

PP14767/09/2012(030761)

Friday, August 26, 2016

## Report of the Day

**Result Review:** Maybank 2Q16 – “Hampered by Loan Loss Again”

**Result Review:** Axiata 2Q16 – “Troubled by Celcom Again”

**Result Review:** IHH 2Q16 – “Fazed by Escalating Operational Costs”

**Result Review:** Genting Plantations 2Q16 – “Worst is Over”

## At a Glance

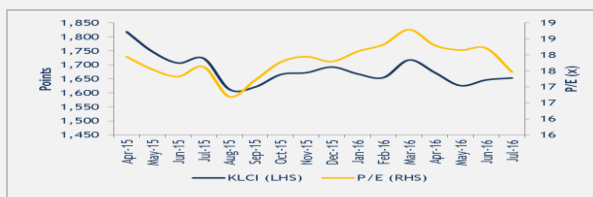
FBMKLCI stayed in the red by losing 1.76 points to close at 1,680.30, dragged down by losses in blue chips such as Maybank and Axiata following the release of their latest quarterly results.....(See full report next page)

## Corporate Highlights

- **Maybank, BUY (TP: RM9.10):** Posts RM1.16bil Q2 net profit, declares 20 sen dividend
- **Axiata, HOLD (TP: RM6.12):** Higher finance costs, forex losses bite Axiata
- **IHH Healthcare, HOLD (TP: RM6.49):** Shrugs off lira volatility
- **Genting Plantations, HOLD (TP: RM10.19):** Net profit up 2%, pays 2 sen dividend

## Economic Update

- **Malaysia:** Miti proposes more fund allocation, tax incentives for SMEs
- **U.S.:** Consumer Comfort Jumps to Highest Level Since April 2015
- **China:** C.bank urges banks to spread out tenors of loans – sources
- **Italy:** Quake Seen Affecting Economic Confidence as Growth Stalled



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
US	22-Aug	8:30 PM	Chicago Fed Net 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	Markit 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 Handoff Ex Air	0.40%	-0.40%
US	25-Aug	8:30 PM	Cap Goods Ship Handoff Ex Air	--	-0.20%
US	25-Aug	9:45 PM	Bloomberg Consumer Comfort	--	--
US	25-Aug	11:00 PM	Kansas City Fed Manuf. 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	-562.3b	-563.3b
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%
JP	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	1,680.30	-1.76	-0.10
FBMEMAS	11,775.60	-21.90	-0.19
FBMEMAS SHA	12,418.14	-12.42	-0.10
FBM100	11,489.49	-19.57	-0.17
Volume (mn)	1,735.39	-199.61	-10.32
Value (RMmn)	1,887.89	113.13	6.37
FBMKLCI YTD Chg			-0.72

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	61.8	-52.3
Local Retail	15.9	-12.3
Foreign Investors	22.3	64.6

## Top Gainers

	Close	Change+/-	(+/- %)
PANASONIC MAN	37.50	-0.50	1.70
KHIND HOLDINGS	2.37	0.25	11.79
KAWAN FOOD BH	3.46	0.18	5.49

## Top Losers

	Close	Change+/-	(+/- %)
KESM INDUS BHD	7.51	-0.34	-4.33
BRIT AMER TOBAC	49.84	-0.22	-0.44
DUTCH LADY MILK	57.70	-1.82	-3.06

## World Indices

	Close	Change+/-	(+/- %)
DJIA	18,448.41	-33.07	-0.18
NASDAQ	5,212.20	-5.49	-0.11
S&P 500	2,172.47	-2.97	-0.14
FTSE 100	6,816.90	-18.88	-0.28
DAX	10,529.59	-93.38	-0.88
Nikkei 225	16,555.95	-41.35	-0.25
HSI	22,826.87	6.09	0.03
KOSPI	2,042.92	-0.84	-0.04
STI	2,869.57	5.46	0.19
KLCI Futures	1,668.00	1.00	0.00
USDMYR 3M	11.55	0.02	0.00
USDMYR 6M	11.46	0.01	0.00
USDMYR 12M	11.34	0.00	0.00

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	47	0.0	0.1%
Brent (USD/bbl)	49.1	-0.9	-1.8%
Gold(USD/ounce)	1,326	1.7	0.1%
Coal (USD/mt)	67.0	-0.1	-0.1%
CPO (RM/mt)	2,600	22.0	0.9%
Rubber	160	-1.0	-0.6%
RM/USD	4.04	0.0065	-0.16%
EUR/USD	0.89	0.0001	0.01%
YEN/USD	100.53	0.08	-0.08%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average weakened 33.07 points to 18,448.41 while S&P 500 eased by 2.97 points to 2,172.47. Nasdaq also fell by 5.49 points to 5,212.20. U.S. stocks ended slightly lower Thursday, with investors reluctant to make big bets the day before a much-anticipated speech by Federal Reserve Chairwoman Janet Yellen that will be picked apart for clues to the central bank's next rate move.
- Oil prices rose nearly 1 percent on Thursday on expectations the dollar would weaken after Friday's key speech by U.S. Federal Reserve Chair Janet Yellen, making greenback-denominated commodities more attractive to holders of other currencies. Brent crude futures rose 66 cents to \$49.71 a barrel, after settling down 1.8 percent on Wednesday.

### The Local Market

- FBMKLCI stayed in the red by losing 1.76 points to close at 1,680.30, dragged down by losses in blue chips such as Maybank and Axiata following the release of their latest quarterly results. There were 297 gainers and 523 decliners in total value traded of RM1.89 billion.
- Among the losers on Bursa Malaysia were KESM declined 34 cent to RM7.51, BAT lost 22 cent to RM49.84, Dutch Lady fell 20 cent to RM57.50 and Axiata dropped 18 cent to RM5.49.

### 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

### Maybank, BUY (TP: RM9.10): Posts RM1.16bil Q2 net profit, declares 20 sen dividend

Malayan Banking Bhd (Maybank) saw its net profit decline 26.8% to RM1.16bil for the second quarter ended June 30, 2016, from RM1.58bil in the corresponding period last year due to higher impairment losses. During the period in review, the largest lender in Malaysia saw its revenue increase 22.4% to RM10.94bil from RM8.93bil in the previous corresponding period. The group's earnings per share (EPS) fell to 11.79 sen from 16.76 sen a year ago. Maybank declared a first interim dividend of 20 sen per share. The group said its allowances for impairment losses on loans, advances, financing and other debts increased by RM680.7mil to RM981.7mil for the quarter ended June 30, 2016 compared to the previous period corresponding quarter ended June 30, 2015. (Source: The Star)

**Axiata, HOLD (TP: RM6.12): Higher finance costs, forex losses bite Axiata**

Axiata Group Bhd saw its net profit in the second quarter ended June 30, 2016 (Q2FY16) plunge almost 70% to RM188.93 million, from RM610.76 million a year ago, due to higher net finance costs, net foreign exchange losses and lower share of profit from associates. Revenue increased 12.8% to RM5.31 billion, compared with RM4.7 billion in the previous corresponding quarter, primarily due to consolidation of revenue from Nepal in Q2'FY16 and higher revenues in Sri Lanka, coupled with a positive translation impact. Axiata's president and group CEO Tan Sri Jamaludin Ibrahim said the group has taken several initiatives to regain its market position. "The management refresh at Celcom will accelerate the momentum already built over the last few months by the present team, and with a mandate to further introduce new and long lasting initiatives to completely turnaround the company, I am optimistic this will result in a stronger recovery that is sustainable." (Source: The Sun)

**IHH Healthcare, HOLD (TP: RM6.49): Shrugs off lira volatility**

Hospital operator IHH Healthcare Bhd posted second-quarter (Q2) results ended June 30 that shrugged off the currency volatility in Turkey with a strong earnings before interest, taxes, depreciation and amortisation (Ebitda) growth of 23% in that country instead. The second-biggest hospital operator in the world had in June expected its Turkish subsidiary to post currency losses following the slump in the Turkish lira. Instead, the 60%-owned Acibadem Holdings saw a 21% growth in revenue to RM867.9mil and 23% growth in Ebitda to RM159.6mil in the second quarter of the year. There was an exchange gain of RM7.5mil for Acibadem's non-Turkish lira borrowings in Q2, compared to losses of RM22mil from a year earlier. (Source: The Star)

**Genting Plantations, HOLD (TP: RM10.19): Net profit up 2%, pays 2 sen dividend**

Genting Plantations Bhd (GENP), a subsidiary of Genting Bhd, saw its net profit rise 2% to RM40.83 million or 5.2 sen a share in the second quarter ended June 30, 2016 (2QFY16) from RM40.03 million or 5.18 sen a share a year ago, on higher contribution from its plantation segment which was underpinned by stronger palm product selling prices. Revenue also grew 1.1% to RM309.12 million from RM305.73 million in 2QFY15. GENP also declared an interim dividend of 2 sen per share for the financial year ending Dec 31, 2016 (FY16), payable on Oct 20. For the cumulative six months (1HFY16), the group's net profit, however, declined 26.8% to RM67.82 million or 8.62 sen a share from RM92.68 million or 12.01 sen a share in 1HFY15, while revenue fell 9.5% to RM570 million from RM630.13 million. (Source: The Edge)

**Axiata, HOLD (TP: RM6.12): Revises up 2016 capex**

Axiata Group Bhd is revising its capital expenditure for the year upwards to about RM6bil, with the bulk of it to be put towards improving its network quality in Malaysia, Indonesia and Bangladesh. The group expects to spend about RM1.5bil to improve the quality of its network in Malaysia this year, compared to about RM850mil spent in the previous year. President and group CEO of Axiata Tan Sri Jamaludin Ibrahim told a media briefing that the group was aggressively ramping up its network quality in the three countries. (Source: The Star)

**RHB Bank, BUY (TP: RM5.80): Denies there is an investigation of its asset arm selling certain stocks**

RHB Banking group has denied that its asset management arm sold down certain stocks last week and that there was an external investigation on the matter over alleged irregularities with regards to its investment decisions. Managing director Datuk Khairussaleh Ramli flatly denied that the asset management arm had sold down certain stocks. However, he confirmed that chief investment officer Hoe Cheah How has left the unit. Last week, some stocks saw heavy selling pressure. Among them were United U-Li Corp Bhd, SLP Resources Bhd, Oriental Food Industries Holdings Bhd and SCGM Bhd. (Source: *The Star*)

**Hartalega, BUY (TP: RM4.78): Clarifies reports on headcount reduction**

Hartalega has clarified that the headcount reduction was part of its continuous efforts in re-engineering production processes to improve efficiency and ensure optimum use of labour. "The 600 workers were not laid off or fired as reported. They were previously contract workers who were recruited when there was a shortage in supply of foreign workers," managing director Kuan Mun Leong said in a statement. He said the reduction of the headcount was not due to the minimum wage hike or increased costs. (Source: *The Star*)

**PPB Group (CP:RM16.14): Results hit by Wilmar loss**

PPB Group Bhd saw a net loss of RM78.72 million for the second quarter ended June 30, 2016 compared with a net profit of RM182.64 million a year ago due to losses incurred by associate Wilmar International Ltd. Group revenue increased by 7% in Q2'16 to RM1.06 billion as compared with RM986.02 million in Q2'15, primarily driven by higher revenue from the grains and agribusiness, environmental engineering and utilities, consumer products and property segments. PPB's net profit dropped to RM167.52 million in 1H16 from RM415.55 million in 1H15 due to substantially lower profit contribution from Wilmar. For 1H16, group revenue grew by 11% to RM2.18 billion from RM1.95 billion in 1H15 mainly due to higher revenue contributed by grains and agribusiness, film exhibition and distribution as well as consumer products segments. (Source: *The Sun*)

**Genting (CP: RM8.21): Q2 net profit up to RM295mil**

Genting Bhd's net profit for the second quarter ended June 30 jumped more than two-fold to RM294.74mil from RM67.91mil a year ago. However, revenue for the quarter under review was flat at RM4.23bil. Genting said in a statement that its Resorts World Sentosa recorded a decline in revenue in the quarter due mainly to its gaming business, as the Asian gaming market continues to face challenges. As with the previous year, Genting did not declare an interim dividend for the first half of 2016 and will decide on the total proposed dividends for the current financial year when the full-year results have been reported. (Source: *The Star*)

**IGB (CP: RM2.68): Posts slightly lower Q2 earnings**

IGB Corp Bhd's net profit for the second quarter ended June 30, 2016 fell 2% to RM54.08 million from RM55.35 million a year ago due to lower contributions from the property development and hotel divisions, and the absence of a

RM17.2 million one-off gain from disposal in 2015. Group revenue slipped by 3% to RM262.52 million from RM271.91 million in the corresponding period of 2015 due to lower contribution from the property development division. For the six months period, its net profit dropped 12% to RM105.89 million from RM120.50 million a year ago. Group revenue for the half year was RM542.7 million, down 10% from the RM606.2 million in the corresponding period of 2015. IGB declared an interim single-tier dividend of 5 sen per share for the financial year ending Dec 31, 2016, which will be paid on Sept 23. (Source: The Sun)

**Barakah Offshore (CP: RM0.68): Gets Petronas Carigali job**

Barakah Offshore Petroleum Bhd has been awarded a contract for the provision of underwater services for oil and gas fields in Sabah and Sarawak by Petronas Carigali Sdn Bhd. In a filing with Bursa Malaysia, it said its wholly owned subsidiary PBJV Group Sdn Bhd received a letter of award from Petronas Carigali for the two-year contract, which is from August 2016 till August 2018, with an option for a one-year extension. The contract requires the provision of main and support vessel, air and saturation diving, remotely operated vehicle and other related underwater services, which includes inspection, maintenance, repair, drilling support and other work to Petronas Carigali's underwater facilities as and when necessary. (Source: The Sun)

**E&O(CP: RM1.69): Plans asset disposals to boost cash position**

Eastern & Oriental Bhd (E&O) is looking at opportunities to dispose of some of its landbank and non-core assets to improve its cash position, said its senior general manager of corporate investment and planning Yeonzon Yeow. "We are reviewing our landbank and non-core assets to decide on what to dispose of, in order to improve our cash position and with that cash, reinvest into our major projects namely Seri Tanjung Pinang 2A (STP 2A) and to ensure the timely and compliant completion of the projects," he told reporters after its AGM yesterday. The group's major landbank include 348 acres in Gertak Sanggul, 309.5 acres in Kemensah Heights and 135 acres in Elmina West. It is also reclaiming 166 acres in STP 2A. The entire STP 2 project will take up 760 acres. (Source: The Sun)

**MRCB (CP: RM1.29): Posts RM109mil operating profit in Q2**

Construction and property firm Malaysian Resources Corp Bhd's (MRCB) operating profit declined 19.08% to RM109.51mil in the second quarter ended June 30, 2016, compared to the corresponding quarter last year. In a filing with the stock exchange, MRCB said its net profit for the quarter dropped 24.3% to RM45.50mil, against 26.6% lower revenue of RM389.19mil from a year ago. Earnings per share reduced to 2.44 sen from 3.36 sen in the previous year. For the cumulative six months, MRCB's net profit was down 83% at RM49.89mil against revenue of RM825.21mil from RM934.47mil a year ago. (Source: The Star)

**Aemulus (CP: RM0.265): Signs MoU with Peregrine Semiconductor**

Aemulus Holdings Bhd's unit has signed a memorandum of understanding (MoU) with US-based Peregrine Semiconductor Corp (PSC) to jointly develop a Microwave Test Subsystem. The Penang-based test equipment manufacturer



announced today that the MoU signed between its wholly owned subsidiary Aemulus Corp Sdn Bhd and PSC on Aug 22 did not have a contract value. "There is no contract value stated as this MoU serves as an intention of the parties to collaborate to develop a Microwave Test Subsystem. Unless otherwise mutually agreed in writing, this MoU shall be terminated on the second anniversary of the effective date," Aemulus said. (Source: *The Star*)

#### **Mah Sing (CP: RM1.61): Q2 earnings at RM88.8mil**

Mah Sing Group Bhd saw its net profit dipped 9% to RM88.8mil in the second quarter ended June 30, compared with RM90.49mil in the same period a year ago. Its revenue for the period stood at RM773.89mil, down from RM780.48mil. Earnings per share for the quarter stood at 3.69 sen per share compared with 3.77 sen previously. In the first six months to June 30, Mah Sing's net profit was lower at RM183.85mil on revenue of RM1.48bil. As at June 30, the group's cash and bank balances amounted to approximately RM895.3mil and net gearing ratio was 0.06 times. (Source: *The Star*)

#### **Matrix Concepts (CP: RM2.50): 2Q net profit jumps 73.9%**

Property developer Matrix Concepts Holdings Bhd's net profit jumped 73.9% to RM51.9mil for the three months ended June 30, 2016, from RM29.9mil in the corresponding period last year. The group attributed its strong performance to higher revenue recognition from the sales of residential and commercial properties. During the quarter in review, Matrix Concepts saw its revenue increase 62.9% to RM196.2mil from RM120.4mil previously. The group's net earnings per share rose to 9.2 sen from 6.5 sen previously. The group declared a first interim single-tier dividend of 3.25 sen. (Source: *The Star*)

### **ECONOMIC UPDATES**

#### **Malaysia: Miti proposes more fund allocation, tax incentives for SMEs**

The International Trade and Industry Ministry is proposing more fund allocation and tax incentives to support the SME ecosystem, said Minister of International Trade and Industry Datuk Seri Mustapa Mohamed. He said the ministry would draft a proposal on stepping up the small-and-medium enterprise (SME) agenda, to be submitted to the Prime Minister for the 2017 Budget. "We realise that SMEs are the backbone of the Malaysian economy as it provides jobs to many. SME companies need more exposure for their products which can eventually enter the export market," he told reporters after a dialogue at the Initial Public Offering Seminar 2016. (Source: *The Star*)

#### **U.S.: Consumer Comfort Jumps to Highest Level Since April 2015**

American consumers grew more upbeat last week than at any time since April 2015, signaling robust spending will continue amid favorable views of the buying climate and household finances, the weekly Bloomberg Consumer Comfort Index showed Thursday. Even though consumers have their doubts about the economy, they certainly have a new-found spring in their step. Merchandise discounts from retailers and still-cheap fuel are helping convince

Americans that now is a good time to shop. Furthermore, record stock prices, low interest rates and a labor market near full employment are making Americans optimistic about their financial situations. *(Source: Bloomberg)*

#### **China: C.bank urges banks to spread out tenors of loans – sources**

China's central bank has urged banks to spread out the tenors of their loans, hinting at its displeasure with a recent trend of banks focusing on overnight lending, banking sources told Reuters on Thursday. Imbalances in China's financial system are increasing as the economy slows, complicating challenges facing policymakers as they try to clamp down on riskier lending practices without roiling markets. The People's Bank of China (PBOC) met with major banks on Wednesday to discuss management of liquidity in Chinese money markets amid rising speculation over whether Beijing would continue its monetary policy easing or not, the sources said. *(Source: The Edge)*

#### **Poland: Economic Funk Seen Worsening in Challenge for Budget**

Poland's economy is on track to languish for three years as analysts cut their growth forecasts for 2016 and 2017, in a sign the government's plans to hold the deficit within European Union limits are becoming increasingly unrealistic. Gross domestic product will expand 3.3 percent this year and next, from earlier predictions of 3.4 percent and 3.5 percent, and remain at the same level in 2018, according to the median estimates in a Bloomberg survey conducted Aug. 19-24. Next year's budget deficit will increase more than previously projected and widen to 3.1 percent of GDP from 2.9 percent in 2016, reaching 3 percent the following year, it showed. The outlook calls into question the government's ability to hold the budget shortfall below the EU's 3 percent threshold and ensure the flow of 82.5 billion euros (\$93 billion) in the bloc's development funds earmarked for Poland through 2020. *(Source: Bloomberg)*

#### **Spain: Economy Beats Growth Estimate Despite Deadlock**

The Spanish economy overcame the country's political impasse to grow more than initially estimated in the second quarter, led by a pickup in investment and exports. Gross domestic product grew 0.8 percent compared with a provisional reading of 0.7 percent, the Madrid-based National Statistics Office said Thursday. From a year earlier, the economy expanded 3.2 percent, while adding about 484,000 new jobs. Investment rose 1.3 percent in the quarter and construction gained 0.9 percent, the statistics office said. Exports jumped 4.3 percent. Household consumption remained strong, helping to offset subdued government spending as the nation grapples with political deadlock after two inconclusive elections that left caretaker Prime Minister Mariano Rajoy unable to form a government. *(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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