

2Q16 Malaysia Economic Outlook

“To Embrace Slower Growth”

Malaysia Economic Forecast					
	2012	2013	2014	2015F	2016F
BNM	5.6%	4.7%	6.0%	5.0%	4.0%-4.5%
MoF					4.0%-4.5%
MIER					4.5%
Bloomberg Consensus					4.3%
M&A Securities					4.3%

Source: Various, M&A Securities

Positive catalysts:

- 1) 2016 economic growth will still be good, albeit slower (2015: 5.0%; 2016F: 4.3%)
- 2) GST to shore up help fiscal revenue
- 3) Steady domestic demand
- 4) Undervalued Ringgit; capital inflow to return
- 5) Not too vulnerable thanks to steady current account surplus
- 6) A fresh round of SRP; weak global commodity prices allow that
- 7) Steady export to assist growth

Negative catalysts:

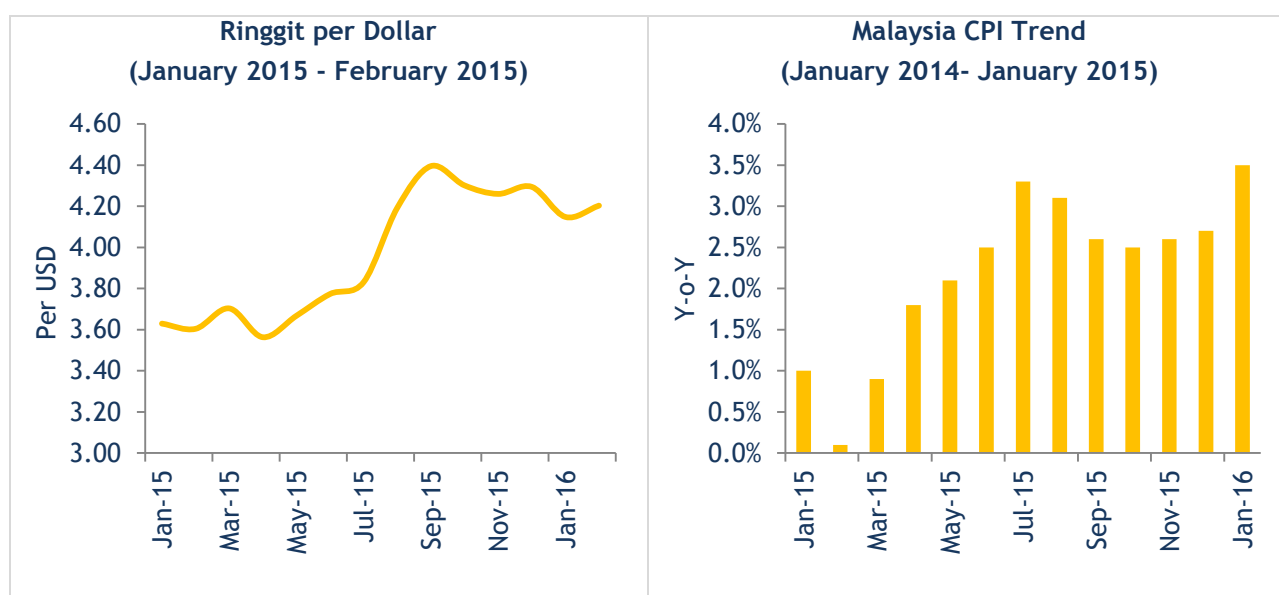
- 1) Limited policy space
- 2) Sluggish commodity prices; fiscal position could suffer
- 3) Financial instability; eminent downside risk on Ringgit

Basing on BNM’s growth projection 4.0%-4.5%, we think that Malaysia’s growth projection is still enviable compared to advanced economies like US (2016F: 2.6%), Japan (2016F: 1.0%) and Eurozone (2016F: 1.7%). Nonetheless, there is an emergence of new downside risks to Malaysia, as in the dwindling demand for oil and oil related products due to the struggling advanced nations economies. Added to that, our fiscal spending could be at teeters due to the weak oil price. Note that Malaysia fiscal budget earlier expected oil price to average at USD48 per barrel but has been trading at a high range of USD30 per barrel. Hence, the government has recalibrated its 2016 budget. Thankfully, 2016 will be the full year of GST collection that will be enough to support reducing oil and tax revenue for the year. Therefore, the GDP projection by BNM is still intact.

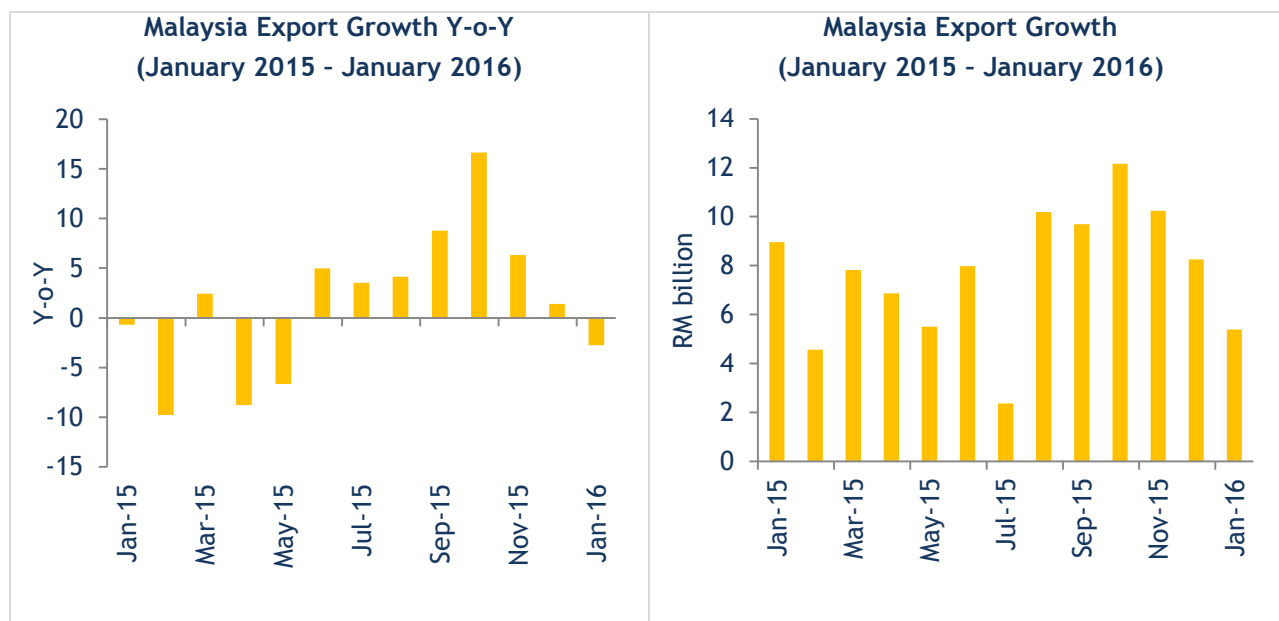
At this stage, we think that export will also help the economy given the off tangent Ringgit. Export momentum could be the savior due to the challenges face by private investment and consumption. Nonetheless, the prospect of US adjusting its interest rate will continue to be negative for Malaysia’s financial market as we think that prospects will lead to protracted volatility in local financial markets. Therefore, 2016 will continue to be challenging year. Above all, we don’t think that the US Federal Funds rate adjustment will reach its normalisation level of 5% anytime soon. Hence, the uncertainty will continue in the foreseeable future. Note that weak currency is not limited to Malaysia but also impacting almost all of emerging economies particularly commodity driven nations

like Russia, Brazil, Venezuela and Indonesia. Therefore, we think that Ringgit will reverse its downward trend once the capital outflow returns to the region or at least back into EMEs. In sum, we think that Ringgit may have reached its bottom and poise for a reversal. We have Ringgit fair value of RM3.75 per Dollar.

Malaysia will also benefit from a boom in infrastructure spending as the government is planning to spend up to RM120 billion to improve the railway infrastructure network. Mammoth projects like KVMRT2 and KVMRT3 along with LRT extension and some new high ways will get a kick start. That will be among the catalysts for Malaysian economy. At this stage, we think that domestic economy, as in private investment and consumption, will continue to support the economy, Hence, risks to growth is limited at this juncture unless oil price stays at the bottom for too low and too long.



Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities SdnBhd (15017-H)
(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45-47 & 43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 - 2282 1820 Fax: +603 - 2283 1893
Website: www.mnaonline.com.my