mt)	2,240	-1.0	0.0%
Rubber	161	4.0	2.6%
RM/USD	3.99	-0.0407	1.02%
EUR/USD	0.90	0.0002	0.02%
YEN/USD	102.63	-0.17	0.17%

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What To Expect

U.S. Market

- The Dow Jones Industrials Average continued climbing 80.19 points to 18,226.93 and S&P 500 moved in tandem by adding 7.26 points to 2,137.16, charting record highs on Monday, surpassing previous peaks set in May 2015. Nasdaq also closed 31.88 points higher at 4,988.64. To the surprise of many, the latest all-time high has come more than a year after U.S. stock prices peaked and after the market has withstood several consecutive quarters of contracting U.S. corporate earnings and global market volatility.
- Oil prices fell on Monday, hitting two-month lows, pressured by rising Canadian supplies, a higher U.S. oil rig count, and cuts in bullish hedge fund bets on crude. Hundreds of thousands of new barrels of crude have begun arriving in Alberta's oil sands region, crowding pipelines as producers recover from wildfires that crippled output two months ago.

The Local Market

- FBMKLCI surged 9.33 points and closed at 1,653.87 in line with the upbeat regional markets after Japan's ruling coalition won the parliament's Upper House Election. There were 439 gainers and 359 decliners in total value traded of RM1.6 billion.
- Among the gainers on Bursa Malaysia were BAT inched up 58 cent to RM55.00, Carlsberg rose 50 cent to RM14.70, Boustead soared 39 cent to RM3.19 and Nestle jumped 26 cent to RM76.96.

Strategy

- **"Cheer from Japan"**
Wall Street continued its upward trajectory, thanks to good news from Japan and extended feel-good-factor from US labour market. **S&P 500** and **DJIA** gained **7.26 (0.34%)** and **80.19 (0.44%)** points to end at **2,137.16** and **18,226.93** respectively. Of note, Shinzo Abe won a landslide victory in Japan upper house election and paving the way for a big stimulus spending to the tune of 10 trillion yen (USD99 billion). Although this could be a drop in the ocean for a USD5 trillion economy but at least something is being done to kick start a lethargic Japan's economy. Elsewhere, rally in Wall Street was extended pushed by the steady labor market report where the US added 287k of new jobs in June, easily beaten the street estimates. Nonetheless, oil suffered some selling pressure after ending at USD44 per barrel yesterday and hence, we expect upside potential to be capped to some extent.
- 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

DiGi, BUY (TP: RM5.75): 2Q net profit falls 9.4%, pays 5.4 sen dividend

DiGi.Com Bhd saw its net profit for the second quarter ended June 30, 2016 (2QFY16) fall 9.4% to RM420.61 million or 5.41 sen per share due to an unrealised foreign exchange and derivatives losses of RM12.72 million. It posted a net profit of RM464.36 million or 5.97 sen per share a year ago. Revenue for the quarter came in 3.9% lower at RM1.66 billion from RM1.72 billion. Despite lower quarterly earnings, DiGi declared a second interim dividend of 5.4 sen per share amounting to RM420 million for the financial year ending Dec 31, 2016 (FY16), payable on Sept 30. This brings its year-to-date dividend to 10.5 sen per share compared with 12 sen per share in the same period last year. *(Source: The Edge)*

SapuraKencana (CP: RM1.40): Units reach deal with Petronas to end Berantai RSC

SapuraKencana Petroleum Bhd's units and their partner have reached a mutual agreement with Petrolia Nasional Bhd (Petronas) to cease the Berantai Risk Service Contract (RSC). SapKen said on Monday the agreement was signed between its units Sapura Energy Ventures Sdn. Bhd. and Kencana Energy Sdn Bhd with Petrofac Energy Developments Sdn Bhd for the RSC in Jan 31, 2011. The contract, awarded by Petronas, was for the development and production of petroleum from the Berantai field, located offshore Peninsular Malaysia. *(Source: The Star)*

GHL System (CP: RM0.90): Partners bank to acquire merchants in the Philippines

GHL Systems Bhd's wholly owned subsidiary GHL Systems Philippines, Inc (GHL Philippines) has entered into an agreement to provide transaction payment acquisition (TPA) services to Rizal Commercial Banking Corp (RCBC) via its servicing entity RCBC Bankard Services Corp. The TPA service will enable GHL Philippines to directly contract with merchants to provide credit card payment services, also known as merchant acquiring, with RCBC acting as the underlying bank that will obtain authorisation for the credit card transactions. "The Philippines is an important market for GHL Group and we are thrilled to partner with RCBC as the acquiring bank on this TPA initiative. RCBC Bankard is one of the pioneers of the credit card industry in the Philippines and is well respected by the business community here," GHL group CEO Raj Lorenz said in a statement yesterday. *(Source: The Sun)*

AirAsia (CP: RM2.63): Eyes HK listing

AirAsia is studying a dual listing in Hong Kong, part of plans to become a pan-Asian low-cost airline player as it also moves towards setting up a joint venture in China, people familiar with the matter told Reuters on Sunday. The group is simultaneously looking for more aircraft to meet strong demand in North Asia and elsewhere, the people said on the eve of Britain's Farnborough Airshow. Asia's largest low-cost airline group, which already has affiliates across Southeast Asia, aims to form the venture with the backing of a Chinese state-owned enterprise (SOE) to help capture traffic from fast-growing secondary and tertiary cities. Co-founder and CEO Tan Sri Tony Fernandes referred to the

potential dual listing without naming a location and hinted at a potential new aircraft order in remarks posted on his Twitter account on Sunday. *(Source: The Sun)*

Southern Steel (CP: RM1.05): Terminates contract with Danieli

Southern Steel Bhd's (SSB) wholly owned subsidiary Southern HRC Sdn Bhd (SHRC) terminated a contract signed with Danieli & C. Officine Meccaniche SpA last Thursday. The contract, signed on June 16, 2011, is for the design, manufacture and supply of a "Thin Slab Casting Unit feeding directly a twin Steckel Mill" for the production of hot rolled coil. "Danieli has failed to remedy and resolve the issues set out in the notice of termination which constitute a major default and failure by Danieli to fulfill its fundamental obligations under the contract," Southern Steel said in its filing with Bursa Malaysia yesterday. "Arising from such termination, SHRC reserves all of its rights to exercise all remedies available to SHRC under the contract and at law as a result of Danieli's misrepresentations, breaches and/or defaults under the contract," it added. *(Source: The Sun)*

Borneo Oil (CP: RM0.185): Replies to Bursa's query

Borneo Oil Bhd, which has been issued an unusual market activity query by Bursa Malaysia Securities Bhd yesterday on the sharp rise in volume of the company's shares recently, said the increase in the prices of gold and gold mining stocks globally following Brexit and other uncertainties in the financial market has benefited the group, which is involved in gold mining and related activities. Borneo Oil's share price has risen some 23% since June 24, where it was trading at 15 sen. It closed at 18.5 sen yesterday with 154.5 million shares changing hands. "There is no rumour or any other report concerning our group's business and affairs except for the article in Focus Malaysia on July 9, 2016, which we are not sure as to whether the rise in volume of our company's shares was due or partly due to it," it said in a reply to Bursa Securities. *(Source: The Sun)*

KESM (CP: RM5.69): Special interim dividend

KESM Industries Bhd has declared a special interim dividend of 4.5 sen per ordinary share, totalling an aggregate payment of RM1.9 million that will be paid on Aug 18 to shareholders. KESM executive chairman & CEO Sam Lim said the largest independent burn-in service company in Malaysia has performed well in the first nine months of this financial year, reaching profit after tax of RM22.6 million, which surpasses the 12 months results of RM17 million of the last financial year. "The outcome of our investment in test services has achieved a competitive advantage to produce this satisfying results. This declaration of a special dividend is a reward to our long standing shareholders," Lim said in a statement yesterday. *(Source: The Sun)*

Yong Tai (CP: RM1.03): Hits 10-month high after announcing property project

Yong Tai Bhd's share price rose further today to a 10-month high as investors reacted positively to the group's plan to jointly undertake a property development project in Ijok, near Kuala Selangor, with another company. The stock was up 4.5 sen or 4.52% at RM1.04, its highest point since Sept 10 last year. Volume totalled 5.45 million shares. Year to date, the counter has climbed

29 sen or 38.7%. Early this month, Yong Tai said it has teamed up with PGCG Assets Holdings Sdn Bhd to jointly undertake a mixed development project with a gross development value of RM510 million in Puncak Alam, Ijok. *(Source: The Edge)*

LPI (CP: RM16.14): 2Q net profit surges 148% to RM213 million on equity disposal gains

LPI Capital Bhd achieved a sterling result in the second quarter ended June 30, 2016 (2QFY16), which saw its net profit surge 148% to RM212.62million, from RM85.74 million a year ago, due to investment holding segment that chalked up gains of RM150.4 million on its disposal of investment in equities. In view of the good performance, the board has also declared a first interim dividend of 25 sen per share, amounting to RM83 million, to reward the group's shareholders. The group's revenue for 2QFY16, also increased by 11.33% to RM339.25 million, from RM304.73 in the previous year. The group told Bursa Malaysia today that the growth was largely contributed by revenue from the general insurance segment, which increased by 10.9% to RM337.3 million from 2QFY15. *(Source: The Edge)*

ECONOMIC UPDATES

Malaysia: May factory output growth seen slowing to 2% y/y

Malaysia's industrial production in May is expected to have grown 2% from a year earlier, a Reuters poll showed, slowing from the previous month. Factory output growth in April had expanded 3% year-on-year, due to growth in the electricity and manufacturing sectors. Malaysia's exports in May had fallen 0.9% from a year earlier, well below market expectations, as global oil prices remained weak. *(Source: The Edge)*

U.S.: Bank regulator toughens commercial real estate oversight

Credit risks have risen in U.S. commercial real estate as lenders compete more fiercely in a low rate environment, a federal banking regulator said on Monday, adding that it was stepping up its scrutiny of the sector. The Office of the Comptroller of the Currency (OCC) said in its semiannual risk report that while the financial performance of lenders improved in 2015 compared to a year earlier, credit risks were higher across the industry. The U.S. Federal Reserve has kept interest rates low for more than seven years to help the U.S. economy recover from the 2008 financial crisis. But that policy is also weighing on bank profits and pushing lenders to compete more fiercely for worthy borrowers. That competitive pressure is increasing risk, the OCC said. *(Source: The Edge)*

China: Q2 economic growth seen cooling to 6.6%, weakest in 7 years

China's economic growth likely cooled to a fresh seven-year low of 6.6% in the second quarter as the industrial sector loses steam and a boost from financial services fades, according to a Reuters poll of 61 economists. Analysts expect the world's second-largest economy to lose further momentum in the second half of the year, prompting the government and central bank to roll out more support measures even as they worry about fallout from Britain's secession from the

European Union. That could in turn signal fresh weakness for the yuan, which recently slid to 5-1/2 year lows, adding to a wall of worry for international investors. (Source: *The Star*)

Japan: PM Abe orders new stimulus package after election win

Japanese Prime Minister Shinzo Abe ordered a new round of fiscal stimulus spending after a crushing election victory over the weekend as evidence mounted the corporate sector is floundering due to weak demand. Abe did not give details on the size of the package, but Japanese stocks jumped nearly 4 percent and the yen weakened over perceptions a landslide victory in upper house elections now gives him a free hand to draft economic policy. An unexpected decline in machinery orders shows the economy needs something to overcome consistently weak corporate investment. Economists worry, however, that Abe's focus on public works spending will not tackle the structural issues around a declining population and workforce. (Source: *The Star*)

Japan: Turns Again to Bernanke, as Fruits of Abenomics Wither

Less than three weeks before the Bank of Japan's next scheduled policy meeting, Governor Haruhiko Kuroda met with former Federal Reserve Chairman Ben S. Bernanke over lunch on Monday. The BOJ issued no statement on the substance of the talks, which come as the central bank confronts a fresh strengthening in the yen this year that risks undermining inflation and weakening the appetite for investment and wage increases. The Cabinet Office separately declined to confirm whether Bernanke will meet Tuesday with Prime Minister Shinzo Abe. (Source: *Bloomberg*)

Italy: Industrial production sinks deeper than expected in May

Industrial production in Italy during the month of May sank deeper than the markets had expected, making conditions worse for Prime Minister Matteo Renzi to put the economy on a stable footing, especially after the Brexit vote that shook production and consumption, besides possibilities of a further global breakdown. Output decreased 0.6 percent from April, when it rose a revised 0.4 percent, data released by the national statistics office Istat showed Monday. The median estimate of 16 analysts surveyed by Bloomberg News called for growth of 0.1 percent in May. On an annual basis, work day-adjusted basis industrial production also fell 0.6 percent. (Source: *Econotimes*)

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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