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Wednesday, February 17, 2016

Report of the Day

Re-Initiation Coverage: Hartalega – “Platinum Glove Player”

Results Review: Dialog 6M16 – “Making Decent Progress”

Results Review: Hartalega 9M16 – “Another Record High”

At a Glance

FBMKLCI grew 15.03 points to close at 1,664.99 due to news on oil production cut by Russia and Saudi Arabia.....See full report next page)

Strategy

“No Bad News is Good News”

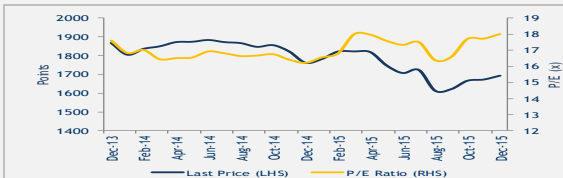
There could be some profit taking activity in the local market today(See full report next page)

Corporate Highlights

- **Dialog, HOLD (TP: RM1.60):** Q2 net profit dips 2%
- **Hartalega, HOLD (TP: RM5.70):** Q3 net profit jumps 47%
- **MMC, BUY (TP: RM2.80):** Sukuk is the best Islamic finance deal of the year

Economic Update

- **Australia:** Slumping NZ dairy prices ratchet risks for Australian banks
- **China:** January new yuan loans climb to record high in seasonal surge
- **South Korea:** Holds interest rate at record low



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
EU	22-Feb	5:00 PM	Markit Eurozone Manufacturing PMI	-	52.3
EU	22-Feb	5:00 PM	Markit Eurozone Services PMI	-	53.6
EU	22-Feb	5:00 PM	Markit Eurozone Composite PMI	-	53.6
MY	22-Feb	6:00 PM	Foreign Reserves	-	\$95.5B
JP	22-Feb	10:00 AM	Nikkei Japan PMI Mfg	-	52.3
US	22-Feb	10:45 PM	Markit US Manufacturing PMI	-	52.4
US	23-Feb	11:00 PM	Consumer Confidence Index	-	98.1
US	23-Feb	11:00 PM	Existing Home Sales	-	5.46M
US	23-Feb	11:00 PM	Existing Home Sales MoM	-	14.7%
MY	24-Feb	12:00 PM	CPI YoY	-	2.7%
US	24-Feb	8:00 PM	MBA Mortgage Applications	-	-
US	24-Feb	10:45 PM	Markit US Services PMI	-	53.2
US	24-Feb	10:45 PM	Markit US Composite PMI	-	53.2
US	24-Feb	11:00 PM	New Home Sales	-	544K
US	24-Feb	11:00 PM	New Home Sales MoM	-	10.8%
EU	25-Feb	6:00 PM	CPI MoM	-	0.0%
EU	25-Feb	6:00 PM	CPI YoY	-	0.4%
EU	25-Feb	6:00 PM	CPI Core YoY	-	1.0%
US	25-Feb	9:30 PM	Initial Jobless Claims	-	-
US	25-Feb	9:30 PM	Continuing Claims	-	-
US	25-Feb	9:30 PM	Durable Goods Orders	-	-5.0%
US	25-Feb	9:30 PM	Durable Ex Transportation	-	-1.0%
EU	26-Feb	6:00 PM	Economic Confidence	-	105.0
EU	26-Feb	6:00 PM	Business Climate Indicator	-	0.3
EU	26-Feb	6:00 PM	Industrial Confidence	-	-3.2
EU	26-Feb	6:00 PM	Services Confidence	-	11.6
EU	26-Feb	6:00 PM	Consumer Confidence	-	-
CN	26-Feb	9:30 AM	China January Property Prices	-	-
US	26-Feb	9:30 PM	GDP Annualized QoQ	-	0.7%
US	26-Feb	9:30 PM	Personal Consumption	-	2.2%
US	26-Feb	9:30 PM	GDP Price Index	-	0.8%
US	26-Feb	9:30 PM	Core PCE QoQ	-	1.2%
US	26-Feb	11:00 PM	Personal Spending	-	0.0%
US	26-Feb	11:00 PM	Personal Income	-	0.3%
US	26-Feb	11:00 PM	U. of Mich. Sentiment	-	-

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Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,664.99	15.03	0.91
FBMEMAS	11,534.42	95.70	0.84
FBMEMAS SHA	12,303.45	93.80	0.77
FBM100	11,240.96	91.42	0.82
Volume (mn)	1,803.71	261.72	16.97
Value (RMmn)	1,773.05	234.80	15.26
FBMKLCI YTD Chg			-1.63

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	18.4	-6.1
Local Institution	59.0	26.4
Foreign Investors	22.6	-20.3

Top Gainers

	Close	Change+/-	(+/- %)
GENTING BHD	8.02	0.32	4.16
UMW HLDG BHD	6.93	0.30	4.53
LATITUDE TREE HL	6.87	0.27	4.09

Top Losers

	Close	Change+/-	(+/- %)
BAT	55.90	-0.50	-0.89
TIME DOTCOM	7.17	-0.26	-3.50
HUAT LAI RESOUR	4.78	-0.20	-4.02

World Indices

	Close	Change+/-	(+/- %)
DJIA	16,196.41	222.57	1.39
NASDAQ	4,435.96	98.44	2.27
S&P 500	1,895.58	30.80	1.65
FTSE 100	5,862.17	37.89	0.65
DAX	9,135.11	-71.73	-0.78
Nikkei 225	16,054.43	31.85	0.20
HSI	19,122.08	203.94	1.08
KOSPI	1,888.30	26.10	1.40
STI	2,644.58	36.68	1.41
KLCI Futures	1,635.00	10.50	0.01
USDMYR 3M	13.55	(0.11)	(0.01)
USDMYR 6M	13.65	(0.05)	(0.00)
USDMYR 12M	13.66	(0.05)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	29	0.2	0.5%
Brent (USD/bbl)	32.2	-1.2	-3.6%
Gold(USD/ounce)	1,204	3.5	0.3%
Coal (USD/mt)	50.7	0.0	0.0%
CPO (RM/mt)	2,588	-11.0	-0.4%
Rubber	128	0.0	0.0%
RM/USD	4.15	0.0233	-0.56%
EUR/USD	0.90	0.0001	0.01%
YEN/USD	114.10	0.03	-0.03%

What To Expect

U.S. Market

- The Dow Jones Industrials Average increased 222.57 points to close at 16,196.41 points, S&P 500 added 30.80 points to 1,895.58 points. Nasdaq rose 98.44 points to 4,435.96. U.S. equities moved higher Tuesday — returning from a long holiday break — thanks to a meeting between oil ministers of Russia, Saudi Arabia, Qatar and Venezuela.
- The deal isn't final, however. It depends on other large producers to join in (Iraq and Kuwait are in agreement). And the big wildcard is what happens with Iran, which is steadfast that any production cuts should be taken from its pre-sanctions production level, not the current, diminished post-sanctions level.

The Local Market

- FBMKLCI grew 15.03 points to close at 1,664.99 due to news on oil production cut by Russia and Saudi Arabia. There were 551 gainers and 303 decliners in total value traded of RM1.77 billion.
- Among the gainers on Bursa Malaysia were Genting rose 32 cent to RM8.02, UMW Holdings up 30 cent to RM6.93, Latitude Tree gained 27 cent to RM6.87 and MSM Malaysia increased 25 cent to RM4.90.

Strategy

- **"No Bad News is Good News"**
Wall Street love affair continued on Tuesday after maintaining its winning streak, picking up the momentum from last Friday, boosted by steady buying pattern in industrial, technology and consumers stocks. **S&P 500** and **DJIA** gained **30.80 (1.65%)** and **222.57 (1.39%)** points to end at **1,895.58** and **16,196.41** respectively. Mostly, Wall Street picked up beaten down stock price on the aforementioned. Above all, sentiment had improved although Russia and Saudi Arabia rejected outright oil production cut and instead agreed to freeze output following the January level. Although this is a setback but the agreement of both countries to sit and discuss is indeed a good news. As for today, we think that no bad news is good news. Notwithstanding that, there could be some profit taking activity in the local market today especially after its good run recently but overall it is expected to be in positive mode.
- Our 1H16 FBMKLCI target is 1,720 based on PER of 16.5x. FBMKLCI is a **NEUTRAL**. We have **OVERWEIGHT** call on construction, telco and oil and gas respectively. We predict Malaysia to grow by 4.5% in 2016.

CORPORATE HIGHLIGHTS

Dialog, HOLD (TP: RM1.60): Q2 net profit dips 2%

Dialog Group Bhd's net profit saw a slight drop of 2.18% to RM78.01 million for the second quarter ended Dec 31, 2015, compared with RM79.75 million in the previous corresponding period on higher operating expenses and lower other operating income. Revenue for the quarter under review, expanded 12.16% from RM570.29 million to RM639.63 million. In a filing with the stock exchange, the company said its Malaysian operation remained busy this period with engineering, construction and fabrication activities from various on-going projects such as Pengerang Deepwater Terminal Phase 2, MLNG Train 9, Toyo bullet tanks and Sabah Ammonia Urea (SAMUR) piping works. *(Source: The Sun)*

Hartalega, BUY (TP: RM5.70): Q3 net profit jumps 47%

Hartalega Holdings Bhd, the world's largest producer of nitrile gloves, posted a 46.99% jump in net profit to RM72.79mil for the third quarter ended Dec 31, 2015 on a combination of a strengthening US dollar, expansion in capacity and an increase in demand. Its revenue increased 38.97% to RM398.02mil for the period, while earnings per share (EPS) grew to 4.44 sen from 3.2 sen. On the back of these results, the company has declared a second interim dividend of two sen per share for its financial year ending March 31, 2016 (FY16). The entitlement date is on March 10, 2016 and payable on March 30, 2016. *(Source: The Star)*

MMC, BUY (TP: RM2.80): Sukuk is the best Islamic finance deal of the year

MMC Corp Bhd's (MMC) inaugural RM1.5bil Sukuk Murabahah (via Tawarruq arrangement) has bagged the Best Islamic Finance Deal of The Year in Southeast Asia at the Alpha Southeast Asia Deal & Solutions Awards 2015. The sukuk, which saw RHB Investment Bank Bhd (RHB IB) as the sole principal adviser, sole lead arranger and sole lead manager was rated AA- by Malaysian Rating Corp Bhd and was well-received registering a bid to cover ratio of 1.5 times with strong participation from funds and insurance companies. "This is our third corporate exercise with RHB IB in 2015 following Malakoff Corp Bhd's initial public offering in May and acquisition of NCB Holdings Bhd in October. *(Source: The Star)*

TSR (CP: RM0.52): Acquires land in Sungai Buloh, plans office towers project

TSR Bhd is buying the entire stake in Satu Kahwin Sdn Bhd, a company which owns a 5,078 sq m development land in Sungai Buloh, Selangor, from Datuk Meer Sadik Habib, the managing director of jeweller Habib Jewels, and his wife Datin Seri Zarida Noordin for RM48.1 million. In a filing with Bursa Malaysia, the company said it plans to embark on the construction of two blocks of office towers comprising 19 storeys and 11 storeys together with four storeys of basement carpark on the land, with an estimated gross development value of RM230 million. "The board is of the view that the land has good development potential and prospects, and the proposed acquisition is in line with the TSR Capital's future expansion plan to strengthen its presence in property development in the Klang Valley," it noted. *(Source: The Sun)*

UEM Sunrise (CP: RM0.96) Mulpha (CP: RMx): In RM5bil mixed development project

UEM Sunrise Bhd and Mulpha International Bhd, two property developers with interests in Johor, will jointly develop a mixed development project with a gross development value (GDV) of RM5bil near the Malaysia-Singapore Second Link in Iskandar Malaysia. The companies have an equal share in the joint-venture (JV) company that will develop the multi-billion-ringgit project on three parcels of land for up to 20 years. The landbank to be developed under the JV includes 129.79 acres belonging to UEM Sunrise in Gerbang Nusajaya in Mukim Tanjung Kupang, and 65.48 acres belonging to Mulpha in Mukim Pulaui that will be converted for commercial use. These parcels are also located next to Leisure Farm, a 1,765-acre gated project owned by Mulpha. (Source: *The Star*)

Alcom (CP: RM0.68): On track to profitability after three years of losses

Aluminium Co of Malaysia Bhd (Alcom) is on track to return to the black for the financial year ending March 31, 2016 after three years of losses. The aluminium sheet and foil producer told Bursa Malaysia that it made a net profit of RM3.11mil in the third quarter ended Dec 31, 2015 compared with a loss of RM1.65mil a year earlier. "The improved revenue per metric tonne, especially for the export sales, and a tight rein on direct costs were the main contributory factors for this improved result," the company said. The better third-quarter performance led the Klang-based company to swing to a net profit of RM2.14mil for the nine-month financial period ended Dec 31, 2015, from a loss of RM3.93mil in the previous corresponding period. (Source: *The Star*)

Barakah (CP: RM0.73): Wins Petronas floating LNG plant job

Barakah Offshore Petroleum Bhd has clinched a RM19.1mil deal to provide engineering, procurement, installation and related works for Petroliam Nasional Bhd's (Petronas) floating liquefied natural gas (FLNG) facility offshore Sarawak. In a filing with Bursa Malaysia, the company said its wholly-owned subsidiary PBJV Group Sdn Bhd had received the subcontract agreement from Petronas Floating LNG 1 (L) Ltd for FLNG offshore works. The subcontract, spanning December 2015 to October 2016, comes under Petronas FLNG's Post-Installation Activities and On-Board Hook-up, Commissioning and Start-Up Activities (Package No 3). (Source: *The Star*)

DRB-Hicom (CP: RM1.01): Proton to spend RM2mil as part of a service fix

Proton Holdings Bhd will be spending over RM2mil as part of a service fix to replace burst cooler hoses in over 94,000 cars. CEO Datuk Abdul Harith Abdullah said the recall initiative, which starts immediately, is expected to take six months to complete. "The hoses are cheap, about RM17 each, but labour cost will be expensive. So we expect the cost to be over RM2mil," he said at a media briefing yesterday. The initiative will see 94,577 units being recalled, comprising Exora, Preve and Suprima vehicles. Separately, Proton also previewed the new Perdana, which the company expects to launch by the first quarter of this year. (Source: *The Star*)

Digistar (CP: RM0.185): To raise RM10.87m for capex and loan repayment via private placement

Digistar Corp Bhd has proposed a private placement of up to 10% of its issued and paid-up capital of RM46.34 million, to third party investors that are to be identified later. The information technology company said the exercise is expected to raise gross proceeds of up to RM10.87 million, which it plans to use for its working capital needs and partial repayment of term loans. "The placement shares will be issued based on a discount of not more than 10% to the five-day weighted average market price (WAMP) of Digistar shares immediately preceding the price-fixing date. "In any event, the issue price of the placement shares shall not be lower than the par value of Digistar shares of 10 sen each," the company said in a statement today. (Source: The Edge)

Hektar REIT (CP: RM1.51): Reports 4Q net loss, hit by fair value loss

Fair value adjustment arising from revaluation of its assets led Hektar Real Estate Investment Trust (Hektar REIT) to post a net loss of RM28.92 million in the fourth quarter ended Dec 31, 2015 (4QFY15), compared with a net income of RM17.58 million a year ago. The fair value loss amounted to RM39.93 million in 4QFY15, compared with a RM6.13 million fair value gain in 4QFY14. This was despite its net property income (NPI) rising 3.6% to RM19.5 million from the year-ago period, on higher revenue which also grew 3.6% to RM31.93 million in 4QFY15, from 30.83 million in 4QFY14. Hektar REIT also declared a final distribution per unit (DPU) of 2.7 sen for 4QFY15, amounting to RM10.82 million, payable on March 18. This brings total DPU distributions for the year to 10.5 sen. (Source: The Edge)

AirAsia X (CP: RM0.24): Carried 3.61 Million Passengers In 2015

AirAsia X Bhd (AAX) carried 3.61 million passengers in the financial year ended Dec 31, 2015 (FY15), down 15 per cent from 4.23 million passengers in FY14. In its preliminary operating statistics released today, the low-cost airline said its capacity eased six per cent to 4.85 million versus 5.16 million previously. The load factor fell by seven percentage points year-on-year (y-o-y) to 75 per cent. "FY15 has been a challenging year, as the Group was set back by irrational competition from industry peers, currency volatility, regulatory uncertainties for Thailand and Indonesia, as well as a series of unforeseen circumstances," the company said. (Source: Bernama)

Farm's Best (CP: RM0.79): To reduce loans from sale to CAB Cakaran

Poultry producer Farm's Best Bhd is planning to reduce bank borrowings with the funds arising from the disposal of three of its units to CAB Cakaran Corp Bhd, another poultry producer. However, the company said on Monday no binding contract for the sale of the three units has been made with CAB Cakaran. To recap, Farm's Best had earlier this month received and accepted separate letters of intent from CAB Cakaran to purchase several of its subsidiaries – Farm's Best Food Industries, Sinmah Breeders and Sinmah Livestock – for a total indicative purchase consideration of RM242mil after granting the latter the exclusive right to carry out feasibility studies for nine months. (Source: The Star)

ECONOMIC UPDATES

Australia: Slumping NZ dairy prices ratchet risks for Australian banks

National Australia Bank (NAB) on Tuesday reported the first increase in bad loans in almost six years largely due to its exposure to New Zealand's dairy industry, highlighting the risks to banks owed around US\$25 billion by cash-strapped farmers. Australia's biggest lender said it does not expect losses due to these impaired loans, which analysts said have yet to ring any alarm bells, but they add to the pressures for a banking sector that is already battling slowing revenue growth and stricter capital rules. Global dairy prices have slumped 55% since early 2014, adding pressure on New Zealand farmers, the majority of whom are already operating below break-even. *(Source: Reuters)*

China: January new yuan loans climb to record high in seasonal surge

Chinese banks armed with fresh lending quotas extended a record 2.51 trillion yuan (US\$385.40 billion) of new loans in January, far more than markets had expected, suggesting Beijing is keeping monetary policy loose to counter a protracted economic slowdown. Economists polled by Reuters had expected new yuan loans to surge to a near seven-year high of 1.8 trillion yuan in January, tripling from 597.8 billion yuan in December. Analysts attributed the lending spike to increased injections by the central bank ahead of the Lunar New Year holidays in early February, a traditional tendency among Chinese banks to "front load" loans at the start of a year and companies reducing their exposure to foreign-currency loans. *(Source: Reuters)*

South Korea: Holds interest rate at record low

South Korea's central bank kept its key interest rate unchanged at a record low 1.5% for an eighth straight month on Tuesday, with the local currency weakening and exports extending a year-long downward trend. The decision had been widely expected as analysts forecast the Bank of Korea (BoK)'s board members would extend a wait-and-see approach given the current volatility across global markets. The bank has less room for additional monetary easing from its current record-low rate, with rocketing household debt and greater risk of capital outflows following the US Federal Reserve's interest rate hike in December. *(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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