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Monday, October 10, 2016

**At a Glance**

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**Strategy****Dial Back on US Unemployment**

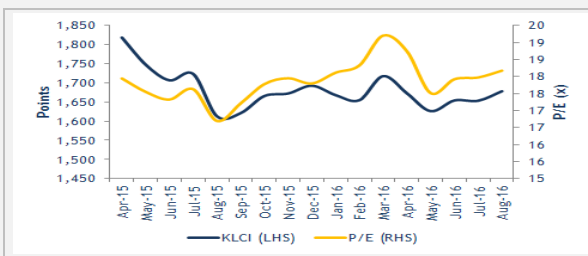
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**Corporate Highlights**

- **Coastal Contracts (CP: RM1.52):** Served with notice of arbitration by supplier
- **MSM (CP: RM4.89):** Awards RM18.3m TNB substation job to Felda Engineering
- **REDtone (CP: RM0.335):** To sell entire stake in subsidiary

**Economic Update**

- **Malaysia:** August exports exceed survey, boost from palm oil and semicon
- **Malaysia:** Bank Negara's reserves unchanged at US\$97.7b as at Sept 30
- **U.S.:** IMF warns US rate hike could disrupt Asian capital flows

**KEY ECONOMIC RELEASE**

	Date	Local Time	Event	Survey	Prior
JN	11-Oct	7:50 AM	Trade Balance BoP Basis	¥119.2b	¥613.9b
US	12-Oct	7:00 PM	MBA Mortgage Applications	--	0.029
MA	12-Oct	12:00 PM	Industrial Production YoY	--	0.041
MA	12-Oct	12:00 PM	Manufacturing Sales Value YoY	--	-0.034
US	13-Oct	2:00 AM	U.S. Fed Releases Minutes from Sept. 20-21 FOMC Meeting		
US	13-Oct	2:00 AM	FOMC Meeting Minutes	--	--
US	13-Oct	8:30 PM	Import Price Index MoM	0.001	-0.002
US	13-Oct	8:30 PM	Import Price Index YoY	--	-0.022
US	13-Oct	8:30 PM	Initial Jobless Claims	--	249k
US	13-Oct	8:30 PM	Continuing Claims	--	2058k
US	14-Oct	8:30 PM	Retail Sales Advance MoM	0.006	-0.003
US	14-Oct	8:30 PM	Retail Sales Ex Auto MoM	0.004	-0.001
US	14-Oct	8:30 PM	PPI Final Demand MoM	0.002	0
US	14-Oct	8:30 PM	PPI Ex Food and Energy MoM	0.001	0.001
US	14-Oct	8:30 PM	PPI Ex Food, Energy, Trade MoM	--	0.003
US	14-Oct	8:30 PM	PPI Final Demand YoY	0.006	0
US	14-Oct	8:30 PM	PPI Ex Food and Energy YoY	0.012	0.01
US	14-Oct	10:00 PM	U. of Mich. Sentiment	92	91.2
CH	14-Oct	9:30 AM	CPI YoY	0.016	0.013
CH	14-Oct	9:30 AM	PPI YoY	-0.003	-0.008
JN	14-Oct	7:50 AM	PPI MoM	-0.001	-0.003
JN	14-Oct	7:50 AM	PPI YoY	-0.032	-0.036

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**Bursa Malaysia**

	Close	Change+/-	(+/- %)
FBMKLCI	1,665.38	-1.35	-0.08
FBMEMAS	11,762.15	-10.84	-0.09
FBMEMAS SHA	12,419.73	6.97	0.06
FBM100	11,465.59	-11.87	-0.10
Volume (mn)	1,336.04	-463.54	-25.76
Value (RMmn)	1,549.53	-181.56	-10.49
FBMKLCI YTD Chg			-1.60

**Daily Trading Position (RM'mn)**

	Participation (%)	Net(RMm)	
Local Institution	63.0	118.1	16.19
Local Retail	13.4	-24.7	-13.91
Foreign Investors	23.6	-93.4	

**Top Gainers**

	Close	Change+/-	(+/- %)
PANASONIC MAN	36.40	0.98	1.70
UNITED PLANTAT	28.28	0.28	1.00
HUAT LAI RESOUR	4.70	0.15	3.30

**Top Losers**

	Close	Change+/-	(+/- %)
BRIT AMER TOBAC	48.42	-0.58	-1.18
APEX HEALTHCAR	4.30	-0.30	-6.52
PETRONAS DAGA	23.54	-0.18	-0.76

**World Indices**

	Close	Change+/-	(+/- %)
DJIA	18,240.49	-28.01	-0.15
NASDAQ	5,292.41	-14.45	-0.27
S&P 500	2,153.74	-7.03	-0.33
FTSE 100	7,044.39	44.43	0.63
DAX	10,490.86	-77.94	-0.74
Nikkei 225	16,860.09	-39.01	-0.23
HSI	23,851.82	-100.68	-0.42
KOSPI	2,053.80	-11.50	-0.56
STI	2,885.22	-14.53	-0.50
KLCI Futures	1,665.00	4.00	0.00
USDMYR 3M	10.43	0.05	0.00
USDMYR 6M	10.57	0.03	0.00
USDMYR 12M	10.84	0.03	0.00

**Other Key Economics Data**

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	49	-0.5	-0.9%
Brent (USD/bbl)	51.4	-0.5	-0.9%
Gold(USD/ounce)	1,260	3.1	0.2%
Coal (USD/mt)	84.5	-0.3	-0.4%
CPO (RM/mt)	2,561	-18.0	-0.7%
Rubber	170	2.5	1.5%
RM/USD	4.16	0.0095	-0.23%
EUR/USD	0.89	0.0005	0.06%
YEN/USD	103.00	0.02	-0.02%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average cut 28.01 points to 18,240.49 while S&P 500 fell 7.03 points to 2,153.74. Nasdaq closed lower by 14.45 points to 5,292.40. U.S. stocks closed lower Friday after September's job report came in below expectations, showing decent job growth, but a slightly higher unemployment rate.
- Market players continued to focus on U.S. drilling prospects, amid indications of an ongoing recovery in drilling activity. Oilfield services provider Baker Hughes said late Friday that the number of rigs drilling for oil in the U.S. last week rose by 3 to 428, marking the 14th increase in 15 weeks. On the New York Mercantile Exchange, crude oil for delivery in November slumped 63 cents, or 1.25%, to end the week at \$49.81 a barrel. Prices touched a four-month peak of \$50.74 earlier Friday.

### The Local Market

- FBMKLCI ended weaker by losing 1.35 points at 1,665.38, joining key Asian markets to close in the red on Friday ahead of the US jobs data which would indicate if the Fed would raise interest rate. There were 324 gainers and 424 decliners in total value traded of RM1.57 billion.
- Among the losers on Bursa Malaysia were British American Tobacco declined 58 cent to RM48.42, Apex Healthcare dropped 30 cent to RM4.30, Petronas Dagangan fell 18 cent to RM23.54 and Ta Ann lost 11 cent to RM3.45.

### Strategy

- **Dial Back on US Unemployment**  
Wall Street recoiled last Friday, spooked by the dial back on US September unemployment rate. S&P 500 and DJIA lost 7.03 (-0.39%) and 28.01 (-0.15%) points to end at 2,153.74 and 18,240.49 respectively. Of note, the US only added 156k of new jobs in last month, below expectation of 172k, pushing September unemployment rate to slide to 5.0% from 4.9% in August. Although this is not alarming but still worrying given that the US is the only world's engine of growth this year. Hence, we think that all eyes will be waiting for US FOMC last month meeting minutes that will be released on the 13th of October. Until then, we expect the market to be cautious.
- 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

**Coastal Contracts (CP: RM1.52): Served with notice of arbitration by supplier**

Coastal Contracts Bhd's subsidiary has been served with a notice of arbitration by one of its suppliers (builders) for alleged wrongful termination of a shipbuilding contract. In a filing with Bursa Malaysia last Friday, the company said its "major subsidiary" had, in July 2016, terminated a shipbuilding contract with the builders due to failure to deliver the vessel on time and in accordance with the terms and conditions of the contract. Further to the termination of the contract, the subsidiary had also written to the builders seeking refund of all sums paid to the builders under the contract and payment of liquidated damages in accordance with the terms and conditions of the contract. (Source: *The Sun*)

**MSM (CP: RM4.89): Awards RM18.3m TNB substation job to Felda Engineering**

MSM Malaysia Holdings Bhd has awarded an RM18.3 million contract for the construction of a TNB substation and other ancillaries and associated works to Felda Engineering Services Sdn Bhd. In a bourse filing today, the country's largest sugar producer said the contract was awarded by its wholly-owned unit, MSM Refinery (Johor) Sdn Bhd. "The contract was tendered by way of public tender exercise advertised through FGV Procurement Portal, which was opened on April 22, 2016 and closed on May 23 this year," MSM said. It said the job shall be completed within 14 months, starting today, or by any extended period as stipulated in the conditions of contract. (Source: *The Edge*)

**REDtone (CP: RM0.335): To sell entire stake in subsidiary**

REDtone International Bhd (RIB) proposes to sell its entire 92.31% stake in REDtone Asia Inc (REDtone Asia) to Million Vision Development International Ltd for RMB38.31 million (RM23.78 million). In a filing with Bursa Malaysia last Friday, RIB said it entered into a share sale agreement (SSA) with Million Vision for the proposed disposal of its equity interest comprising 260.62 million shares in REDtone Asia. "The proposed disposal will enable RIB to streamline and rationalise its operations including divestment of non-income generating subsidiaries. The REDtone Asia Group (REDtone Asia group of companies) has been incurring losses since 2014," it said. (Source: *The Sun*)

**Pestech (CP: RM1.67): Wins RM51.7m Papua New Guinea power grid deal**

Pestech International Bhd has bagged a RM51.7 million contract for the Port Moresby Power Grid Development Project in Papua New Guinea (PNG). In a filing with the stock exchange, the company said its wholly-owned subsidiary Pestech Sdn Bhd had received a letter of acceptance from PNG Power Ltd (PPL) for the procurement of plant, design, supply, installation, testing and commissioning of KilaKila 66/11kV substation and 66kV double circuit transmission line. The contract price is in the aggregate of US\$7.11 million (RM29.5 million) and PGK17.26 million (RM22.2 million). (Source: *The Sun*)

**CME Group (CP: RM0.055): Bags RM48.8m contract from Petronas Refinery & Petrochemical Corp**

CME Group Bhd has bagged a contract to supply fire fighting vehicles and provide maintenance services to Petronas Refinery & Petrochemical Corp Sdn Bhd, worth RM48.82 million, through its wholly-owned subsidiary CME Edaran Sdn Bhd. In a filing to Bursa Malaysia today, the duration of the contract is for three years from Sept 29, 2016 and the planned delivery dates are based on a phasing basis as per the agreed schedule. On the other hand, the maintenance services are for five years, upon expiry of the two-year warranty period for the fire fighting vehicles. The contract is expected to contribute positively to the its earnings and net assets for current financial year ending Dec 31, 2016 and following years. (Source: The Edge)

**ECONOMIC UPDATES****Malaysia: August exports exceed survey, boost from palm oil and semicon**

Malaysia's exports rose 1.5% to RM67.58bil in August from a year ago, exceeding economists' expectations of a decline of 2.3%, underpinned by higher exports of palm oil, and electrical and electronic (E&E) products including semiconductors. The Ministry of International Trade and Industry said on Friday when compared to July's exports of RM59.85bil, exports rose 12.9% to RM67.58bil in August, as exports to Singapore, China and the US increased. MTI pointed out that in seasonally adjusted terms, exports rose 9.0%. August's exports were mainly driven by an increase in palm oil and palm based-products, which rose RM1.1bil or 19.7% from RM5.6bil. Exports of E&E products increased 3% or RM743mil to RM25.82bil from RM25.08bil a year ago. (Source: The Star)

**Malaysia: Bank Negara's reserves unchanged at US\$97.7b as at Sept 30**

The international reserves of Bank Negara Malaysia (BNM) were unchanged at US\$97.7 billion as at Sept 30, 2016, compared to two weeks ago on Sept 15, but gained 3.2% to RM405 billion from RM392.5 billion earlier in ringgit terms. In a statement today, the central bank explained the gain in international reserves was due to the quarterly adjustment for foreign exchange revaluation changes following the strengthening of other currencies against the ringgit during the third quarter. BNM said the current reserves position is sufficient to finance 8.4 months of retained imports and is 1.2 times the short-term external debt. (Source: The Edge)

**U.S.: IMF warns US rate hike could disrupt Asian capital flows**

A disorderly reaction to possible US interest rate hikes could disrupt capital flows and heighten asset price volatility in Asia, the International Monetary Fund said on Thursday. The prospect of subdued growth in advanced economies can also create negative spillovers for emerging Asian nations as weak exports weigh on the region's growth and inflation, the IMF said in a report on the Asia-Pacific region. "Should advanced economies continue to rely primarily on unconventional monetary policies to lift growth, this could lead to excess global liquidity, fanning capital flows to emerging market economies and contributing to excessive currency appreciation and deflation pressures," the report said. (Source: The Edge)

**U.S.: Job growth slows, clouds case for Fed rate hike**

US employment growth unexpectedly slowed for the third straight month in September and the jobless rate rose, which could make the Federal Reserve more cautious about raising interest rates. Nonfarm payrolls rose 156,000, down from a gain of 167,000 jobs in August, the Labor Department said on Friday, while the unemployment rate ticked up a tenth of a percentage point to 5.0% as more Americans rejoined the labor force. The data suggested the economy was on firm ground, but not growing so swiftly as to knock the Fed off its game plan of raising borrowing costs only gradually. On balance, the job market continues to improve, which could be an asset for Democratic presidential candidate Hillary Clinton in the Nov. 8 US election. She has argued that the Obama administration's policies have helped the economy create millions of jobs. (Source: *The Edge*)

**China: Three more Chinese cities set new curbs on home-buying to prevent bubble**

Two cities in China's southern Guangdong province and the southeast city of Fuzhou imposed new home buying restrictions on Thursday aimed at preventing a property bubble. The tightening measures imposed in Zhuhai, Dongguan and Fuzhou included raising downpayment requirements and restricting owners of two properties from buying more. In the previous six days, 14 Chinese cities have imposed similar administrative restrictions to curb property speculation. But real estate agents said that readily available, cheap mortgages and strong demand are likely to keep China's property market rising, even if restrictions dampen sales and prices over the short term. (Source: *The Edge*)

**India: To re-auction unsold airwaves when telcos' fortunes improve**

India said on Friday it will consider re-auctioning mobile phone spectrum that remained unsold in a sale this week when the financial situation of its telecoms companies improves. The government raised US\$9.9 billion from a spectrum auction that ended on Thursday, but there were no takers for the most-efficient yet priciest 700 megahertz band of airwaves and only 40% of the total on offer was sold. Indian telecoms services are among the cheapest in the world, making margins relatively lower than elsewhere and putting pressure on carriers' finances, with local ratings agency ICRA forecasting their combined debt to rise to 4.25 trillion rupees (US\$64 billion) after funding the latest sale. (Source: *The Edge*)

**Japan: BoJ has room to increase monetary stimulus**

Japan's central bank still has room to increase monetary stimulus and doesn't intend to reduce its bond-buying programme soon, governor Haruhiko Kuroda said in an interview. "For the time being, we keep the long-term interest rate around zero. If necessary, we could reduce the target rate of the 10-year Japanese government bond even lower than zero percent," Kuroda said, speaking with Bloomberg Television's Francine Lacqua. "If necessary, we can reduce both the short end and long end of interest rates." Kuroda spoke weeks after he led the Bank of Japan (BoJ) to shift its stimulus programme away from pre-set government bond purchases to a yield-targeting approach, officially known as quantitative and qualitative monetary easing with yield curve control.

Taking a page out of the 1940s US Federal Reserve's playbook, the bank now targets 10-year bond yields, fixed at about 0%. (Source: *The Star*)

**U.K.: House-price growth cools to weakest in three years**

UK house-price growth cooled further in September, reflecting a weakening of demand after a surge in values stretched affordability, according to Halifax. The mortgage lender said housing has been on a "steady downward trend" and there's clear evidence of a softening in activity. It's monthly report showed annual house-price inflation — based on a three-month measure — cooled to 5.8%, down from 6.9% in August and as high as 10% in March. That's the slowest pace since August 2013. On the month, values increased 0.1% to an average 214,024 pounds (US\$266,500). While consumer confidence has nearly shrugged off the impact of the June Brexit vote, the housing market has painted a more mixed picture. The Bank of England said that mortgage approvals fell to the lowest in almost two years in August, while Prime Minister Theresa May said more government intervention would be needed to repair a "dysfunctional" housing market that fails working people. (Source: *The Edge*)



# 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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