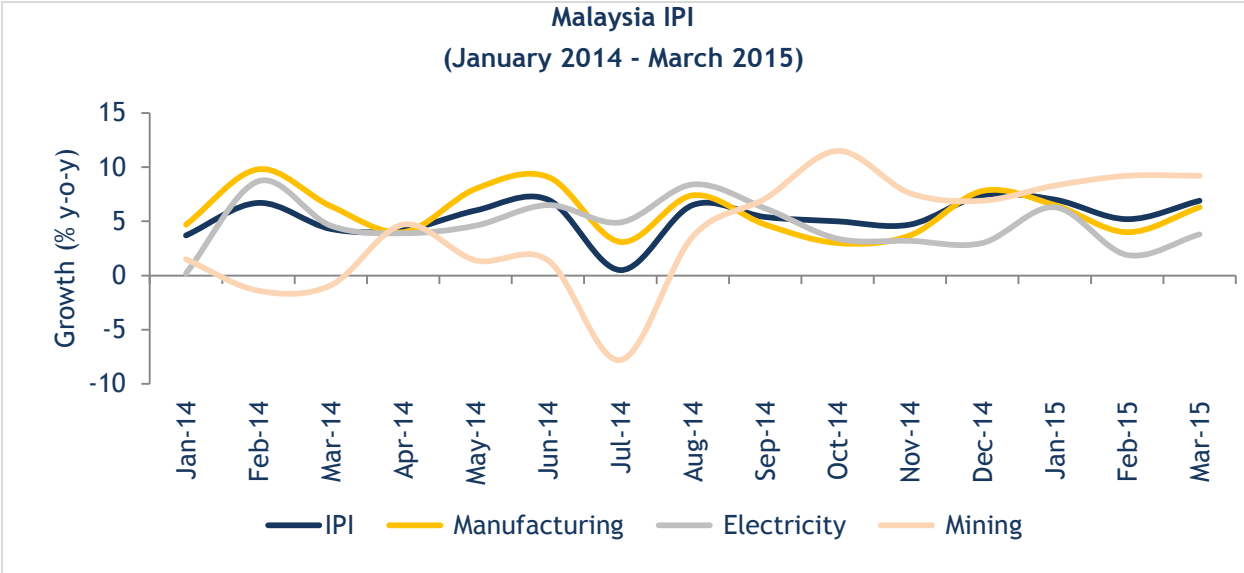


“Malaysia First Quarter IPI at 6.4%”



Source: DOS, M&A Securities

Table 1: Malaysia IPI

	Growth y-o-y (%)			Growth m-o-m (%): Mac-15*	2014 (average)
	Feb-15	Mac-15	1Q15		
IPI	5.2	6.9	6.4	0.6	5.1
Manufacturing	4.0	6.3	5.6	1.2	6.0
Electricity	1.9	3.8	4.0	1.2	4.8
Mining	9.2	9.2	8.9	2.3	3.0

\*seasonally adjusted

Our View on 1Q15 IPI Performance

Malaysia hammered a pulsating 1Q15 IPI that jumped by 6.4%, beating 2014 IPI average of 5.1% and 1Q14 average of 4.9%. Although this performance is encouraging but given that 60% of IPI are directed for the export market, it would not mean much to the economy no thanks to the sharp decline of our major export commodities prices namely petroleum, crude oil, natural gas and crude palm oil.

On the same breath, the headline IPI for March gained by 6.9% y-o-y, the second highest for the quarter given January blazing pace of 7.0% (February 2015: 5.2%), benefitting from the steady rise across all indices led by manufacturing index at 6.3% y-o-y (February 2014: 4.0%; 1Q15 average: 5.6%), electricity index at 3.8% y-o-y (February 2015: 1.9%; 1Q15: 4.0%) and mining index of 9.2% (February 2015: 9.2%; 1Q15 average: 8.9%). M-o-m, IPI for March vaulted by 0.6% benefitting from growth across all indices namely manufacturing at 1.2%, electricity 1.2% and mining at 2.3%.

Carving through the numbers, we opine that manufacturing sector growth is consistent with the positive growth in export for March which grew by 0.6% y-o-y, lifted higher by gains in E&E export, one of the very few sectors that lifted our export with the other being timber and timber based

product. The rest of our major commodities namely petroleum, crude oil, crude palm oil and natural gas had all tumbled in export value due to the drop in either price, output or both.

As expected, mining index continued its faster clip of growth as the nation ramped up its production in order to stem the sharp decline in price. As mentioned, 1Q15 mining index clocked-in an average growth of 8.9%, thumping 1Q14 average of -0.3% and 2014 of 3.0%, making our arguments that the nation had pumped out more output to offset the price decline more apparent. As mentioned, the 1Q15 IPI numbers may not benefit that much to the 1Q15 GDP growth no thanks to the dwindling 1Q15 export that contracted by 2.6%. We are in for a rough 1Q15 GDP ride. Note that the 1Q15 GDP will be announced on the 14<sup>th</sup> of May at 12pm.

#### Analysis by sector for March 2015 IPI

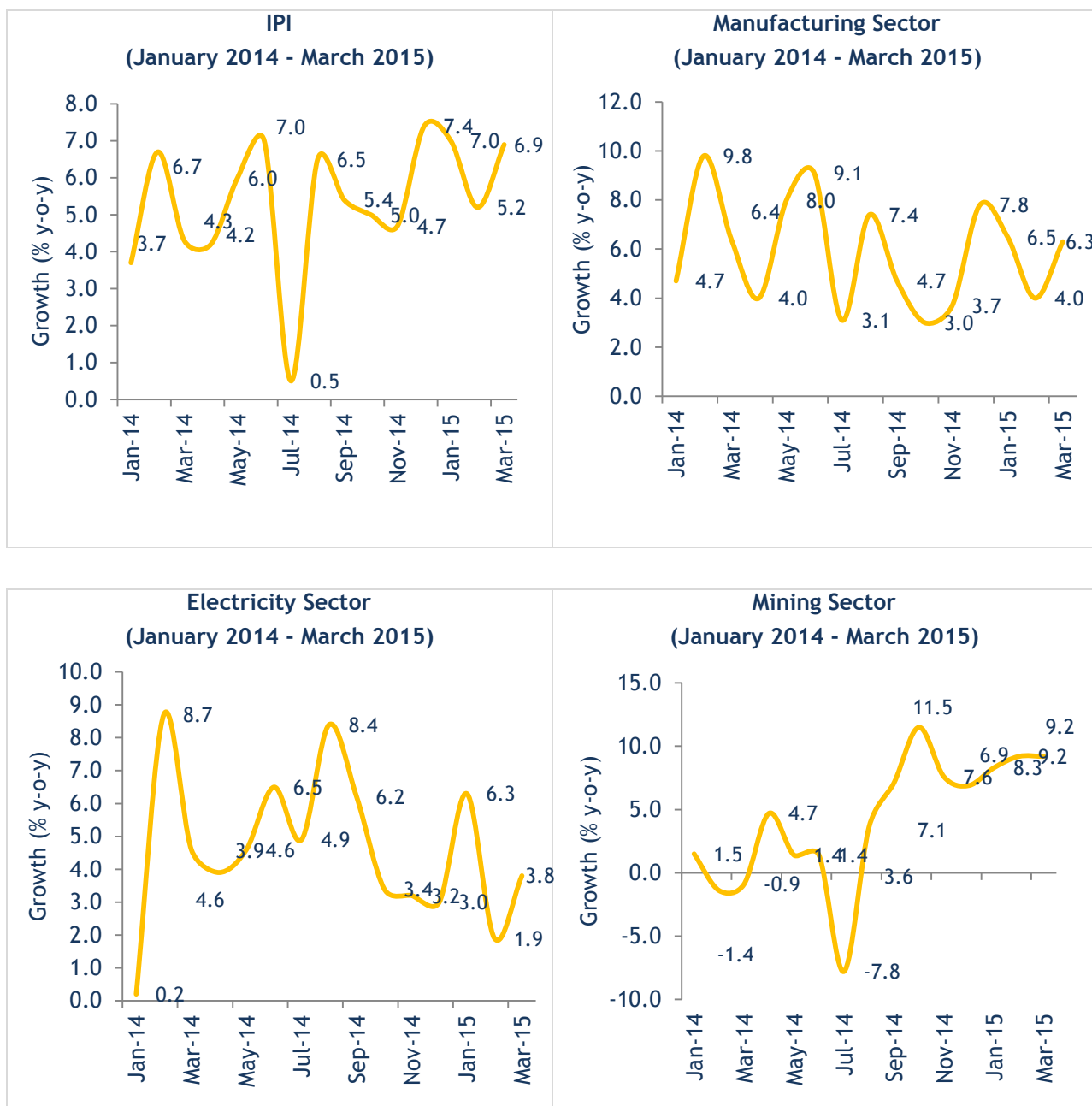
**Manufacturing sector:** As mentioned, manufacturing sector clocked-in a commendable 6.3% y-o-y growth in March that was marginally lower than a year ago of 6.4% (February 2015: 4.0%; 1Q15 average: 5.6%)., gaining from growth in sub-sector like electrical and electronics (+13.0%), petroleum, chemical, rubber and plastic (+4.5%) and non-metallic mineral product, basic metal and fabricated metal products (+5.6%). M-o-m and seasonally adjusted, manufacturing output gained by 1.2% for the month.

**Mining sector:** As narrated above, the country took advantage of the softness in global oil price to accelerate the oil and gas output in March as evident in the sector's blazing pace March growth of 9.2% y-o-y (February 2015: 9.2%; 1Q15 average: 8.9%). This is, nonetheless, head-and-shoulder above March 2014 contraction of 0.9%. The strong sector growth was underpinned by crude oil index that gained by a solid 20.3% but natural gas output dipped by 2.4%. M-o-m and seasonally adjusted, mining sector output jumped by 1.2%.

**Electricity sector:** Electricity sector output expanded commendably in March 2015 after jumping by 3.8% y-o-y (February 2015: 1.9%; 1Q15 average: 4.0%). M-o-m basis, it jumped by 2.3%.

#### Outlook

Outlook wise, Malaysia can always accelerate its industrial output momentum but since 60% of these are meant for the export market, it will not mean that much if prices of our main commodity output have yet to gain in traction. The economy will be calculated not only on the output side but also on the price side in order to get the export value. Hence, until and unless the commodity market has normalized with steady rise across all commodities prices, we surely cannot rest on our laurels as 2015 is likely to be a challenging year to all commodities producing country.



# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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