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Tuesday, August 23, 2016

## Report of the Day

Result Review: Ibraco 2Q16 – “Defer Launch due to Soft Market”

Results Review: AMMB 1Q17 – “Still Uncertain Now”

Results Review: AFG 1Q17 – “All is Well in 1Q17”

Results Review: Nestle 2Q16 – A Growing Cash Cow  
At a Glance

FBMKLCI recovered by adding 3.39 points to close at 1,691.07 on bargain hunting and as investors waited for more indications on U.S. interest rate direction.....(See full report next page)

## Daily Equity Market Strategy

“Wall Street Little Change; All Eyes on Jackson Hole Event”

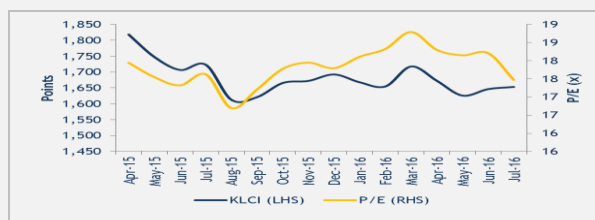
This piece of news will weigh heavily in the minds of foreign investors and usually a market shaker piece of news. ....(See full report next page)

## Corporate Highlights

- **AFG, HOLD (TP: RM4.00):** Higher Q1 earnings for AFG
- **AMMB, HOLD (TP: RM4.80):** Q1 earnings at RM323m on lower net interest income
- **Nestle, HOLD (TP: RM84.56):** Net profit surges on lower effective tax rate

## Economic Update

- **Malaysia:** Bank Negara reserves up slightly at RM391.9b:
- **U.S.:** Banks want to cut branches, but customers keep coming
- **China:** Plans to reduce corporate costs



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
US	22-Aug	8:30 PM	Chicago Fed Nat Activity Index	--	0.16
JP	22-Aug	1:00 PM	Supermarket Sales YoY	--	-0.50%
JP	22-Aug	3:00 PM	Convenience Store Sales YoY	--	0.80%
US	23-Aug	9:45 PM	Market US Manufacturing PMI	--	52.9
US	23-Aug	10:00 PM	Richmond Fed Manufact. Index	5	10
CN	23-Aug	9:45 AM	MNI August Business Indicator		
CN	23-Aug	9:00 PM	Conference Board China July Leading Economic Index		
US	24-Aug	9:00 PM	House Price Purchase Index QoQ	--	1.30%
US	24-Aug	9:00 PM	FHFA House Price Index MoM	0.30%	0.20%
JP	24-Aug		Cabinet Office Monthly Economic Report for August		
US	25-Aug	8:30 PM	Durables Ex Transportation	0.30%	-0.40%
US	25-Aug	8:30 PM	Cap Goods Orders Nonfed Ex Air	0.00%	0.40%
US	25-Aug	8:30 PM	Cap Goods Ship Nonfed Ex Air	--	-0.20%
US	25-Aug	9:45 PM	Bloomberg Consumer Comfort	--	--
US	25-Aug	11:00 PM	Kansas City Fed Manf. Activity	--	-6
CN	25-Aug	9:00 AM	Swift Global Payments CNY	--	1.72%
CN	25-Aug	10:00 AM	Bloomberg Aug. China Economic Survey		
JP	25-Aug	7:50 AM	Japan Buying Foreign Bonds	--	¥1297.5b
JP	25-Aug	7:50 AM	Japan Buying Foreign Stocks	--	¥141.4b
JP	25-Aug	7:50 AM	Foreign Buying Japan Bonds	--	¥474.8b
JP	25-Aug	7:50 AM	Foreign Buying Japan Stocks	--	¥94.7b
US	26-Aug	8:30 PM	Advance Goods Trade Balance	-\$62.3b	-\$63.3b
US	26-Aug	8:30 PM	Personal Consumption	--	4.20%
US	26-Aug	8:30 PM	GDP Price Index	2.20%	2.20%
US	26-Aug	8:30 PM	Core PCE QoQ	--	1.70%
US	26-Aug	10:00 PM	U. of Mich. Current Conditions	--	106.1
US	26-Aug	10:00 PM	U. of Mich. Expectations	--	80.3
US	26-Aug	10:00 PM	U. of Mich. 1 Yr Inflation	--	2.50%
US	26-Aug	10:00 PM	U. of Mich. 5-10 Yr Inflation	--	2.60%
JP	26-Aug	7:30 AM	Natl CPI YoY	-0.40%	-0.40%
JP	26-Aug	7:30 AM	Natl CPI Ex Fresh Food YoY	-0.50%	-0.50%
JP	26-Aug	7:30 AM	Natl CPI Ex Food, Energy YoY	0.40%	0.40%
JP	26-Aug	7:30 AM	Tokyo CPI YoY	-0.40%	-0.40%
JP	26-Aug	7:30 AM	Tokyo CPI Ex-Fresh Food YoY	-0.40%	-0.40%
JP	26-Aug	7:30 AM	Tokyo CPI Ex Food, Energy YoY	0.30%	0.30%
JP	26-Aug	1:00 PM	Natl CPI Ex Fresh Food, Energy YoY	--	0.80%

## Research Team

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,691.07	3.39	0.20
FBMEMAS	11,866.42	14.84	0.13
FBMEMAS SHA	12,507.99	11.81	0.09
FBM100	11,574.83	19.93	0.17
Volume (mn)	1,853.97	-347.30	-15.78
Value (RMmn)	1,470.51	-226.60	-13.35
FBMKLCI YTD Chg			-0.09

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	58.1	-61.4
Local Retail	23.3	7.9
Foreign Investors	18.6	53.5

## Top Gainers

	Close	Change+/-	(+/- %)
LAY HONG BHD	10.10	0.75	1.70
UNITED PLANTAT	27.50	0.50	1.85
BRIT AMER TOBA	50.38	0.40	0.80

## Top Losers

	Close	Change+/-	(+/- %)
DUTCH LADY MILK	60.00	-0.78	-1.28
PANASONIC MAN	38.10	-0.50	-1.30
NESTLE (MALAY)	78.76	-0.24	-0.30

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,529.42	-23.15	-0.12
NASDAQ	5,244.60	6.23	0.12
S&P 500	2,182.64	-1.23	-0.06
FTSE 100	6,828.54	-30.41	-0.44
DAX	10,494.35	-50.01	-0.47
Nikkei 225	16,598.19	52.37	0.32
HSI	22,997.91	60.69	0.26
KOSPI	2,042.16	-14.08	-0.68
STI	2,841.19	-2.83	-0.10
KLCI Futures	1,677.50	7.00	0.00
USDMYR 3M	11.54	-	-
USDMYR 6M	11.47	0.01	0.00
USDMYR 12M	11.35	0.00	0.00

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	47	-0.1	-0.2%
Brent (USD/bbl)	49.2	-1.7	-3.4%
Gold(USD/ounce)	1,338	-1.4	-0.1%
Coal (USD/mt)	68.2	0.6	0.9%
CPO (RM/mt)	2,543	-35.0	-1.4%
Rubber	166	-5.3	-3.1%
RM/USD	4.03	0.0123	-0.31%
EUR/USD	0.88	0.0004	0.05%
YEN/USD	100.35	0.02	-0.02%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average lost 23.15 points to 18,529.42 while S&P 500 dropped by 1.23 points to 2,182.64. Nasdaq declined 6.22 points to 5,244.60. Energy shares' moves have been more pronounced, tracking recent swings in oil prices. Fears that oil's recent rally could prompt more production weighed on prices.
- Statements from Fed officials last week have been perceived hawkish, with New York Fed president and permanent voting member William Dudley saying a hike as soon as next month was possible. On Sunday, Fed Vice Chairman Stanley Fischer strengthened the sentiment by saying the U.S. economy was close to hitting job and inflation targets, factors on which a rate hike hinges.

### The Local Market

- FBMKLCI recovered by adding 3.39 points to close at 1,691.07 on bargain hunting and as investors waited for more indications on U.S. interest rate direction. There were 303 gainers and 533 decliners in total value traded of RM1.47 billion.
- Among the gainers on Bursa Malaysia were Lay Hong surged 75 cent to RM10.10, United Plantation soared 50 cent to RM27.50, British American Tobacco expanded 40 cent to RM50.38 and Aeon Credit added 34 cent to RM15.14.

### Strategy

- **“Wall Street Little Change; All Eyes on Jackson Hole Event”**  
Wall Street ended almost unchanged as investors were chewing on the prospect of US first interest rate adjustment this September. The upcoming speech by Janet Yellen in Jackson Hole event this Friday will be highly anticipated. S&P 500 and DJIA lost marginally by 1.23 (-0.06%) and 23.15 (-0.12%) points to end at 2,182.64 and 18,529.42 respectively. Of note, the Jackson Hole symposium will be held of this weekend and the Fed's chairman, Janet Yellen, is due to give her speech this Friday, at 10am ET (10pm Malaysia time). Expect some hints and forward guidance to be on the plate and this will be a highly expected event. Hence, the investors' reluctance to take big bets for the week. Note that we expect some selling pressure in the local market today on the account of less-than-sanguine Petronas 1H16 earnings that dropped by a whopping 72% y-o-y. This indicates the prospect of lower dividend payment to the government and hence, a relatively tight fiscal coffers and potential a hit to the economy. This piece of news will weigh heavily in the minds of foreign investors and usually a market shaker piece of news.
- 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

#### **AFG, HOLD (TP: RM4.00): Higher Q1 earnings for AFG**

Alliance Financial Group Bhd (AFG) saw its earnings climb 8.6% to RM132.47mil in the first quarter ended June 30, 2016, boosted by its client-based fee income and Islamic banking income. AFG said on Monday the higher earnings from RM121.93mil a year ago were also due to an improvement in revenue. Revenue rose 2.4% to RM474.94mil from RM463.76mil. Earnings per share were 8.7 sen compared with eight sen. "Pre-provision operating profit improved by 13.2% on-quarter and 10% on-year to RM194.7mil," it said. Elaborating on the financial results for the quarter ended June 30, 2016, AFG said the net profit after tax grew 2.0% quarter-on-quarter to RM132.5mil. Pre-provision operating profit improved by 13.2% on-quarter to RM194.7mil. "Net interest margin improved 10 basis points on-quarter to 2.22%. Loans growth in the SME sector remained strong at 16.1% on-year, with an excellent gross impaired loans ratio at 0.8%," it said. *(Source: The Star)*

#### **AMMB, HOLD (TP: RM4.80): Q1 earnings at RM323m on lower net interest income**

AMMB Holdings Bhd posted lower earnings of RM323mil in the first quarter ended June 30, 2016, following a decline in net interest income, Islamic banking business and income from its insurance business when compared to a year ago but this was an improvement from the preceding quarter. The banking group announced on Monday the earnings were down 4.8% from the RM339.51mil a year ago. Operating profit was lower by 12.7% at RM415.67mil from RM476.50mil while pretax profit was slightly lower at RM479.38mil from RM482.39mil. AMMB's revenue was lower at RM2.06bil from RM2.11bil a year ago. Earnings per share were 10.74 sen compared with 11.31 sen. Net interest income in the quarter ended June 30, 2016 fell 7.3% to RM392.33mil from RM423.53mil a year ago. *(Source: The Star)*

#### **Nestle, HOLD (TP: RM84.56): Net profit surges on lower effective tax rate**

Nestle (M) Bhd saw its earnings grow 52.4% year-on-year (y-o-y) in its second quarter ended June 30, thanks to a lower effective tax rate, as well as a combination of higher turnover, favourable price trends in key raw materials and improved efficiency in the factories as well as the whole supply chain. During the quarter under review, the nutrition, health and wellness company posted a net profit of RM188.8mil, compared with RM123.9mil in the previous year's corresponding period. In its filing with Bursa Malaysia, Nestle said the stronger performance of its domestic business and export business contributed to the 8.2% y-o-y increase in turnover to RM1.24bil in the quarter. *(Source: The Star)*

#### **Star Media (CP: RM2.59): Group posts increase in profit**

Amid a soft advertising market, Star Media Group Bhd saw a commendable increase in its bottom and top lines in its second quarter. Net profit attributable to shareholders increased to RM43.68mil from RM33.29mil for the quarter

ended June 30, on the back of turnover increasing marginally to RM266.54mil. The increase in profit due to shareholders was up by 31.2% largely due to the events and exhibition business segment anchored by Cityneon Holdings Ltd and the gain on the deregistration of a subsidiary company in Australia. *(Source: The Star)*

**UMW Oil & Gas (CP: RM0.96): Continues to incur loss in Q2**

UMW Oil & Gas Corp Bhd swung to a loss attributable to equity holders of RM67.25mil for the second quarter ended June 30, 2016, from a profit of RM4.46mil in the same period last year. In a Bursa Malaysia filing on Monday, the upstream oil & gas service provider this was due to its revenue falling 29.1% to RM130mil, impacted by low levels of exploration, development and production activities in the oil and gas industry. "Weak demand for the group's drilling and oilfield services in the second quarter of 2016 due to low oil prices had caused both the drilling services and oilfield services segments to incur losses," it noted. Its drilling services business posted a pre-tax loss of RM47.99mil while the oilfield services business was RM10.11mil in the red. *(Source: The Star)*

**Southern Steel (CP: RM1.04): Loss grows on RM141mil asset write-off**

Southern Steel Bhd's cumulative loss widened substantially in the fourth quarter (Q4) as a result of a RM141mil write-off of property, plant and equipment. The write-off, which followed its unit Southern HRC Sdn Bhd's recent decision to terminate a RM427mil manufacturing contract with Danieli & C. Officine Meccaniche SpA, resulted in the billet and steel bar maker posting a Q4 net loss of RM112.67mil against a loss of RM1.24mil a year earlier. In a filing with Bursa Malaysia, Southern Steel said this caused the full-year loss attributable to its owners to balloon 88.1% to RM221.15mil. *(Source: The Star)*

**IOI Properties (CP: RM2.44): Q4 earnings slip 3%**

IOI Properties Group Bhd's earnings, which had grown in the first three quarters of the financial year ended June 30, 2016, faltered in the final three months due to a higher tax expense. In a filing with Bursa Malaysia, the property development and investment firm said its earnings slipped 3% to RM389.41mil in the fourth quarter despite 45.2% higher revenue of RM891.72mil. In contrast, its pre-tax profit grew 5% to RM510.58mil. After excluding fair value gain on investment properties of RM60.1mil in the quarter under review as well as the fair value gain of RM138.3mil a year earlier, the group's operating profit improved 49% to RM107.1mil. *(Source: The Star)*

**Salcon (CP: RM0.615): Bags RM67mil job**

Salcon Bhd's unit has bagged an RM66.78mil sewage subcontract in Hulu Langat, Selangor, from MMC Engineering Services Sdn Bhd. In a statement, the water and wastewater engineering company said the job that had been awarded to its wholly owned subsidiary - Salcon Engineering Bhd - would comprise the conversion of 10 sewage treatment plants into network pumping stations that form an integral part of the total component of works for the design and build of the 920,000 population equivalent Langat Centralised Sewage Treatment Plant project, currently undertaken by the MMC group. The latest win would bring the total value of contracts secured by Salcon to

RM300mil year-to-date. The project is expected to be completed in 24 months from the date of site possession. *(Source: The Star)*

**Zelan (CP: RM0.205): 2Q net profit down 27.2% on lower gross profit**

Zelan Bhd's net profit fell 27.2% to RM7.38 million or 0.87 sen a share for the second quarter ended June 30, 2016 (2QFY16), from RM10.15 million or 1.2 sen a share a year ago, on lower gross profit by RM6.6 million, as a result of lower revenue and weaker net finance income by RM4.3 million. Its revenue halved to RM56.49 million in 2QFY16, from RM115.08 million in 2QFY15, on lower revenue contribution from its engineering and construction segment. This was mainly due to lower revenue from local projects of RM56.2 million in 2QFY16, compared with RM89.1 million in 2QFY15, and no revenue contribution from the Meena project in Abu Dhabi for the current quarter under review. Revenue recorded from its property and development segment from rental income of office premises and car park bays for 2QFY16, was also slightly lower, compared with 2QFY15. *(Source: The Edge)*

**Al-'Aqar Healthcare REIT (CP: RM1.65): 2Q NPI slips 3.2%, DPU at 3.9 sen**

Al-'Aqar Healthcare Real Estate Investment Trust's (REIT) net property income fell 3.2% to RM25 million in the second quarter ended June 30, 2016 (2QFY16), from RM25.8 million in the corresponding period a year ago, mainly due to disposal of crossborder companies which own two properties in Indonesia. The group's revenue for the quarter under review declined by 3.8% to RM26.6 million, from RM27.6 million in 2QFY15. It declared an interim income distribution of 3.9 sen per unit for the financial year ending Dec 31, 2016 (FY16). The distribution will go ex on Sept 13, and will be payable on Oct 13. For the first half of financial year ending Dec 31, 2016 (1HFY16), its net property income declined by 3.8% to RM49.9 million, from the RM51.8 million earned in 1HFY15. Its 1HFY16 revenue also fell 4% to RM53 million in 1HFY16, from RM55.2 million in the prior year's corresponding period. *(Source: The Edge)*

**IPO: BCM Alliance seeks IPO, plans chain of Speed Queen laundrettes**

BCM Alliance Bhd, which is en route to list on the ACE Market of Bursa Malaysia Securities Bhd, plans to use part of the proceeds to set up a chain of self-service launderette outlets. Under the listing exercise, it is offering for sale 84.25 million new shares of which 22 million units will be offered to the public and nine million shares for its eligible directors and employees. The remaining 53.25 million new shares will be placed out. As part of its listing exercise, the existing shareholders will offer for sale 42.13 million shares to selected investors. BCM had on Monday signed an underwriting agreement with M&A Securities Sdn Bhd in conjunction with its proposed initial public offering (IPO) exercise. *(Source: The Star)*

**Petronas: H1 earnings down 72% to RM6.2b**

Petroleum Nasional Bhd (Petronas) recorded profit after tax of RM6.2bil for the half year ended June 30, 2016, a 72% fall from a year ago. The national oil company said on Monday the steep decline was a result of the low oil price environment, further impacted by lower sales volume of crude oil and condensate, processed gas and petroleum products. It said the decline was, however, partially offset by lower product and production costs. The group



recorded revenue of RM97.6bil for the period, which was 23% lower than a year ago. Group president and group chief executive officer, Datuk Wan Zulkiflee Wan Ariffin told a media briefing the group continues to be hit by volatile oil prices, coupled with oversupply and lagging demand growth. (Source: *The Star*)

#### ECONOMIC UPDATES

##### Malaysia: Bank Negara reserves up slightly at RM391.9b

Bank Negara Malaysia's international reserves amounted to RM391.9 billion (equivalent to US\$97.5 billion) as at Aug 15, 2016, compared with RM391.1 billion (equivalent to US\$97.3 billion) as of July 29, 2016. Bank Negara said in a statement on Monday the reserves position was sufficient to finance 8.1 months of retained imports and is 1.2 times the short-term external debt. The main components of the international reserves were foreign currency reserves (US\$89.5 billion), International Monetary Fund reserves position (US\$0.8 billion), Special Drawing Rights or SDR (US\$1.1 billion), gold (US\$1.5 billion) and other reserve assets (US\$4.6 billion). (Source: *The Star*)

##### U.S.: Banks want to cut branches, but customers keep coming

Despite banks' nudging toward online tools, many US customers are not ready to give up regular visits to their nearest branch, complicating the industry's efforts to slim down. US banks have trimmed the number of branches by 6% since it peaked in 2009, according to Federal Deposit Insurance Corp data. The 93,283 branches open at the end of last year was the lowest level in a decade. Yet analysts who have examined the data say banks should have done more to offset the pressure on revenue from low interest rates and regulatory demands. The number of FDIC-insured banks has fallen by more than 25% over that time even as industry assets have grown, indicating room for greater branch consolidation. (Source: *The Star*)

##### China: Plans to reduce corporate costs

The Chinese government has planned a basket of favorable measures for companies in the real economy to cut costs as part of efforts to bolster lackluster economic growth, an official document said. The measures include lower tax burdens, cheap financing and reduced red tape, as well as more affordable land use, energy consumption and logistics, according to a work plan released on Monday by the State Council. The government expects the measures to improve the business environment, facilitate industrial upgrades and enhance corporate competitiveness. The value added tax will continue to be promoted nationwide to replace business tax, which is expected to save enterprises more than 500 billion yuan (about \$75 billion) each year, said the document. R&D tax credits will also be implemented, and more administrative fees will be canceled. (Source: *China Daily*)

##### Europe: Leaders look to safeguard future of Europe

Europe's Italian, French and German leaders meeting to chart the future of the EU following Britain's Brexit referendum promised Monday to secure Europe's future and uphold European values. Italian Prime Minister Matteo Renzi was hosting the summit with Chancellor Angela Merkel and French President Francois Hollande on the island of Ventotene, the site of the tomb of Altiero

Spinelli, one of the founding fathers of the European Union. The main themes of the summit were security, the economy and youth. The three leaders wanted to direct EU efforts on strengthening internal and external security, EU competitiveness and its innovation capacity, and the prospects of the young people in Europe. (Source: EuBusiness)

#### **India: Economy poised to grow at 7.5 per cent**

President Pranab Mukherjee today said Indian economy has revived and is poised to achieve a growth rate of 7.5 per cent in the next two years. "We can say confidently that our economy has revived and our prospects are brighter as we are poised to grow at 7.5 per cent in both 2016 and 2017," he said at a conference here on 'Enabling Make in India through Industry Academia Innovation Platform', jointly organised by CII and IEST. Mukherjee said current account deficit has come down to 1.1 per cent of GDP from 1.3 per cent of GDP last year. Mentioning 2008 economic crisis, he said several bodies across the world had to revise their targets but in that uncertainty India has done well. (Source: The Economic Times)

#### **Mexico: Economy shrinks for 1st time in 3 years**

Mexico's economy took a turn for the worse at a time when the entire country is closely watching the U.S. elections. The economy shrank for the first time in three years in the second quarter. Even though Mexico's economy only contracted 0.2% from the previous quarter, any drop is a shock for a country that many experts consider a success in a troubled region. Latin America has hit hard times in recent years. Brazil is in the midst of a historic recession. Argentina has stagnated. And Venezuela is struggling with an extreme economic and humanitarian crisis, where its citizens don't have enough food. But Mexico was a bright spot and its economy was growing. However, the drop in oil prices has slowed the country down because Mexico is a major oil exporter. The oil sector in Mexico has contracted nearly 3% this year compared to a year ago. Its government has had to cut back spending at the state-run oil company, Pemex. (Source: CNN)

#### **Singapore: High wages flash recession warnings in Singapore**

SaladStop owner Adrien Desbaillets has eased off on expansion plans for his organic food chain in Singapore because high wages are pressuring profit margins at a time when the affluent city-state is grappling with low growth and slack global demand. Instead Desbaillets is branching out in Manila, Jakarta and even in wealthy Tokyo in a worrying sign for Singapore's small, open economy. Indeed, while the city-state's economy is expected to grow between 1%-2% for the year, analysts say the wage-cost pressures are flashing warnings of a recession. (Source: The Star)

# 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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