

PP14767/09/2012(030761)

Tuesday, April 19, 2016

## Report of the Day

**Strategy Report (Sector): Oil & Gas** - "Market Sentiment to Improve in 2016"

**Strategy Report (Top Pick): Ibraco** - "Clear Earnings Trajectory"

## At a Glance

FBM KLCI down 10.31 points to close at 1,717.68 after global oil producers' weekend meeting failed to agree a plan to curb the global supply glut.....(See full report next page)

## Strategy

## "Expect Market to Recoup Yesterday's Losses"

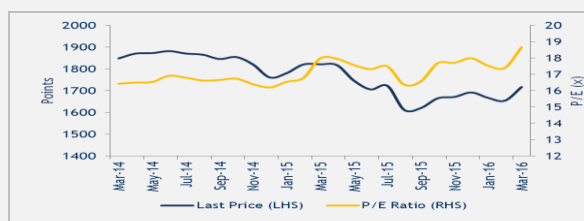
The steep decline of the local market yesterday could be a precursor for a rebound today .....(See full report next page)

## Corporate Highlights

- **Malakoff, BUY (TP: RM2.00):** Withdraws plan to table directors' fees at AGM
- **Kimlun (CP: RM1.83):** Plans dividend reinvestment plan for shareholders
- **Can-One (CP: RM4.04):** Says not received any formal offer for unit yet

## Economic Update

- **Malaysia:** DSA 2016 To Generate RM100 Mln Sales From Business Matching
- **Singapore:** Non-oil exports plunge most in three years in March
- **UK:** Osborne warns voters of Brexit's permanent economic damage



| KEY ECONOMIC RELEASE |        |            |                                   |        |         |
|----------------------|--------|------------|-----------------------------------|--------|---------|
|                      | Date   | Local Time | Event                             | Survey | Prior   |
| CN                   | 18-Apr | 9:30 AM    | China March Property Prices       | -      | -       |
| US                   | 19-Apr | 8:30 PM    | Housing Starts                    | 1156k  | 1178k   |
| US                   | 19-Apr | 8:30 PM    | Building Permits                  | 1205k  | 1167k   |
| US                   | 20-Apr | 7:00 PM    | MBA Mortgage Applications         | -      | -       |
| US                   | 20-Apr | 10:00 PM   | Existing Home Sales               | 5.27m  | 5.08m   |
| US                   | 20-Apr | 10:00 PM   | Existing Home Sales MoM           | 3.7%   | -7.1%   |
| JP                   | 20-Apr | 7:50 AM    | Trade Balance                     | -      | ¥242.8b |
| JP                   | 20-Apr | 7:50 AM    | Trade Balance Adjusted            | -      | ¥166.1b |
| MY                   | 20-Apr | 12:00 PM   | CPI YoY                           | -      | 4.2%    |
| US                   | 21-Apr | 8:30 PM    | Initial Jobless Claims            | -      | -       |
| US                   | 21-Apr | 8:30 PM    | Continuing Claims                 | -      | -       |
| US                   | 21-Apr | 10:00 PM   | Leading Index                     | 0.4%   | 0.1%    |
| EU                   | 21-Apr | 7:45 PM    | ECB Main Refinancing Rate         | -      | 0.0%    |
| EU                   | 21-Apr | 7:45 PM    | ECB Deposit Facility Rate         | -      | -0.40%  |
| EU                   | 21-Apr | 7:45 PM    | ECB Marginal Lending Facility     | -      | 0.25%   |
| EU                   | 21-Apr | 10:00 PM   | Consumer Confidence               | -      | -9.7    |
| US                   | 22-Apr | 9:45 PM    | Markit US Manufacturing PMI       | -      | 51.5    |
| EU                   | 22-Apr | 4:00 PM    | Markit Eurozone Manufacturing PMI | -      | 51.6    |
| EU                   | 22-Apr | 4:00 PM    | Markit Eurozone Services PMI      | -      | 53.1    |
| EU                   | 22-Apr | 4:00 PM    | Markit Eurozone Composite PMI     | -      | 53.1    |
| MY                   | 22-Apr | 6:00 PM    | Foreign Reserves                  | -      | \$97.0b |

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## Bursa Malaysia

|                 | Close     | Change+/- | (+/- %) |
|-----------------|-----------|-----------|---------|
| FBMKLCI         | 1,717.68  | -10.31    | -0.60   |
| FBMEMAS         | 11,922.37 | -74.70    | -0.62   |
| FBMEMAS SHA     | 12,485.43 | -54.33    | -0.43   |
| FBM100          | 11,618.77 | -74.44    | -0.64   |
| Volume (mn)     | 1,731.98  | 146.85    | 9.26    |
| Value (RMmn)    | 1,688.11  | -17.28    | -1.01   |
| FBMKLCI YTD Chg |           |           | 1.49    |

## Daily Trading Position (RM'mn)

|                   | Participation (%) | Net(RMm) |
|-------------------|-------------------|----------|
| Local Retail      | 16.9              | 9.3      |
| Local Institution | 61.2              | -8.0     |
| Foreign Investors | 21.9              | -1.3     |

## Top Gainers

|              | Close | Change+/- | (+/- %) |
|--------------|-------|-----------|---------|
| AJINOMOTO    | 9.02  | 0.24      | 2.73    |
| PPB GROUP    | 16.58 | 0.20      | 1.22    |
| QL RESOURCES | 4.43  | 0.13      | 3.02    |

## Top Losers

|             | Close | Change+/- | (+/- %) |
|-------------|-------|-----------|---------|
| BAT         | 55.10 | -0.44     | -0.79   |
| PANASONIC   | 28.70 | -0.30     | -1.03   |
| AEON CREDIT | 12.40 | -0.18     | -1.43   |

## World Indices

|              | Close     | Change+/- | (+/- %) |
|--------------|-----------|-----------|---------|
| DJIA         | 18,004.16 | 106.70    | 0.60    |
| NASDAQ       | 4,960.02  | 21.80     | 0.44    |
| S&P 500      | 2,094.34  | 13.61     | 0.65    |
| FTSE 100     | 6,353.52  | 9.77      | 0.15    |
| DAX          | 10,120.31 | 68.74     | 0.68    |
| Nikkei 225   | 16,275.95 | -572.08   | -3.40   |
| HSI          | 21,161.50 | -154.97   | -0.73   |
| KOSPI        | 2,009.10  | -5.61     | -0.28   |
| STI          | 2,912.23  | -11.71    | -0.40   |
| KLCI Futures | 1,704.50  | (7.00)    | (0.00)  |
| USDMYR 3M    | 12.80     | 0.03      | 0.00    |
| USDMYR 6M    | 12.53     | 0.01      | 0.00    |
| USDMYR 12M   | 12.37     | 0.01      | 0.00    |

## Other Key Economics Data

|                 | Close  | Change+/- | (+/- %) |
|-----------------|--------|-----------|---------|
| WTI (USD/bbl)   | 40     | 0.3       | 0.6%    |
| Brent (USD/bbl) | 42.9   | -0.2      | -0.4%   |
| Gold(USD/ounce) | 1,232  | -0.6      | -0.1%   |
| Coal (USD/mt)   | 50.8   | -0.1      | -0.1%   |
| CPO (RM/mt)     | 2,668  | 27.0      | 1.0%    |
| Rubber          | 171    | 1.3       | 0.8%    |
| RM/USD          | 3.93   | 0.0265    | -0.67%  |
| EUR/USD         | 0.88   | 0.0004    | 0.05%   |
| YEN/USD         | 108.93 | 0.11      | -0.10%  |

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average jumped 106.70 points to close above 18,000 psychological level at 18,004.16, S&P 500 increased 13.61 points to close at 2,094.34 points. Nasdaq rose 21.80 points to 4,960.02. Wall Street rose on Monday, with the Dow touching highs not seen since July, as Hasbro and Disney lifted the consumer discretionary sector while investors braced for a flurry of quarterly earnings reports through the week.
- Oil prices slid on Monday after a plan by major oil producers to freeze production was scuttled, but a Kuwaiti oil industry strike helped the market pare losses and settle off the day's lows. The strike crippled more than 60 percent of Kuwait's crude output, lending support to price benchmarks such as Brent and Dubai. U.S. crude's West Texas Intermediate (WTI) benchmark closed down 58 cents, or 1.4 percent, at \$39.78 a barrel, after sliding to \$37.61 at the day's low.

### The Local Market

- FBMKLCI down 10.31 points to close at 1,717.68 after global oil producers' weekend meeting failed to agree a plan to curb the global supply glut. There were 251 gainers and 558 decliners in total value traded of RM1.69 billion.
- Among the losers on Bursa Malaysia were BAT dropped 44 cent to RM55.10, Panasonic Manufacturing fell by 30 cent to RM28.70, Aeon Credit decreased 18 cent to RM12.40 and MAHB slipped 18 cent to RM6.50.

### Strategy

- **“Expect Market to Recoup Yesterday’s Losses”**  
Wall Street made steady gains on Monday investors picked up the pieces from the failure of global oil producers’ meeting on Sunday. **S&P 500** and **DJIA** gained **13.61 (0.65%)** and **106.70 (0.60%)** points to end at **2,094.34** and **18,004.16** respectively. Oil prices seem unperturbed by the failure of the global oil producers on Sunday with the benchmark WTI gained to USD40.06 per barrel from USD39.71 per barrel. In fact, Wall Street was re-energised over the prospect of the US Federal Reserve much slower policy tightening measures. Although thus far the catalyst to oil seems lacking with Iran’s refusal to chip in to freeze output but US slower policy measures can give a breather that the global economy may not get choked too soon. Notwithstanding that, the steep decline of the local market yesterday could be a precursor for a rebound today in line with the baby steps gains showed by oil price.
- 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

**Malakoff, BUY (TP: RM2.00): Withdraws plan to table directors' fees at AGM**

Southeast Asia's largest independent power producer said on Monday the board of directors had resolved to withdraw the resolution eight "that the payment of directors' fees not exceeding RM1.50mil for each financial year commencing from the financial year ending 31 December 2016 be and is hereby approved". "The above decision by the board to withdraw ordinary resolution eight was made after considering the feedback received from the company's shareholders in respect of the said resolution. "The board is of the view that it is in the best interest of the company for ordinary resolution eight to be withdrawn," said Malakoff. *(Source: The Star)*

**Kimlun (CP: RM1.83): Plans dividend reinvestment plan for shareholders**

Kimlun Corp Bhd plans to establish a dividend reinvestment plan (DRP) as an option for shareholders to reinvest their dividends instead of receiving cash. Kimlun said that subject to approvals, the DRP will be applicable to the 5.8 sen per share final dividend announced on Feb 26 for the financial year ended Dec 31, 2015 (FY15). In a filing with Bursa Malaysia today, the company said it is not obliged to undertake the proposed DRP for every dividend declared. "Unless the board has determined that the reinvestment option will apply to a particular dividend declared (whether in whole or in part), all future dividends will be paid wholly in cash to shareholders in the usual manner," it said. Under a minimum scenario, the shares to be issued pursuant to the DRP could amount to 11.1 million shares worth RM5.5 million with an enlarged issued and paid-up capital of 311.6 million shares totalling RM155.8 million. *(Source: The Edge)*

**Can-One (CP: RM4.04): Says not received any formal offer for unit yet**

Can-One Bhd today said it has not received any formal proposal or offer from any party expressing interest to acquire equity interest in its wholly-owned dairy manufacturing unit, F&B Nutrition Sdn Bhd. However, it confirmed that it has been approached by a number of parties including Kumpulan Wang Persaraan (Diperbadankan) (KWAP) expressing interest to acquire a stake in its dairy manufacturing business. "Can-One wishes to clarify that the company will always consider and explore all potential opportunities and/or corporate proposals involving the businesses of Can-One Group of Companies including F&B Nutrition, in the best interest of Can-One and its shareholders," it said in a filing with Bursa Malaysia today. *(Source: The Edge)*

**Karyon (CP: RM0.175): Disposes of land for RM5.6m**

Karyon Industries Bhd plans to dispose of a 0.2ha piece of leasehold land in Sungai Buloh, Selangor, for RM5.6 million. In a filing with Bursa Malaysia today, Karyon said its wholly-owned subsidiary Karyon (Malaysia) Sdn Bhd (KMSB) is selling the plot to Scanwolf Plastic Industries Sdn Bhd, a wholly-owned unit of Scanwolf Corp Bhd. The land in Bandar Pinggiran Subang, with a 99-year lease expiring in 2096, has a corner detached factory built on it. Karyon said KMSB has ceased business in March last year and the disposal represents an opportunity for the group to unlock the value of assets that do not contribute towards its core business as the property was still not in use. The disposal would also

discharge the group from the property's future holding and maintenance costs, it said. *(Source: The Edge)*

**SCGM (CP: RM2.95): To acquire agricultural land in Johor for RM11.8m**

SCGM Bhd said it is acquiring three pieces of agricultural land in Kulai, Johor, for a total cash consideration of RM11.84 million, for its future expansion plans. According to its filing with the exchange today, the three tracts, measuring a combined 7.76 ha, will be used to expand its business in line with the rising demand for both domestic and international markets. "This will further contribute positively to the group earnings for the financial years 2018/2019," said the group. SCGM said the acquisition will be funded via a combination of bank borrowings and internally generated funds, with the exact breakdown to be determined later. *(Source: The Edge)*

**Puncak Niaga (CP: RM1.34): Enters HoA to acquire TRIplc's businesses**

Puncak Niaga Holdings Bhd has entered into a heads of agreement (HoA) with TRIplc Bhd to commence talks for the potential acquisition of the latter's businesses. TRIplc is involved in property construction, development and investment, and the provision of project management services and facilities management. In a filing with the Bursa Malaysia today, Puncak Niaga said both parties have agreed to a period of four months from the date of the non-disclosure agreement (NDA), which was also executed today, to evaluate the proposal. "During the due diligence period or earlier mutual termination of the HoA, Puncak Niaga shall be granted exclusivity by TRIplc with respect to the proposed transaction," it said. *(Source: The Edge)*

**Spring Gallery (CP: RM0.695): Bags RM176m Johor construction job**

Spring Gallery Bhd has secured a RM176mil construction job in Pulau, Johor to undertake a mixed development project including apartments and shop offices. The ceramic products company said on Monday it had signed a managing contract agreement with Prinsip Nusantara Sdn Bhd to undertake the project on a 6.02 acre site. Spring Gallery said the Johor State Tennis Academy was occupying the land and it would be relocated to Taman Nusa Duta, Johor Bahru. *(Source: The Star)*

**Affin (CP: RM2.34): Expects flat loan growth at 7% in FY16**

Affin Holdings Bhd is expecting loan growth to be flat at 7% for the financial year ending Dec 31, 2016 (FY16), citing subdued gross domestic product (GDP) as a factor. Affin Holdings chief executive officer Kamarul Ariffin said while the group will not have to incur significant impairment like last year, the banking sector is inevitably exposed to the country's slower economic growth pace. "We expect FY16 would be a better year for us, as we do not have to incur significant impairment and VSS (voluntary separation scheme) costs like last year," he told a media briefing after the group's annual general meeting yesterday. *(Source: The Edge)*

**Bursa Malaysia (CP: RM8.83): Malaysian derivatives market seen to grow by 5% to 8% in 2016**

Bursa Derivatives Bhd, the derivatives unit of Bursa Malaysia Bhd, is expecting mid to high single-digit growth in terms of contracts, driven by the benchmark

crude palm oil futures contracts (FCPO) as well as the FBM KLCI futures (FKLI). Bursa Derivatives acting chief executive officer (CEO) K. Sree Kumar said total contracts traded has more than doubled over the years from six million in 2010. "The volume has grown substantially, especially on our benchmark FCPO product. "We have gone into revitalisation; we are pushing for more businesses to go for our index product, the FKLI, as well. It's a challenging time, but we expect growth of at least 5% to 8% year-on-year," Sree said. *(Source: The Edge)*

**Perdana Petroleum (CP: Suspended): RAM assigns AAA to Perdana Petroleum's RM650m Sukuk**

RAM Rating Services has assigned a final rating of AAA(fg)/Stable to Perdana Petroleum Bhd's RM635mil debt notes. It said on Monday the rating on the five-year tranche of the RM650mil Sukuk Murabahah Programme (2016/2028) was based on Danajamin Nasional Bhd's irrevocable and unconditional financial guarantee. The guarantee by Danajamin (rated AAA/Stable/P1) enhances the credit profile of the five-year tranche beyond the group's stand-alone credit strength. "Subsequent issuances under the 12-year Sukuk programme are conditional upon guarantees provided by guarantors. "As such, the guarantor may vary for different tranches of this debt facility throughout its tenure," it said. *(Source: The Star)*

**SKB Shuttters (CP: RM0.63): Bags RM42.5mil contract**

SKB Shuttters Corp Bhd has secured a US\$10.8mil (RM42.5mil) contract from Asia Pangasius Co. Ltd, a subsidiary of Hund Vuong Corporation in Vietnam. In a filing with Bursa Malaysia, SKB said its wholly owned subsidiary, SKB Storage Industries Sdn Bhd had been awarded a contract Asia Pangasius for the supply of racking solutions and automated storage and retrieval system (ASRS systems). The estimated time for the completion of the ASRS systems is one year commencing from the date of signing of the ASRS systems contract. *(Source: The Star)*

**ECONOMIC UPDATES**

**Malaysia: DSA 2016 To Generate RM100 Mln Sales From Business Matching**

The Malaysia External Trade Development Corporation (MATRADE) expects business-to-business (b2b) matching sessions at the 15th Defence Services Asia 2016 to generate RM100 million in potential sales. Director (Transport, Defence and MRO) Md Silmi Abd Rahman said 300 meetings have been arranged over the next three days to promote Malaysian defence industry players to export their products and services overseas. "We have arranged for 25 Malaysian suppliers to meet and discuss with 16 foreign buyers from Belgium, Netherland, France, South Africa and Myanmar which normally purchase Malaysia's products and services. *(Source: Bernama)*

**Singapore: Non-oil exports plunge most in three years in March**

Singapore's exports plunged the most in more than three years in March, providing more evidence of a weakening economy. Non-oil domestic exports dropped 15.6% in March from a year earlier, worse than the median estimate of a 12.3% decline in a Bloomberg survey of 15 economists, and compared with a



revised 2% expansion in February, a government report showed on Monday. Electronics shipments contracted 9.1% in March. Economic growth was stagnant in the first quarter on an annualized basis compared with the previous three months, the trade ministry said last week. The weak growth outlook prompted the Monetary Authority of Singapore to ease policy by announcing it won't seek currency appreciation. *(Source: Bloomberg)*

#### **UK: Osborne warns voters of Brexit's permanent economic damage**

British finance minister George Osborne told voters that leaving the European Union would do permanent damage to the country's economy, costing them thousands of pounds a year and sapping funding for public services. In a move immediately challenged by anti-EU campaigners, Osborne pointed to Treasury figures which said breaking away could cost each household 4,300 pounds (\$6,100) a year by 2030. Three days after official campaigning began for the EU membership referendum on June 23, Osborne said all alternatives to staying in the union would leave Britain's economy smaller than would be if it stayed in the world's biggest trading bloc. *(Source: Reuters)*

#### **South Korea: Faces Global Economic Slowdown**

President Park Geun Hye warned Monday that a global slowdown and further provocations from North Korea could undermine signs of economic improvement. Speaking to her aides for the first time since the parliamentary election last week, Park said that South Korea is still facing economic difficulties even though there has been signals that the economy was improving. Finance minister Yoo Il Ho said on Monday policy that efforts on reforms need to be made in consistent manner as concerns are already rising that election results may hamper such efforts, including those from Moody's Investors Service and Fitch Ratings. *(Source: Bloomberg)*

#### **Japan: Earthquake Toll Rises as Economic Impact Expands**

The death toll from earthquakes that struck southern Japan rose to 42 and the economic impact began to reverberate Monday as companies surveyed damage and the potential effects on production from supply-chain disruptions. The quakes that struck the island of Kyushu since Thursday evening included some of the nation's most devastating earthquakes since March 2011. There are 201 people seriously injured, 838 have light injuries, and 110,816 have been evacuated to shelters, according to Kumamoto Prefecture's disaster countermeasures office. There has been additional damage in neighboring prefectures including Oita. *(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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