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Thursday, February 04, 2016

Report of the Day

Results Review: Public Bank 4Q15 – “Lowering KPIs for FY16”

Results Review: MMHE 4Q15 – “Hit by Higher Impairment Provision”

Sector Update: Banking (Neutral) - “Bracing for Softer 2016”

At a Glance

FBMKLCI declined 19.88 points to close at 1,633.30 impacted by losses in selected heavyweight oil and gas counters.....(See full report next page)

Strategy

“Time to Lick Some Wound”

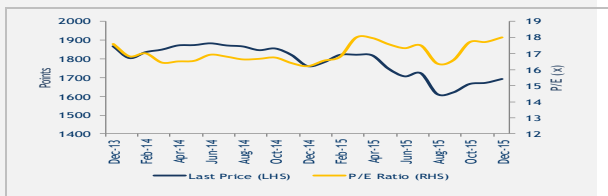
We expect the market to recover from their debilitating performance the day before.....(See full report next page)

Corporate Highlights

- **Public Bank, BUY (TP: RM21.38):** 2015 earnings cross RM5bil mark
- **MMHE, HOLD (TP: RM0.96):** Shaves a third off its 2015 earnings
- **Axiata, HOLD (TP: RM6.70):** Celcom aims to triple post-paid customer base

Economic Update

- **China:** Sets 2016 economic growth projection range at 6.5% to 7%
- **Japan:** BoJ's Kuroda says ready to use more policy options to boost inflation
- **South Korea:** Unveils stimulus to combat export slump



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
EU	1-Feb 5:00 PM	Markit Eurozone Manufacturing PMI	-	52.3	
CN	1-Feb 9:00 AM	Manufacturing PMI	49.6	49.7	
CN	1-Feb 9:00 AM	Non-manufacturing PMI	-	54.4	
CN	1-Feb 9:45 AM	Catixin China PMI Mfg	48.1	48.2	
JP	1-Feb 10:00 AM	Nikkei Japan PMI Mfg	-	52.4	
US	1-Feb 9:30 PM	Personal Income	0.2%	0.3%	
US	1-Feb 9:30 PM	Personal Spending	0.1%	0.3%	
US	1-Feb 9:30 PM	PCE Core MoM	0.1%	0.1%	
US	1-Feb 9:30 PM	PCE Core YoY	-	1.3%	
US	1-Feb 9:30 PM	Markit US Manufacturing PMI	-	52.7	
US	1-Feb 9:30 PM	ISM Manufacturing	48.5	48.2	
US	1-Feb 11:00 PM	ISM New Orders	-	49.2	
US	1-Feb 11:00 PM	Construction Spending MoM	0.6%	-0.4%	
EU	2-Feb 6:00 PM	PPI MoM	-	-0.2%	
EU	2-Feb 6:00 PM	PPI YoY	-	-3.2%	
EU	2-Feb 6:00 PM	Unemployment Rate	-	10.5%	
EU	3-Feb 5:00 PM	Markit Eurozone Services PMI	-	53.6	
EU	3-Feb 5:00 PM	Markit Eurozone Composite PMI	-	53.5	
EU	3-Feb 6:00 PM	Retail Sales MoM	-	-0.3%	
EU	3-Feb 6:00 PM	Retail Sales YoY	-	1.4%	
CN	3-Feb 9:45 AM	Catixin China PMI Services	-	50.2	
CN	3-Feb 9:45 AM	Catixin China PMI Composite	-	49.4	
JP	3-Feb 10:00 AM	Nikkei Japan PMI Services	-	52.2	
JP	3-Feb 10:00 AM	Nikkei Japan PMI Composite	-	42.7	
US	3-Feb 8:00 PM	MBA Mortgage Applications	-	8.8%	
US	3-Feb 9:15 PM	ADP Employment Change	190K	237K	
US	3-Feb 10:45 PM	Markit US Services PMI	-	53.7	
US	3-Feb 10:45 PM	Markit US Composite PMI	-	53.7	
US	3-Feb 11:00 PM	ISM Non-Manf. Composite	55.2	55.3	
EU	4-Feb 5:10 PM	Markit Eurozone Retail PMI	-	49.0	
US	4-Feb 9:30 PM	Nonfarm Productivity	-1.6%	2.2%	
US	4-Feb 9:30 PM	Initial Jobless Claims	-	-	
US	4-Feb 11:00 PM	Factory Orders	-0.1%	-0.2%	
US	4-Feb 11:00 PM	Durable Goods Orders	-	-	
US	4-Feb 11:00 PM	Durable Ex Transportation	-	-	
MY	5-Feb 12:00 PM	Exports YoY	-	6.3%	
MY	5-Feb 12:00 PM	Imports YoY	-	9.1%	
MY	5-Feb 12:00 PM	Trade Balance MYR	-	10.24B	
MY	5-Feb 6:00 PM	Foreign Reserves	-	595.1B	
JP	5-Feb 1:00 PM	Leading Index CI	-	103.5	
JP	5-Feb 1:00 PM	Coincident Index	-	111.9	
US	5-Feb 9:30 PM	Trade Balance	(\$42.85B)	(\$42.37B)	
US	5-Feb 9:30 PM	Change in Nonfarm Payrolls	205K	292K	
US	5-Feb 9:30 PM	Unemployment Rate	5.0%	5.0%	

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,633.30	-19.88	-1.20
FBMEMAS	11,382.39	-116.68	-1.01
FBMEMAS SHA	12,205.84	-118.90	-0.96
FBM100	11,085.51	-121.54	-1.08
Volume (mn)	1,489.42	-126.97	-7.85
Value (RMmn)	1,801.09	-750.43	-29.41
FBMKLCI YTD Chg			-3.50

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	15.3	8.8
Local Institution	56.7	91.6
Foreign Investors	28.0	-100.4

Top Gainers

	Close	Change+/-	(+/- %)
HONG LEONG IND	6.05	0.43	7.65
LAY HONG BHD	9.42	0.29	3.18
FRASER & NEAVE	18.56	0.28	1.53

Top Losers

	Close	Change+/-	(+/- %)
SHELL REFINING	3.68	-1.26	-25.51
PETRONAS GAS	22.02	-0.88	-3.84
PETRONAS DAGA	25.24	-0.64	-2.47

World Indices

	Close	Change+/-	(+/- %)
DJIA	16,336.66	183.12	1.13
NASDAQ	4,504.24	-12.71	-0.28
S&P 500	1,912.53	9.50	0.50
FTSE 100	5,837.14	-84.87	-1.43
DAX	9,434.82	-146.22	-1.53
Nikkei 225	17,191.25	-559.43	-3.15
HSI	18,991.59	-455.25	-2.34
KOSPI	1,890.67	-15.93	-0.84
STI	2,550.74	-28.49	-1.10
KLCI Futures	1,607.50	(16.00)	(0.01)
USDMYR 3M	12.78	0.04	0.00
USDMYR 6M	12.81	(0.05)	(0.00)
USDMYR 12M	13.54	0.05	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	33	0.2	0.7%
Brent (USD/bbl)	35.0	2.3	7.1%
Gold(USD/ounce)	1,142	-0.8	-0.1%
Coal (USD/mt)	50.5	0.1	0.1%
CPO (RM/mt)	2,547	32.0	1.3%
Rubber	122	-2.7	-2.2%
RM/USD	4.22	0.01	-0.24%
EUR/USD	0.90	0.0016	0.18%
YEN/USD	118.19	0.29	-0.25%

What To Expect

U.S. Market

- The Dow Jones Industrials Average surged 183.12 points to close at 16,336.66 points, S&P 500 soared 9.50 points to 1,912.53 points. Nasdaq dropped 12.71 points to 4,504.24. Stocks closed mostly higher on Wednesday, with the Dow and S&P completing a massive comeback spurred by a surge in oil.
- U.S. equities recovered from deep intraday losses Wednesday after the Iranian press reported an agreement between Venezuela, Russia, Iran and three other oil producing countries. The agreement involves the possibility of an emergency meeting to discuss production cuts needed to alleviate the severe and persistent global oversupply situation in the energy markets.

The Local Market

- FBMKLCI declined 19.88 points to close at 1,633.30 impacted by losses in selected heavyweight oil and gas counters. There were 325 gainers and 480 decliners in total value traded of RM1.80 billion.
- Among the losers on Bursa Malaysia were Shell Refining shed RM1.26 to RM3.68, PetGas dropped 88 cent to RM22.02, PetDag fell 64 cent to RM25.24 and PPB Group decreased 46 cent to RM15.90.

Strategy

- **"Time to Lick Some Wound"**
Wall Street partly recovered some lost points on Wednesday helped by the rally in oil price and soothing statement from member of US FOMC. S&P 500 and DJIA loaded 9.50 (0.50%) and 183.12 (1.13%) points to end at 1,912.53 and 16,336.66 respectively. To begin with, oil (WTI) rallied to close 8% higher to end at USD32 per barrel as sentiment improved following the weakening of USD across major currency. In addition, trading sentiment got better after the statement by New York Fed President and FOMC voting member William Dudley, who stated that financial conditions have tightened since December's rate increases and that additional strength from USD could have "significant consequences" for the U.S. economy, suggesting that hasty rate increase will damage the USD and hence, the US economy. All told, we expect the market to recover from their debilitating performance the day before but sentiment may still be capped by the uncertain outlook of oil price and also by the impending release of US unemployment rate tomorrow.
- Our 1H16 FBMKLCI target is 1,720 based on PER of 16.5x. FBMKLCI is a **NEUTRAL**. We have **OVERWEIGHT** call on construction, telco and oil and gas respectively. We predict Malaysia to grow by 4.5% in 2016.

CORPORATE HIGHLIGHTS

Public Bank, BUY (TP: RM21.38): 2015 earnings cross RM5bil mark

Public Bank Bhd recorded a stellar set of results, with net profit surpassing RM5bil for the financial year ended Dec 31, 2015. It rewarded shareholders by declaring a second interim dividend of 32 sen per share, bringing the full-year dividend to 56 sen. The total dividend paid and payable for 2015 amounted to RM2.16bil and represents a total payout of 42.7% of the group's net profit for 2015. Public Bank posted a net profit of RM5.06bil, up 12% from RM4.52bil it recorded a year ago, translating to a net return on equity of 17.8% for 2015. Revenue was 13.8% higher at RM19.18bil compared with RM16.86bil in 2014. (Source: *The Star*)

MMHE, HOLD (TP: RM0.96): Shaves a third off its 2015 earnings

Malaysia Marine and Heavy Engineering Holdings Bhd (MMHE) has shed almost a-third of its earnings for the financial year ended Dec 31, 2015 to RM43.89mil from RM129.93mil a year ago. The decline in net profit was due to lower contribution from MMHE's offshore segment as well as the impact from recognition of impairment on both goodwill (RM62.8mil) and assets (RM37mil). "This is taken in view of the continued depressed outlook for the oil and gas industry with the drop in crude oil prices," it said in a statement on Wednesday. However, revenue fell 8.9% to RM2.46bil against RM2.7bil in 2014. (Source: *The Star*)

Axiata, HOLD (TP: RM6.70): Celcom aims to triple post-paid customer base

Celcom Axiata Bhd aims to triple its post-paid customer base following the launch of the First Gold and NewPhone plans yesterday. "We have to take advantage of the Chinese New Year (festival)," its chief of sales and marketing officer Zalman Aefendy Zainal Abidin told reporters at the new plans launching ceremony yesterday. "With this, we hope to grow our post-paid customers more than three times from what it is today," he added. The telecommunications company (telco), which at present has almost 13 million customers nationwide, however, declined to disclose its post-paid customer base currently. (Source: *The Sun*)

Westports (CP: RM3.95): Posts earnings of RM504.8m in FY15

Westports Holdings Bhd posted lower earnings of RM504.86mil in the financial year ended Dec 31, 2015 due to higher tax expenses despite higher pre-tax profit and revenue. The port operator announced on Wednesday its earnings were lower by 1.4% from RM512.20mil in FY14. Its revenue increased 7.6% to RM1.68bil from RM1.56bil a year ago. It proposed dividend of 5.78 sen a share. Westports' profit before tax increased by 12% to RM650.14m as operational revenue grew by 5% to RM1.58bil. It sustained higher tax expense of RM144.28mil compared with RM66.57mil a year ago. However, there was higher tax expense of RM145.28mil compared with RM66.58mil a year ago. (Source: *The Star*)

CLIQ (CP: RM0.69): Woes puts spotlight on O&G SPACs

The resignation of CLIQ Energy Bhd's principal adviser at such a critical period when the company is racing against time to complete its qualifying asset

acquisition, will have a negative impact on other oil and gas special purpose acquisition companies (SPAC), said analysts. It will be negative in the sense that investors will lose confidence in SPACs, coupled with the strengthening of the US dollar has made acquisitions look more pricey. Even in the current low oil price environment, it is difficult for them (SPACs) to secure good assets because the sellers already know how much money they have on the table, so the SPACs will have lesser bargaining power," said an analyst who declined to be quoted. Except for Hibiscus Petroleum, other oil and gas SPACs – Sona Petroleum Bhd and Reach Energy Bhd still haven't completed their qualifying asset acquisitions as yet. *(Source: The Sun)*

Shell Refining (CP: RM3.68): Shares hit limit down early Wednesday

Shares of Shell Refining Company (Federation of Malaya) Bhd (SRC) hit limit-down early Wednesday as investors were unhappy about the low price of RM1.80 a share its parent was selling the 51% stake at. Royal Dutch Shell announced it was selling its entire 51% stake in SRC to Malaysia Hengyuan International Limited (MHIL) for US\$66.3mil (RM276mil) which will lead to mandatory general offer. The pricing would also have an impact when there is a mandatory general offer (MGO) for the rest of the shares. *(Source: The Star)*

Melewar Industrial (CP: RM0.22): Bags RM83mil job for Tg Bin power plant

Melewar Integrated Engineering Sdn Bhd (MIE), a 70% owned subsidiary of Melewar Industrial Group Bhd (MIG), has clinched an RM83mil contract for upgrading and modification works at Malakoff Corp Bhd's Tanjung Bin power plant in Johor. The steel product manufacturer and engineering company told Bursa Malaysia that MIE had accepted an engineering, procurement and construction engagement by entering into a contract agreement with Malakoff's subsidiary Tanjung Bin Power Sdn Bhd. The job involves obtaining and installing a new conveyor line as well as undertaking upgrading and modification works to the existing coal handling systems at the Tanjung Bin plant. *(Source: The Star)*

Lay Hong (CP: RM9.42): Proposes bonus issue and share split

Poultry player Lay Hong Bhd has proposed corporate exercises that would involve a bonus issue, share split and free warrants issue following the completion of a fund-raising exercise recently. The company told the local exchange yesterday that the proposed exercises would see its enlarged issued and paid-up capital increase to close to 1 billion shares from 57.75 million shares currently. The company's stock, which has been on an uptrend, finished 10% up to RM9.13 at yesterday's close. *(Source: The Star)*

JCY (CP: RM0.745): Buys land for RM23mil

JCY International Bhd's wholly owned subsidiary, JCY HDD Technology Sdn Bhd, has entered into a sale and purchase agreement with PCA Mahlin Technology Sdn Bhd for the acquisition of 1.69 acres in Seberang Perai Tengah, Penang for RM23mil. The rationale for the acquisition is that JCY had been renting and occupying the property as one of its significant operation sites for more than 10 years. The management is of the view that the acquisition will enhance the security and management of the assets that the purchaser had invested and attached onto the property throughout the years it has so occupied the property. *(Source: The Star)*

RCE Capital (CP: RM0.255): 3Q profit quadruples on investment gain, higher interest income

RCE Capital Bhd's net profit went up more than four times to RM13 million in the third quarter ended 31 Dec 2015 (3QFY16), from RM3.13 million a year ago, as its revenue rose 23.9%, primarily driven by higher interest income. The favourable results were also because of a RM1.9 million net gain on disposal of an investment property, its bourse filing today showed. RCE also noted that the last corresponding quarter's net profit came in after taking into consideration the preference share dividend paid. *(Source: The Star)*

Selangor Properties (CP: RM5.38): Buys 4 lands for RM32.2m

Selangor Properties Bhd has acquired four parcels land, measuring totalling 5,253 square metres in Kuala Lumpur (KL) for RM32.2 million, to develop high-end properties. The purchase price was arrived at after taking into consideration the indicative market value of the land of RM33.9 million, as appraised by VPC Alliance (KL) Sdn Bhd, and was based on a lower value derived from average selling price of RM600 per sq ft as compared to three identified transactions within the area with less strategic location but higher average selling prices ranging from RM638 to RM680 per sq ft. The purchase will be funded by internally generated funds. *(Source: The Star)*

Semiconductor Sector: Global semicon sales lower at US\$335b in 2015 despite China gains

Global semiconductor sales slipped 0.2% to US\$335.2bil in 2015 from the record sales in the previous year due to weaker demand and stronger US dollar, despite higher annual sales from China. The US-based Semiconductor Industry Association (SIA) said global sales in December fell 4.4% to US\$27.6bil from November and were down 5.2% from a year ago. The SIA said fourth quarter sales were lower by 5.2% at US\$82.9bil from US\$87.4bil in the quarter in 2014. The trade body noted the monthly sales numbers were compiled by the World Semiconductor Trade Statistics (WSTS) organization and represent a three-month moving average. *(Source: The Star)*

ECONOMIC UPDATES**China: Sets 2016 economic growth projection range at 6.5% to 7%**

China has set its economic growth projection range at 6.5 to 7 percent, an official from the country's top economic planner said at a briefing on Wednesday. Xu Shaoshi, chairman of the National Development and Reform Commission (NDRC), said downward pressure on the world's second largest economy will remain in 2016. He added that China's investment is now focused on fixing weak points and structural adjustments, including infrastructure in the central and western regions, education and healthcare sectors. Xu also said that China's basic infrastructure investment growth increased 15 percent last year. *(Source: The Star)*

Japan: BoJ's Kuroda says ready to use more policy options to boost inflation

Bank of Japan (BoJ) governor Haruhiko Kuroda said the central bank has ample room to expand stimulus further and is prepared to cut interest rates deeper into negative territory, signalling a readiness to act again to hit his ambitious

inflation target. Even after deploying what he described as "the most powerful monetary policy framework in the history of modern central banking," Kuroda said he remained open to devising new means to revive the economy if existing tools did not work. (Source: *The Star*)

South Korea: Unveils stimulus to combat export slump

South Korea on Wednesday unveiled a stimulus package, including an extra six trillion won (US\$4.94 billion) in public spending, to bolster an economy struggling with falling exports and high youth unemployment. The package, announced by the finance ministry, came as Asia's fourth-largest economy in Asia saw its exports plunge 18.5% on-year in January - the sharpest decline for more than six years. (Source: *The Star*)

U.K.: Services sector maintains growth

The Markit/CIPS index put the sector at 55.6 last month, barely changed from December's reading on 55.5. Any figure above 50 suggests that output in the sector is expanding. The service sector accounts for more than three quarters of the UK economy. Reports earlier in the week put the manufacturing sector at 52.9 and construction at 55.0. "The three PMI surveys for January collectively point to a slight upturn in the rate of economic growth, consistent with GDP rising at a quarterly rate of 0.6% in the first quarter, up from 0.5% in the fourth quarter, if current levels are sustained," said Chris Williamson, chief economist at Markit. (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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