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Friday, August 19, 2016

## At a Glance

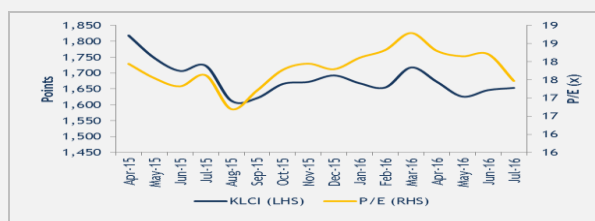
FBMKLCI weakened 0.55 points to close at 1,694.87 on last minute buying after US Federal Reserve indicated that it was in no hurry to revise its policy rate.....(See full report next page)

## Corporate Highlights

- **CIMB, HOLD (TP: RM4.75):** Dividend-in-specie puts shareholders in a quandary
- **Allianz (CP: RM10.22):** 2Q net profit up 8.27% on general insurance operation income
- **Hong Leong Industries (CP: RM9.48):** FY16 profit strengthens 43%, 4Q earnings gain 60%

## Economic Update

- **Malaysia:** Miti expects M'sia's total trade to grow 1%-2% this year
- **U.S.: Federal Reserve:** American economy shrugged off the Brexit
- **Australia:** Major banks face US class action over rate rigging



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
JP	15-Aug	7:50 AM	GDP Annualized SA QoQ	0.70%	1.90%
JP	15-Aug	7:50 AM	GDP Nominal SA QoQ	0.20%	0.60%
JP	15-Aug	7:50 AM	GDP Deflator YoY	0.70%	0.90%
JP	15-Aug	12:30 PM	Industrial Production MoM	--	1.90%
JP	15-Aug	12:30 PM	Industrial Production YoY	--	-1.90%
US	16-Aug	8:30 PM	Housing Starts	1176k	1189k
US	16-Aug	8:30 PM	Housing Starts MoM	-1.10%	4.80%
US	16-Aug	8:30 PM	Building Permits	1160k	1153k
US	16-Aug	8:30 PM	Building Permits MoM	0.60%	1.50%
US	16-Aug	8:30 PM	CPI MoM	0.00%	0.20%
US	16-Aug	8:30 PM	CPI Ex Food and Energy MoM	0.20%	0.20%
US	16-Aug	8:30 PM	CPI YoY	0.90%	1.00%
US	16-Aug	9:15 PM	Capacity Utilization	75.60%	75.40%
US	18-Aug	2:00 AM	U.S. Fed Releases Minutes from July 26-27 FOMC Meeting	--	--
US	18-Aug	2:00 AM	FOMC Meeting Minutes	--	--
EU	18-Aug	5:00 PM	CPI MoM	--	0.20%
EU	18-Aug	5:00 PM	CPI YoY	--	0.20%
EU	18-Aug	5:00 PM	CPI Core YoY	--	0.90%
EU	18-Aug	7:30 PM	ECB account of the monetary policy meeting	--	--
JP	18-Aug	7:50 AM	Trade Balance	--	¥692.8b
JP	18-Aug	7:50 AM	Trade Balance Adjusted	--	¥335.0b
JP	18-Aug	7:50 AM	Exports YoY	--	-7.4
JP	18-Aug	7:50 AM	Imports YoY	--	-18.8

## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,694.87	0.55	0.03
FBMEMAS	11,902.76	8.23	0.07
FBMEMAS SHA	12,550.16	1.23	0.01
FBM100	11,602.25	12.44	0.11
Volume (mn)	2,834.40	-282.03	-9.05
Value (RMmn)	1,978.46	-114.68	-5.48
FBMKLCI YTD Chg			0.14

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	58.6	-152.5
Local Retail	21.4	24.0
Foreign Investors	20.0	128.5

## Top Gainers

	Close	Change+/-	(+/- %)
AEON CREDIT SER	14.90	0.56	1.70
PANASONIC MAN	38.50	0.42	1.10
MALAYSIA SMELTI	3.12	0.21	7.22

## Top Losers

	Close	Change+/-	(+/- %)
DUTCH LADY MILK	62.22	-0.96	-1.52
UNITED U-LI CORP	5.15	-0.75	-12.71
SAM ENGINEER	6.90	-0.60	-8.00

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,597.70	23.76	0.13
NASDAQ	5,240.15	11.49	0.22
S&P 500	2,187.02	4.80	0.22
FTSE 100	6,868.96	9.81	0.14
DAX	10,603.03	65.36	0.62
Nikkei 225	16,486.01	-259.63	-1.55
HSI	23,023.16	223.38	0.98
KOSPI	2,055.47	11.72	0.57
STI	2,843.35	-6.75	-0.24
KLCI Futures	1,678.50	(0.50)	(0.00)
USDMYR 3M	10.98	(0.04)	(0.00)
USDMYR 6M	10.97	0.01	0.00
USDMYR 12M	11.10	(0.01)	(0.00)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	48	0.1	0.2%
Brent (USD/bbl)	50.9	1.0	2.1%
Gold(USD/ounce)	1,351	-1.5	-0.1%
Coal (USD/mt)	67.1	-1.1	-1.5%
CPO (RM/mt)	2,576	-67.0	-2.5%
Rubber	169	0.5	0.3%
RM/USD	4.00	-0.021	0.53%
EUR/USD	3.99	-0.0098	0.25%
YEN/USD	0.88	0.0008	0.09%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average stays in positive momentum by adding 23.76 points to 18,597.70 while S&P 500 soared by 4.80 points to 2,187.02. Nasdaq added by 11.49 points to 5,240.15. Stocks closed slightly higher Thursday amid surging oil prices as investors digested new economic data as well as the minutes from the Federal Reserve's July meeting.
- New York Fed President William Dudley said in a Thursday speech the past two jobs reports "helped allay concerns that arose earlier this year that job growth was beginning to stall. Indeed, these reports reinforce my view that labor market conditions continue to improve. Investors will also watch out for a speech from San Francisco Fed President John Williams. On Wednesday, minutes released from the Fed's last meeting showed the central bank's policymakers were divided, concerned about inflation and split over the U.S. economy's strength.

### The Local Market

- FBMKLCI weakened 0.55 points to close at 1,694.87 on last minute buying after US Federal Reserve indicated that it was in no hurry to revise its policy rate. There were 384 gainers and 439 decliners in total value traded of RM1.99 billion.
- Among the gainers on Bursa Malaysia were Aeon Credit jumped 56 cent to RM14.90, Panasonic increased 42 cent to RM38.50, Malaysia Smelting up 21 cent to RM3.12 and Apex Healthcare gained 18 cent to RM4.00.

### Strategy

- 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

**CIMB, HOLD (TP: RM4.75): Dividend-in-specie puts shareholders in a quandary**  
CIMB Group Holdings Bhd's (CIMBGH) dividends in the form of PT Bank CIMB Niaga shares designed to both reward shareholders and meet regulatory requirements in Indonesia, have put minority shareholders in a quandary as a monetisation option disadvantages shareholders by almost 50% off the current market share price. The plan sees the monetisation option offered for CIMB Niaga shares at 504 rupiah (15 sen) a share, a whopping 49.4% discount to the prevailing market price as stated in a circular to shareholders on Aug 9, following a sudden rally in the share price since the dividend-in-specie announcement. The stock closed at 995 rupiah (30.3 sen) yesterday. (Source: *The Sun*)

**Allianz (CP: RM10.22): 2Q net profit up 8.27% on general insurance operation income**

General insurer Allianz Malaysia Bhd's net profit grew 8.27% to RM76.3 million or 44.93 sen per share in its second quarter ended June 30, 2016 (2QFY16), from RM70.4 million or 41.98 sen per share a year ago. In a filing with Bursa Malaysia, Allianz showed revenue rise 3.12% to RM1.14 billion, from RM1.11 billion. In its first half ended June 30, 2016 (1HFY16), net profit went up 3.72% to RM149.4 million or 88.16 sen per share, from RM144.1 million or 85.69 sen per share last year. Revenue was up 4.6% to RM2.3 billion in 1HFY16, from RM2.2 billion during the corresponding period last year. Allianz said the general insurance operation delivered a profit before tax of RM172.7 million for 1HFY16, an increase of 7.3% or RM11.7 million, compared with RM161 million last year. (Source: The Edge)

**Hong Leong Industries (CP: RM9.48): FY16 profit strengthens 43%, as 4Q earnings gain 60%**

Hong Leong Industries Bhd (HLI) reported a 60% jump in net profit to RM69.49 million in its fourth quarter ended June 30, 2016 from RM43.41 million a year earlier, due to stronger contribution from an associate company and improved consumer products segment. Revenue for the quarter rose 9% to RM573.6 million from RM527.8 million in the previous year, its bourse filing today showed. For the full financial year (FY16), its net profit gained 43% to RM247.22 million from RM173.23 million — mostly on a significant jump in share of profit in associated companies, lower operating expenses and tax — while revenue climbed 2% to RM2.19 billion from RM2.14 billion. (Source: The Edge)

**Dialog (CP: RM1.53): Contribution from JV businesses lifts Dialog's 4Q earnings**

Contribution from its joint venture businesses boosted Dialog Group Bhd's net profit for the fourth quarter ended June 30, 2016 (4QFY16) by 22.5% to RM77.93 million from RM63.63 million a year ago, despite slower upstream oil and gas (O&G) activities. Revenue for the integrated technical services provider in the O&G and petrochemical industry also expanded 24.4% to RM717.09 million from RM576.58 million, its bourse filing today showed. It also recommended a final dividend of 1.2 sen per share, subject to shareholders' approval, for the period, bringing its FY16 payout to 2.2 sen, comparable to FY15's. However, Dialog said the slower upstream activities and the mutual termination of the Balai Cluster's Risk Service Contract had resulted in reduced sales in specialist products and services, and lesser project works from this sector. (Source: The Edge)

**SapuraKencana (CP: RM1.58): Delivers final pipelay vessel to Petrobras**

SapuraKencana Petroleum Bhd has delivered its sixth and final pipelay vessel to Petróleo Brasileiro SA (Petrobras) and the 550-tonne vessel commenced work in Brazil on Aug 14. Sapura Rubi joins five other fully integrated pipelay vessels that were delivered in stages and are all now working in Brazil's deepwater fields. "The commencement of work for Sapura Rubi marks the completion of our building programme of six pipelay vessels to our customer, Petrobras, to

operate in the ultra-deepwater regions in Brazil. All vessels are now in operation, on time and on budget, highlighting our continued commitment to operate efficiently and effectively," said its president and group chief executive officer Tan Sri Shahril Shamsuddin in a statement today. SapuraKencana's offshore operations in Brazil for Petrobras are being executed there by its Brazilian joint venture company Sapura Navegacao Maritima (SNM), a 50:50 venture with offshore drilling company Seadrill Ltd. (Source: *The Edge*)

#### **Sunsuria (CP: RM0.815): To set up bike-sharing programme in Sunsuria City**

Sunsuria Bhd is tying up with Oride (M) Sdn Bhd to introduce a bicycle sharing programme in its flagship development Sunsuria City, a 525-acre freehold integrated township that has an estimated gross development value of RM10 billion. In a filing with Bursa Malaysia, Sunsuria said its 99.99%-owned indirect subsidiary, Sunsuria City Sdn Bhd (SCSB) and its 99.99%-owned direct subsidiary, Sunsuria Gateway Sdn Bhd (SGSB) had inked a joint venture and shareholders agreement (JVA) with Oride to set up a joint venture company (JVco) called Sunsuria Oride Sdn Bhd for the business to operate in the 375 acres owned by SCSB in Dengkil, Sepang. The JVA aims to deliver the promise for a smart, livable and sustainable township. The parties are committed in promoting healthier and eco-friendly lifestyle that embraces innovation and community interaction. (Source: *The Edge*)

#### **Hock Seng Lee (CP: RM1.77): 2Q profit down 29% as revenue falls**

Hock Seng Lee Bhd (HSL) saw net profit drop 29% to RM12.08 million in its second quarter ended June 30, 2016 (2QFY16), from RM17.04 million a year ago, due to lower contribution from its construction and property development segments. Revenue fell 28% to RM107.05 million during the quarter, from RM149.6 million last year, said the Sarawak-based marine and civil engineer in a filing with Bursa Malaysia. HSL declared a first interim single-tier dividend of 5% for the period, payable on Oct 10. "We are maintaining an interim payout to our stakeholders, even though our results have not managed to surpass the historical highs we enjoyed in the corresponding period last year," said HSL managing director Datuk Paul Yu Chee Hoe in a separate statement. (Source: *The Edge*)

#### **Kian Joo (CP: RM2.90): MD launches takeover of Alcom**

Kian Joo Can Factory Bhd and Box-Pax (M) Bhd managing director Yeoh Jin Hoe will launch a takeover of Aluminum Company of Malaysia Bhd (Alcom) after buying a 59.16% stake. Alcom informed Bursa Malaysia on Thursday that Yeoh, who is also a controlling shareholder of Towerpak Sdn Bhd, had proposed to buy 79.23 million Alcom shares for RM47.72mil or 61 sen a share. The share sale and purchase agreement was executed between Towerpack and Novelis Inc. Alcom said after the completion of the proposed acquisition, Towerpack's holdings of the voting shares of Alcom will increase from nil to 59.16%. (Source: *The Star*)

#### **Pos Malaysia (CP: RM3.34): Eyes land monetization**

Pos Malaysia Bhd, whose share price has risen 16% this month, is looking to monetise its land bank assets, said its group chief executive officer Datuk Mohd Shukrie Mohd Salleh. He said plans are still at the earliest stages of

development, but the national postal service provider has begun to identify the assets that have potential to be monetised. "These include our properties and land, as some of them are sitting idle," he told a news conference, after the group's annual and extraordinary general meetings today. According to Pos Malaysia's annual report for the financial year ended March 31, 2016 (FY16), the group owned parcels of land totalling 13,801 sq m in Kinta, Perak. The land parcels were revalued right before the fiscal year ended and had a net book value of RM13.86 million. *(Source: The Edge)*

#### **Damansara Realty (CP: RM0.74): Gets RM124m Rapid contract**

Damansara Realty Bhd has bagged a RM124 million operation and maintenance contact for Refinery and Petrochemical Integrated Development (Rapid) project at Pengerang, Johor. In a filing with the stock exchange, Damansara Realty said its subsidiary TMR Urusharta (M) Sdn Bhd and TMR's partner LC Catering Sdn Bhd had accepted the Package 20-A5 – The Operation and Maintenance of Rapid Temporary Executive Village and Rapid Temporary Management Office Facilities and Infrastructure for Rapid. TMR Urusharta and LC Catering will form a joint-venture company to undertake the 38-month contract. *(Source: The Sun)*

#### **Gabungan AQRS (CP: RM1.11): Gags highway works deal worth RM508m**

Gabungan AQRS Bhd has been awarded a sub-contract worth RM508.2 million for the execution and completion of bridge structure works of the Elevated Sungai Besi-Ulu Kelang Highway Privatisation Project Package SUKE-CA3. In a filing with Bursa Malaysia yesterday, Gabungan AQRS said its wholly-owned subsidiary Gabungan Strategik Sdn Bhd received a letter of award from Syarikat Muhibah Perniagaan Dan Pembinaan Sdn Bhd. The sub-contract is for the provision and supply of all labour, material, fuel, plant and/or equipment and everything necessary for the execution and completion of bridge structure works. Works have started and are to be completed by Dec 28, 2018. *(Source: The Sun)*

#### **Berjaya Land (CP: RM0.685): In talks to revise master plan for land in Vietnam**

Berjaya Land Bhd has clarified that it is in discussions and negotiations with Vietnamese authorities to revise the master plan on the land there, which has been allocated for a proposed US\$3.5 billion (RM14 billion) university township project in Ho Chi Minh City. The revised plan now includes a mixed development covering bungalows, link houses, apartments and retail shops which are more affordable and cater more effectively to the existing demand in Ho Chi Minh City," the property developer was responding to news reports saying the university township project has been put under review by the Vietnamese government. *(Source: The Sun)*

#### **Auto Sector: July vehicle sales slump 27.6%, says trade body**

Total vehicle sales in July fell 27.6% to 42,471 units from a year ago due to the shorter working month but the Malaysian Automotive Association (MAA) expects sales to pick up in August. The MAA said on Thursday that sales fell from the 58,677 units a year ago and also registered a decline of 26% or 14,877 units from June. Of the 42,471 units sold in July, the MAA said 37,647 were passenger vehicles and the remaining 4,824 were commercial vehicles. The weaker sales



was due to the short working month due to the Hari Raya festive holidays and the pent-up demand for Hari Raya ended in June,” said the MAA. (Source: *The Star*)

#### ECONOMIC UPDATES

##### **Malaysia: Miti expects M'sia's total trade to grow 1%-2% this year**

The International Trade and Industry Ministry (Miti) expects the country's total trade to grow between 1% and 2% this year amid volatile global economic situation. Minister Datuk Seri Mustapa Mohamed said this was a modest projection as the country was not spared from the effects of the global economic slowdown. In 2015, Malaysia's total trade grew 1.2% to RM1.466 trillion, with exports expanding 1.9% to a new high of RM779.95bil while imports rose a marginal 0.4% to RM686.65bil. Mustapa said despite the challenging external environment this year, the country managed to record an improvement in trade performance in the first half of 2016 (H1 2016), at RM704bil, up 1.3% from the same period last year. (Source: *The Star*)

##### **U.S.: Federal Reserve: American economy shrugged off the Brexit**

Members of the U.S. Federal Reserve Open Market Committee have been dithering for months over whether the American economy is strong enough to withstand higher interest rates, which would raise the cost of borrowing. Minutes from their July meeting, released Wednesday, show that this uncertainty continues, but concerns about the economic fallout from the Brexit in the U.S. have apparently been quelled. Minutes of the central bank's July 26-27 policy meeting showed members were split on whether the strength in the U.S. job market, which added jobs in both May and June, would continue.. (Source: *Chicago Tribune*)

##### **Australia: Major banks face US class action over rate rigging**

Australia's four biggest banks said on Thursday they were among 17 global lenders being sued by US funds for alleged benchmark interest rate rigging, denying the claims and pledging to contest the action. The suit follows ongoing court action on the matter by Australian regulators, and comes amid increasing scrutiny by global watchdogs on potential market manipulation. Recent investigations have ensnared major global lenders and led to hefty fines. In the latest suit naming National Australia Bank, ANZ Banking Group, Westpac Banking Corp and Commonwealth Bank of Australia, two US-based investment funds and an individual derivatives trader have brought a class action in a writ filed in United States District Court for the southern district of New York on Aug. 16. (Source: *The Edge*)

##### **Europe: ECB keen to keep stimulus hopes in check at meeting after Brexit vote**

European Central Bank rate setters agreed not to discuss any policy change at their July meeting and to keep market hopes for more stimulus in check, despite rising risks linked to Britain's vote to leave the European Union, minutes showed on Thursday. The accounts of the meeting suggested the ECB's Governing Council, which will meet again on Sept 7-8 and examine new inflation forecasts, was in no rush to act, taking comfort from a calmer-than-expected market

reaction to the Brexit vote even though risks had "clearly increased". "It was widely felt among members that it was premature to discuss any possible monetary policy reaction at this stage," the ECB said. "More time was needed to assess the incoming information over the coming months, although downside risks had clearly increased." (Source: *The Edge*)

#### **Germany: economy to grow despite increased risks such as Brexit**

The German economy remains on a solid growth path despite the recent slowdown in the second quarter, but external risks have increased after the British decision to leave the European Union, the Finance Ministry said on Friday. Growth in Europe's largest economy slowed less than expected in the three months to June as higher exports, strong private consumption and increased state spending compensated for weaker investment in construction and machinery. The growth rate of 0.4 percent was double the Reuters consensus forecast and the slowdown was widely expected after a mild winter helped the German economy to grow 0.7 percent in the first three months, the strongest quarterly rate in two years. (Source: *Reuters*)

#### **Thailand: PTT to boost LNG imports in 2017 as local fields fade**

Thailand's largest energy firm PTT Pcl plans to import at least 5 million tonnes of liquefied natural gas (LNG) in 2017, up from 3 million tonnes this year as local gas production fades. State-controlled PTT expects to conclude in September talks with several suppliers including Royal Dutch Shell and BP to buy LNG under long-term contracts, chief executive Tevin Vongvanich told a news conference on Thursday. Thailand, which uses natural gas for nearly 70% of its power generation, has become increasingly reliant on LNG imports as its own domestic gas fields are slowly being depleted. PTT is the nation's sole gas provider. "As domestic resources decline, we are at the last phase of gas production," Tevin said, adding that PTT aimed to buy at least 3 million tonnes of LNG via long-term contracts, as well as making purchases in spot markets. (Source: *The Edge*)

#### **U.K.: Warm weather lifts retail sales in July**

Warmer weather and a weaker pound helped boost retail sales in July, according to official data. Retail sales grew by 5.9% compared with July 2015, the Office for National Statistics said. "Better weather this year could be a major factor, with sales of clothing and footwear doing particularly well," said Joe Grice of the ONS. He added that there was anecdotal evidence suggesting the weaker pound encouraged overseas visitors to spend. Sales of watches and jewellery were up 16.6% in July compared with the same month last year - the biggest jump in nearly two years. Compared with June, UK retail sales were up 1.4%, a figure that was much stronger than expected. (Source: *BBC*)

# 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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