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Monday, July 25, 2016

## Report of the Day

## Briefing Notes: Digi – “Priority to Digitise”

## At a Glance

FBMKLCI fell marginally by 0.12 points to close lower at 1,657.42 hampered by negativity surrounding Japan's failed stimulus announcement .....(See full report next page)

## Strategy

## “Expect Improving Risk Tolerance This Week”

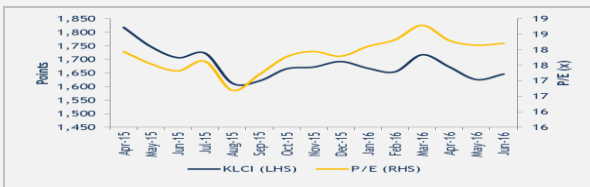
These two sets of development are viewed as positive for the global equity market.....(See full report next page)

## Corporate Highlights

- **RHB Bank, HOLD (TP: RM5.70):** Targets 30% increase in premier customers
- **MMC (CP: RM2.12), Petra Energy (CP: RM1.25):** Sign MOU
- **Bumi Armada (CP: RM0.76):** India's Shapoorji Pallonji ink JV

## Economic Update

- **Malaysia:** MBA Inks Deal With APEDB On Palm Biodiesel Investment, Export Potential
- **U.S.:** GDP, other vital signs show economy stable, even if Fed not convinced
- **Asia:** Highest Yield Draws Cash to Cut Rupee Swings After Brexit



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
JP	25-Jul	7:50 AM	Exports YoY	-11.7	-11.3
JP	25-Jul	7:50 AM	Imports YoY	-21.1	-13.8
JP	25-Jul	1:00 PM	Leading Index CI	--	100
JP	25-Jul	1:00 PM	Coincident Index	--	110.5
US	26-Jul	9:00 PM	S&P/CS 20 City MoM SA	0.03%	0.45%
US	26-Jul	9:00 PM	S&P/CS Composite-20 YOY NSA	5.60%	5.44%
US	26-Jul	9:45 PM	Market US Services PMI	--	51.4
US	26-Jul	9:45 PM	Market US Composite PMI	--	51.2
US	26-Jul	10:00 PM	Consumer Confidence Index	95.5	98
US	26-Jul	10:00 PM	Richmond Fed Manufact. Index	-4	-7
US	26-Jul	10:00 PM	New Home Sales	560k	551k
US	26-Jul	10:00 PM	New Home Sales MoM	1.60%	-6.00%
US	27-Jul	7:00 PM	MBA Mortgage Applications	--	-1.30%
US	27-Jul	8:30 PM	Durable Goods Orders	-1.00%	-2.30%
US	27-Jul	8:30 PM	Durables Ex Transportation	0.30%	-0.30%
US	27-Jul	10:00 PM	Pending Home Sales MoM	1.80%	-3.70%
US	27-Jul	10:00 PM	Pending Home Sales NSA YoY	3.00%	2.40%
EU	27-Jul	4:00 PM	M3 Money Supply YoY	0.05	0.04%
US	28-Jul	2:00 AM	FOMC Rate Decision (Upper Bound)	0.50%	0.50%
US	28-Jul	2:00 AM	FOMC Rate Decision (Lower Bound)	0.25%	0.25%
EU	28-Jul	5:00 PM	Consumer Confidence	-7.9	-7.9
US	29-Jul	8:30 PM	Annual Revision: GDP (Q1 2013 to Q1 2016 revised)		
US	29-Jul	8:30 PM	GDP Annualized QoQ	2.60%	1.10%
US	29-Jul	8:30 PM	Personal Consumption	4.10%	1.50%
US	29-Jul	10:00 PM	U. of Mich. Sentiment	90.5	89.5
EU	29-Jul	5:00 PM	Unemployment Rate	0.10%	0.10%
EU	29-Jul	5:00 PM	CPI Estimate YoY	0.002	--
EU	29-Jul	5:00 PM	CPI Core YoY	0.009	0.009
EU	29-Jul	5:00 PM	GDP SA QoQ	0.003	0.006
EU	29-Jul	5:00 PM	GDP SA YoY	0.015	0.017
JP	29-Jul	7:30 AM	Jobless Rate	0.032	0.032
JP	29-Jul	7:50 AM	Industrial Production MoM	0.005	-0.026
JP	29-Jul	7:50 AM	Industrial Production YoY	-0.03	-0.004
JP	29-Jul	7:50 AM	Retail Trade YoY	-0.015	-0.019
JP	29-Jul	7:50 AM	Retail Sales MoM	--	0
JP	29-Jul	1:00 PM	Housing Starts YoY	-0.034	0.098
JP	29-Jul	1:00 PM	Annualized Housing Starts	0.991m	1.017m
JP	29-Jul	1:00 PM	Construction Orders YoY	--	0.345
JP	29-Jul		BOJ Monetary Policy Statement	--	--
JP	29-Jul		BOJ Policy Rate	--	-0.001
NY	29-Jul		Money Supply M3 YoY	--	0.022

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,657.42	-0.12	-0.01
FBMEMAS	11,611.17	13.62	0.12
FBMEMAS SHA	12,216.36	26.07	0.21
FBM100	11,307.22	11.58	0.10
Volume (mn)	1,368.06	-444.31	-24.52
Value (RMmn)	1,398.16	-303.54	-17.84
FBMKLCI YTD Chg			-2.07

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	57.5	89.7
Local Retail	17.6	-9.4
Foreign Investors	24.9	-80.3

## Top Gainers

	Close	Change+/-	(+/- %)
CYCLE & CARR BIN	3.48	0.28	1.70
HONG LEONG	8.79	0.27	3.17
GENTING BHD	8.89	0.21	2.42

## Top Losers

	Close	Change+/-	(+/- %)
PPB GROUP B	15.84	-0.28	-1.74
BRIT AMER TOBAC	54.50	-0.26	-0.48
PETRONAS GAS	22.02	-0.24	-1.08

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,570.85	53.62	0.29
NASDAQ	5,100.16	26.26	0.52
S&P 500	2,175.03	9.86	0.46
FTSE 100	6,730.48	30.59	0.46
DAX	10,147.46	-8.75	-0.09
Nikkei 225	16,627.25	-182.97	-1.09
HSI	21,964.27	-36.22	-0.16
KOSPI	2,010.34	-1.88	-0.09
STI	2,940.48	-1.54	-0.05
KLCI Futures	1,648.50	6.50	0.00
USDMYR 3M	11.63	0.01	0.00
USDMYR 6M	11.70	0.02	0.00
USDMYR 12M	11.85	0.05	0.00

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	44	0.1	0.2%
Brent (USD/bbl)	45.8	0.1	0.1%
Gold(USD/ounce)	1,322	-0.5	0.0%
Coal (USD/mt)	60.9	-0.1	-0.2%
CPO (RM/mt)	2,320	-33.0	-1.4%
Rubber	194	-4.7	-2.4%
RM/USD	4.06	0.021	-0.52%
EUR/USD	0.91	0.0008	0.09%
YEN/USD	106.27	0.14	-0.13%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average close at record high by adding 53.62 points to 18,570.85 while S&P 500 inched up 9.86 points to 2,175.03. Nasdaq also surged by 26.26 points to 5,100.16. Stocks rose Friday, sending the S&P 500 Index to a record, as investors showed confidence corporate earnings will not derail a rally that's headed toward a fifth week.
- Speculation that central banks will act to cushion any fallout from the U.K.'s vote to leave the European Union, and signs of a strengthening U.S. economy have propelled stocks higher in recent weeks.

### The Local Market

- FBMKLCI fell marginally by 0.12 points to close lower at 1,657.42 hampered by negativity surrounding Japan's failed stimulus announcement. There were 397 gainers and 350 decliners in total value traded of RM1.39 billion.
- Among the losers on Bursa Malaysia were PPB Group tumbled 28 cent to RM15.84, British American Tobacco lost 26 cent to RM54.50, Petronas Gas fell 24 cent to RM22.02 and Ajinomoto declined 20 cent to RM13.50.

### Strategy

- **"Expect Improving Risk Tolerance This Week"**  
Wall Street ended in positive mode last Friday, driven by rising risk taking following the upcoming US FOMC meeting. S&P 500 and DJIA added 9.86 (0.46%) and 53.62 (0.29%) points to end at 2,175.03 and 18,570.85 respectively. Of note, the US FOMC will begin its 2-day policy meeting on the 26th of July of which, in most likelihood, the Fed is expected to keep its benchmark rate steady. Now that the impact of Brexit is expected to be minimal, the Fed is likely to buy time to assess the economy further and hence, see to gain more confidence that the US economy is humming well. Also, the Bank of Japan (BoJ) will start its 2-day deliberation on policy decision on the 28th of July where it is speculated that the BoJ may dish out additional fiscal and monetary stimulus to jump-start the country's anemic. More so when PM's Abe is firmly on grip over the political situation in Japan. These two sets of development are viewed as positive for the global equity market, pushing the expectation of rising risk tolerance over equity market this week.
- 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: RM5.70): Targets 30% increase in premier customers**

RHB Bank Bhd aims to achieve a 30% increase in new customers in the premier segment by year-end, from existing base of under 30,000, driven by RHB Premier. In a statement last Friday, the group said RHB Premier is introduced to offer its affluent customers better services and lifestyle experiences, while it aims to increase and grow the profitability from this segment. RHB said RHB Premier is exclusively designed to reward affluent customers and their loved ones with privileges that put them first. Its executive director and head of group retail banking U Chen Hock said at the moment, only 2% of its 3.9 million customers are from the affluent segment. *(Source: The Sun)*

**MMC (CP: RM2.12), Petra Energy (CP: RM1.25): Sign MOU**

MMC Corp Bhd and Petra Energy Bhd inked a memorandum of understanding (MOU), which indicates both companies' intention to jointly pursue oil and gas support-service contracts in Malaysia. According to MMC and Petra Energy's announcements to Bursa Malaysia today, both companies plan to combine resources and expertise to pursue selective opportunities, involving engineering and design for brownfield oil and gas operations. MMC's 100%-owned subsidiary MMC Oil & Gas Engineering Sdn Bhd signed the MOU with Petra Energy's wholly-owned subsidiary Petra Resources Sdn Bhd, according to the announcements. "The duration of this MOU is one year effective from July 20, 2016 and will expire on July 19, 2017, with an option for extension, as may be mutually agreed between the parties," MMC and Petra Energy said. *(Source: The Edge)*

**Bumi Armada (CP: RM0.76): India's Shapoorji Pallonji ink JV**

Bumi Armada Bhd and India's Shapoorji Pallonji and Co. Pte Ltd (SPCL) are combining their resources to bid for contracts in the floating production, storage and off-loading (FPSO) vessel business. Bumi Armada said on Friday the company and SPCL's unit, Shapoorji Pallonji Oil and Gas Pte Ltd, would set up a joint venture to be known as Shapoorji Pallonji Bumi Armada Godavari Pte Ltd in India. It said the setting up of the JV involved the interests of a director of Bumi Armada, Shapoorji Pallonji Mistry, which would design, fabrication, installation, charter, deployment, and operations and maintenance of a FPSO facility. *(Source: The Star)*

**TNB (CP: RM14.32): Construction of TNB's RM12b Jimah East Power plant begins**

Construction of the RM12 billion Jimah East Power (JEP) plant has kicked off with a concrete pouring ceremony in Jimah, Port Dickson, Negri Sembilan. The plant is at a strategic site, and is crucial to the security of power supply in Peninsular Malaysia. Two greenfield power units to be constructed at the site will add 2,000MW of generation capacity and will eventually increase Tenaga Nasional Bhd's (TNB) generation capacity from the current 22,747.53MW to 25,198.53MW by the end of 2020. TNB owns 70% of the project through the acquisition of Edra Global Energy Bhd's stake in Jimah East Power Sdn Bhd (JEP)

from 1Malaysia Development Bhd (1MDB) for RM46.98 million in July 2015. The project was formerly known as Project 3B. *(Source: The Sun)*

**Wah Seong (CP: RM0.745): Bags RM73.9m Statoil contract**

Wah Seong Corp Bhd's pipe coating unit has been further awarded a RM73.87 million contract from Statoil ASA Norway to provide pipe shipping and related services for the Johan Sverdrup Export Pipeline Project. Last year, its unit clinched a RM165.8 million (US\$39.5 million) contract from the Norwegian oil company for coating work for the same project. The contract, involving shipping of pipes to a port in Norway and subsequent offloading, is expected to start in the second quarter of 2017 and be completed by the first quarter of 2018. *(Source: The Sun)*

**Cycle & Carriage (CP: RM3.48): Jumps 4.69% on record Mercedes Benz sales**

Cycle & Carriage Bintang Bhd (CCB) shares rose 4.69% in thin trade at mid-morning today after Mercedes-Benz Malaysia Sdn Bhd (MBM) recorded all-time high sales of 6,017 units in the first six months of 2016 (1H16), up 17% over the same period last year. This has strengthened the German marque's position as the leading premium brand in Malaysia, with a 1H16 market share of 2.5%. MBM recorded its best-ever month in June with 1,203 cars sold, and its best-ever quarter in the second quarter of 2016 (2Q16) with 3,359 cars sold. At 10.05am, CCB rose 15 sen to RM3.35 with 34,900 shares done. *(Source: The Edge)*

**Brahim (CP: RM0.905): Talks between Brahim's, Tabung Haji ongoing**

The ongoing discussions between Brahim's Holdings Bhd and Tabung Haji (TH) are not likely to be concluded by this year, said Brahim's Executive Chairman Datuk Seri Ibrahim Ahmad Badawi. The discussions cover areas to further enhance Brahim's food supply to pilgrims doing the hajj while they are in Makkah, he said at the launch of Brahim's book on "Malaysia's favourite traditional recipes" here today. Under the existing collaboration, Brahim's only provides food to the pilgrims at major airports like Johor Baharu, Kuala Terengganu and Alor Setar. *(Source: The Star)*

**Bison (CP: RM1.47): Acquires Rawang land for food processing centre**

Bison Consolidated Bhd's wholly owned subsidiary Otaru Fine Food Sdn Bhd is acquiring a piece of land in Rawang, Selangor, for RM6.75 million to construct its food processing centre. "The land is intended for the construction of Bison's food processing centre, which is part of Bison's business plan and strategies to grow its revenue and improve its profit margin by producing ready-to-eat food to meet the need of its outlets. The food processing centre is expected to be ready and operational in the financial year ending Oct 31, 2018," Bison said in a stock exchange filing. The land acquisition and the construction of the food processing centre will be partly funded by its initial public offering proceeds. *(Source: The Sun)*

**Kronologi Asia (CP: RM0.19): To buy rest of Indian company**

Kronologi Asia Bhd (KAB) plans to buy the remaining 80% stake in Quantum Storage (India) Pte Ltd (QSI) from Quantum Storage (India) Ltd (QSIL) for up to RM26 million, to increase its market presence in India. QSI is principally engaged

in investment holding and infrastructure technology business providing data protection, hardware and software solutions to enterprises. In a filing with Bursa Malaysia last Friday, KAB said it has entered into a conditional sale and purchase agreement (SPA) with QSIL, where it shall transfer the shares to KAB's wholly-owned unit Quantum Storage (South Asia) Pte Ltd (QSSA). *(Source: The Sun)*

**Tadmax (CP: RM0.535): To gain full control of WMB**

Tadmax Resources Bhd, which subscribed for 55% equity interest in property developer Wawasan Metro Bina Sdn Bhd (WMB) at par for RM550,000 in March, is acquiring the remaining interest from three corporate entities for RM42mil. The property developer and commodities trader told Bursa Malaysia yesterday that it had signed an agreement to buy the other 45% stake from three Inas Angkasa Sdn Bhd, Impiria Jaya Sdn Bhd and Global Showcase Sdn Bhd in order to gain complete control of WMB's operations as well as its future strategic directions. Neither this announcement nor the statement to the exchange made in March (when it acquired the 55% stake) mentioned what are WMB's assets or projects. *(Source: The Star)*

**Sanichi (CP: RM0.125): Rights issue fully subscribed**

Sanichi Technology Bhd has announced that its rights issue was very successful with a perfect 100% subscription rate. "It is due to the company's good performance despite the current challenging market conditions," managing director of Sanichi Datuk Seri Dr Jacky Pang Chow Huat said in a statement here. He said the capital injection would allow Sanichi to grow faster and open up more windows of opportunity. *(Source: The Star)*

**Puncak Niaga (CP: RM1.11): Confirms exiting Chinese market**

Puncak Niaga Holdings Bhd has confirmed it is exiting the Chinese market, after a buyer was found to take up its entire stake in loss-making Luwei (Pingdingshan) Water Co Ltd. In a filing to Bursa Malaysia, the water services company named Lushan County Chengnan Water Co Ltd as the buyer. Puncak Niaga had announced on July 13 that Luwei, a water treatment company, will be sold to a state-owned enterprise to be identified by the Lushan provisional government. Puncak Niaga's 98.65% subsidiary, Sino Water Pte Ltd, holds a 93.81% equity interest in Luwei. *(Source: The Edge)*

**Compugates (CP: RM0.04): Suspends logging plans in Papua New Guinea**

IT products distributor Compugates Holdings Bhd has suspended its logging plans in Papua New Guinea. In a brief filing with Bursa Malaysia today, Compugates Holdings said it will not pursue its logging projects in Papua New Guinea, in view of the current challenging market environment. On Jan 25 this year, Compugates, via its wholly-owned unit Compugates Perak Sdn Bhd, inked a memorandum of understanding (MoU) with Marrienberg Hills Resources Development Ltd to log some 26,000 hectares of forested area in Milinch Marrienberg, Fourmil Angoram, in the East Sepik Province of Papua New Guinea. Compugates had said the logging and marketing contract would be for five years. *(Source: The Edge)*



**KWAP: Gradual steps towards becoming a full-fledged pension fund**

KWAP has many roles, the most important of which is to eventually take over the burden of the RM300 billion in pension liabilities currently borne by the government. At a fund size of RM120 billion, and an ever growing government pension bill, the gap it will seek to bridge appears insurmountable but according to its CEO, Datuk Wan Kamaruzaman Wan Ahmad, the pension fund envisages that the handover of liabilities will be gradual. "What they (government) can do is to put civil servants who join the service (from a certain date) under KWAP's responsibility and those before that under the government's. So it can be done on a staggered basis and there can be a formula to it. At this stage we are still working that out with the government," Kamaruzaman explained. (Source: *The Sun*)

**ECONOMIC UPDATES****Malaysia: MBA Inks Deal With APEDB On Palm Biodiesel Investment, Export Potential**

The Malaysian Biodiesel Association (MBA) today signed a Memorandum of Understanding (MoU) with India's Andhra Pradesh Economic Development Board (APEDB) to explore palm biodiesel investment and its export potential. MBA said the agreement would pave the way for its member companies to potentially export palm biodiesel from Malaysia to a proposed palm biodiesel blending programme in India. "India has a current installed capacity of 600,000 tonnes per annum of palm biodiesel, therefore, it offers an export potential of 1.7 million tonnes of palm biodiesel from Malaysia," it said. (Source: *Bernama*)

**U.S.: GDP, other vital signs show economy stable, even if Fed not convinced**

Higher consumer spending and a rebound in hiring show the economy snapped back to life in the spring and a report card on the nation's growth this week is likely to offer undeniable proof. But that doesn't mean U.S. growth is strong enough to satisfy the Federal Reserve. The Fed is expected to stand pat and leave its benchmark short-term interest rate near zero after bank VIPs meet on Tuesday and Wednesday to survey the economic landscape. Yet before and after the two-day meeting, a score of indicators including second-quarter GDP are forecast to show the U.S. remains on a stable growth path. (Source: *Market Watch*)

**Asia: Highest Yield Draws Cash to Cut Rupee Swings After Brexit**

Indian bonds are offering two rarities for investors in global markets still reeling from the U.K.'s decision to quit the European Union: high yields and a stable currency. Expectations for rupee swings have dropped at the fastest pace in Asia since Britain's June 23 vote amid the biggest inflows into Indian notes since October. Foreigners are returning to rupee debt after a two-month hiatus as strong monsoon rains help ease concern about inflation, boosting the allure of securities that offer the highest 10-year sovereign yield among major Asian markets. (Source: *Bloomberg*)

**China: Shows commitment to move to market-driven exchange rate**

China: China has demonstrated commitment to moving toward a market-driven exchange rate, said a senior U.S. Treasury official, speaking on the sidelines of a meeting of G20 finance ministers and central bankers in Chengdu on Saturday. However, a key test will be whether the yuan is allowed to appreciate in value in response to market pressures, the official told journalists, adding that the renminbi has been moving in response to market factors. They have been exercising policy in a way that has been more clear than it was even a year ago. That's an important step," he said, noting that China in recent months had intervened in currency markets to keep the yuan from falling. (Source: *The Star*)

**Japan: CPI seen falling again in June**

Japan's consumer prices were expected to fall in June for the fourth straight month, a Reuters poll found, keeping alive market expectations the central bank will expand an already massive stimulus programme to hit its 2% price goal. Separate data next week is also expected to show exports slumped in June from a year earlier, a sign the economy is suffering from the hit from a strong yen and global uncertainties after Britain's vote to leave the European Union. (Source: *The Star*)

**Singapore: Office rents decline at faster pace as demand drops**

Singapore office rents declined at a faster pace in the second quarter, as an oversupply and weak demand curbed prices sought by landlords. A gauge of office rents fell 3.5% in the three months ended June, data Friday from the Urban Redevelopment Authority showed. That's more than the 2.1% drop in the first quarter and the fifth decline in a row. Residential rents fell for an 11th quarter. Demand for office space is being dented as slowing global growth is affecting Singapore's export-driven economy and more offices are coming to the market. In the home sector, the government has signaled it is reluctant to lift property tightening measures it brought in over the last seven years, as it wants to avoid overheating the market again. (Source: *The Edge*)

**Spain: Poised to grow 2.9 percent in 2016 -Economy Minister**

Spain's economy may grow around 2.9 percent in 2016, up from the current official target of 2.7 percent, although 2017 could come under pressure due to lower global growth, acting Economy Minister Luis de Guindos said on Sunday. "New macroeconomic projections, which would be a first step prior to the elaboration of a future budget by the (next) government, point to a stronger growth rate of 2.9 percent in 2016," de Guindos told reporters on the sidelines of the G20 summit in the Chinese city of Chengdu. Spain is struggling to form a government after two indecisive elections in six months. (Source: *Reuters*)

**South Korea: Upgrades extra budget to US\$9.7 billion**

South Korea will submit its US\$9.7 billion extra budget to parliament next week, the finance ministry said on Friday, focused on creating 68,000 new jobs to make up for severe job cuts as the struggling shipping and building industries are overhauled. The final draft of the supplementary budget issued on Friday stressed the importance of keeping workers from the troubled shipping and shipbuilding sectors in employment, as well as keeping those industries afloat until the global economy rebounds. In addition to the spending plans

announced last month, the government will place orders with small to medium-sized shipbuilders for 61 new ships, including coast guard vessels. (Source: Bloomberg)

**U.K.: Brexit Wreaks Havoc on U.K. Economy as Recession Risk Increases**

The U.K.'s decision to leave the European Union inflicted an immediate blow on the economy as business activity shrank at its fastest pace since the last recession seven years ago. In the weeks following Brexit, there was a "dramatic deterioration," Markit Economics said in a one-time report published Friday. Services and manufacturing shrank and a gauge of the private-sector economy plunged to 47.7, well below the 50 level that divides expansion from contraction. The slump is the strongest evidence yet that politics is propelling the world's fifth largest economy into recession. It intensifies pressure on the Bank of England to deliver fresh monetary stimulus and on the government to reverse fiscal austerity. (Source: Bloomberg)



# 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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