

PP14767/09/2012(030761)

Monday, May 16, 2016

## Reports of the Day

## Economic Report: "Malaysia 1Q16 GDP"

## At a Glance

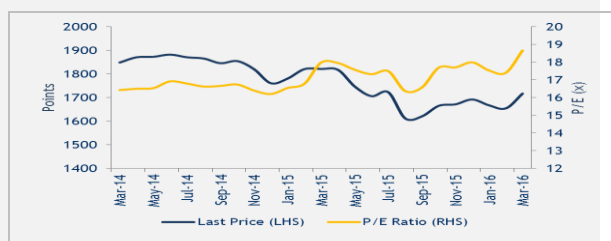
FBMKLCI down 20.72 points to close at 1,628.26 due to weaker Malaysia's 1Q16 GDP numbers.....(See full report next page)

## Corporate Highlights

- **Digi, BUY (TP: RM5.90):** Allocates RM904m for capex this year
- **Pharmaniaga (CP: RM5.60):** Q1 earnings fall to RM18mil
- **Tien Wah (CP: RM2.35):** To diversify, mixed commercial project proposed

## Economic Update

- **Malaysia:** Economy Grew 4.2 Per Cent In Q1 2016
- **China:** Economy Grinds Down a Gear as Heavy Industry Drags
- **Europe:** Growth Revised Down Slightly Despite Germany



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	18-May	5:00 PM	CPI MoM	0.00%	1.20%
EU	18-May	5:00 PM	CPI YoY	-0.20%	-0.20%
EU	18-May	5:00 PM	CPI Core YoY	0.70%	0.70%
JP	16-May	7:50 AM	PPI YoY	-3.70%	-3.80%
JP	16-May	2:00 PM	Machine Tool Orders YoY	--	-21.20%
JP	17-May	12:30 PM	Industrial Production MoM	--	3.60%
JP	17-May	12:30 PM	Capacity Utilization MoM	--	-5.40%
JP	18-May	7:50 AM	GDP SA QoQ	0.10%	-0.30%
JP	18-May	7:50 AM	GDP Annualized SA QoQ	0.30%	-1.10%
JP	18-May	7:50 AM	GDP Deflator YoY	1.00%	1.50%
JP	19-May	7:50 AM	Machine Orders YoY	1.40%	-0.70%
MY	18-May	12:00 PM	CPI YoY	--	2.60%
MY	19-May	6:00 PM	BNM Overnight Policy Rate	3.25%	3.25%
MY	20-May	6:00 PM	Foreign Reserves	--	\$97.0b
US	17-May	8:30 PM	Housing Starts	1120k	1089k
US	17-May	8:30 PM	Building Permits	1132k	1086k
US	17-May	8:30 PM	CPI MoM	0.40%	0.10%
US	17-May	8:30 PM	CPI Ex Food and Energy MoM	0.20%	0.10%
US	17-May	8:30 PM	CPI YoY	1.10%	0.90%
US	17-May	9:15 PM	Industrial Production MoM	0.30%	-0.60%
US	17-May	9:15 PM	Capacity Utilization	75.00%	74.80%
US	18-May	7:00 PM	MBA Mortgage Applications	--	0.40%
US	19-May	8:30 PM	Initial Jobless Claims	--	--
US	19-May	9:45 PM	Bloomberg Consumer Comfort	--	--
US	19-May	10:00 PM	Leading Index	0.40%	0.20%
US	20-May	10:00 PM	Existing Home Sales	5.40m	5.33m
US	20-May	10:00 PM	Existing Home Sales MoM	1.30%	5.10%

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,628.26	-20.72	-1.26
FBMEMAS	11,401.87	-124.81	-1.08
FBMEMAS SHA	11,905.78	-93.33	-0.78
FBM100	11,090.22	-123.97	-1.11
Volume (mn)	1,825.34	-228.94	-11.14
Value (RMmn)	2,806.35	994.56	54.89
FBMKLCI YTD Chg			-3.80

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	13.5	112.6
Local Institution	56.4	545.0
Foreign Investors	30.1	-657.6

## Top Gainers

	Close	Change+/-	(+/- %)
DUTCH LADY	55.12	1.12	2.07
BAT	48.98	0.86	1.79
HONG LEONG IND	7.49	0.19	2.60

## Top Losers

	Close	Change+/-	(+/- %)
MAYBANK	8.49	-0.33	-3.74
SIME DARBY	7.28	-0.31	-4.08
PANASONIC MAN	29.06	-0.28	-0.95

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,535.32	-185.18	-1.05
NASDAQ	4,717.68	-19.66	-0.41
S&P 500	2,046.61	-17.50	-0.85
FTSE 100	6,138.50	34.31	0.56
DAX	9,952.90	90.78	0.92
Nikkei 225	16,412.21	-234.13	-1.41
HSI	19,719.29	-196.17	-0.99
KOSPI	1,966.99	-10.50	-0.53
STI	2,734.91	-10.48	-0.38
KLCI Futures	1,605.50	(22.50)	(0.01)
USDMYR 3M	13.07	(0.07)	(0.01)
USDMYR 6M	12.94	0.14	0.01
USDMYR 12M	12.78	0.14	0.01

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	46	0.0	0.1%
Brent (USD/bbl)	47.9	0.1	0.2%
Gold(USD/ounce)	1,275	1.1	0.1%
Coal (USD/mt)	50.6	0.2	0.4%
CPO (RM/mt)	2,560	-59.0	-2.3%
Rubber	177	-4.3	-2.4%
RM/USD	4.03	0.006	-0.15%
EUR/USD	0.88	-0.0009	-0.10%
YEN/USD	108.59	-0.04	0.04%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average plunged 185.18 points and closed at 17,535.32, S&P 500 cut 17.50 points to 2,046.61 points. Nasdaq slid 19.66 points to 4,717.68 at the closing. A late slump Friday pulled U.S. stocks to their third straight weekly loss. Companies that make clothing, food and household goods dropped on more bad news from retailers, and energy companies fell with the price of oil.
- Benchmark U.S. oil fell 49 cents, or 1 percent, to \$46.21 a barrel in New York, while Brent crude, the benchmark for international oil prices, lost 2 cents to \$47.83 a barrel in London. That pulled energy stocks down. Exxon Mobil lost \$1.01, or 1.1 percent, to \$88.66 and Murphy Oil fell \$1.21, or 4 percent, to \$29.14.

### The Local Market

- FBMKLCI down 20.72 points to close at 1,628.26 due to weaker Malaysia's 1Q16 GDP numbers. There were 272 gainers and 607 decliners in total value traded of RM2.81 billion.
- Among the losers on Bursa Malaysia were Maybank declined 33 cent to RM8.49, Sime Darby slipped by 31 cent to RM7.28, Panasonic manufacturing slid 28 cent to RM29.06 and Scientex decreased 28 cent to RM11.86.

### 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

### Digi, BUY (TP: RM5.90): Allocates RM904m for capex this year

Digi.com Bhd has allocated RM904 million for capital expenditure (capex) this year to improve its network and expand its coverage. Chief executive officer Albern Murthy said the telecommunications company spent RM171 million in the first quarter ended March 31, 2016. He said Digi would focus on improving its long-term evolution (LTE) and LTE Advance network and increase its current coverage of 77% in the first quarter this year versus 33% in the corresponding quarter last year. Digi would also focus on the speed of the LTE roll-out, he told a press conference after the company's AGM in Kuala Lumpur on Friday. (Source: The Star)

**Pharmaniaga (CP: RM5.60): Q1 earnings fall to RM18mil**

Pharmaceutical firm Pharmaniaga Bhd's net profit fell 42.2% to RM18.38mil in the first quarter financial year ended March 31, 2016, from a year ago. This was against a 18.5% hike in revenue to RM559.20mil. Basic earnings per share dropped to 7.10 sen from 12.28 sen. An interim dividend of 4 sen per share was declared, which will be paid out on June 28, 2016. The pharmaceutical firm said the lower earnings was due to increased selling and distribution costs, amortisation of Pharmacy Information System and higher finance costs. The higher revenue, on the other hand, was mainly driven by more demand from Government hospitals for both the concession and non-concession business, apart from stronger contribution from its Indonesian operations. (Source: *The Star*)

**Tien Wah (CP: RM2.35): To diversify, mixed commercial project proposed**

It is never a good idea to put too many eggs in one basket. For printing firm Tien Wah Press Holdings Bhd, its diversification strategy involves the proposed redevelopment plan of its factory site along Jalan Semangat in Petaling Jaya into a mixed-use commercial project. But after the initial euphoria that saw its share price doubling to an all-time high of RM3.26 on Jan 13, investor sentiment on the stock has turned cautious. Just down the road from its headquarters in Petaling Jaya, Tien Wah's single biggest client, the British American Tobacco (BAT) group, in March announced that it was winding down its Malaysian manufacturing operations. (Source: *The Star*)

**Hua Yang (CP: RM1.83): Expects flat earnings growth for FY16**

Affordable property player Hua Yang Bhd, is confident it would be able to achieve its lower annual sales target of RM400 million in the financial year ending March 31, 2016 (FY16), and that its performance — due to be released before the end of the month — will be comparable to FY15. The group's net profit rose 34.55% to RM110.56 million in FY15, as revenue increased 14.45% to RM583.58 million from 509.89 million a year prior. Hua Yang has already seen its net profit increase 9.73% to RM88.73 million in the first nine months ended Dec 31, 2015 (9MFY16) from RM80.86 million in 9MFY15, on the back of a 3.87% increase in turnover to RM448.17 million from RM431.46 million. As at Dec 31, 2016, its unbilled sales stood at RM530.53 million. However, the company's property development segment saw its revenue and profit before tax dip 0.3% and 7% respectively in 3QFY16 to RM154.44 million and RM39.82 million, compared to the previous year's corresponding quarter, due to lower sales achieved. (Source: *The Edge*)

**Kumpulan Perangsang (CP: RM1.06): Ventures into mattress business**

Kumpulan Perangsang Selangor Bhd (KPS) is venturing into the mattress business by buying a 60% stake in the King Koil mattress brand licensing business. KPS said in a statement to Bursa Malaysia it would acquire the stake in the licensing business in Kaiserkorp Corp Sdn Bhd for US\$28.8mil or RM115.93mil cash. It said King Koil was founded in 1898 in the US as "US Bedding" before it assumed the name of King Koil in 1930. King Koil Licensing Company Inc (KKLC) in Delaware, US owns the King Koil and other related trademarks. "KKLC currently has presence in over 80 countries via 31 licensees,

with its headquarters in Illinois. “King Koil has a long-standing relationship with the International Chiropractors Association. (Source: *The Star*)

**Boustead Heavy Industries (CP: RM1.56): Provisions and MSS payments hurt BHIC earnings**

Boustead Heavy Industries Corp Bhd (BHIC) posted a net loss RM19.04mil for its first quarter ended March 31 from a net profit of RM8.4mil a year ago due to shipbuilding project provisions and mutual separation scheme (MSS) payment. The quarter’s revenue marginally increased to RM62.9mil from RM61.09mil in the same corresponding quarter last year. Revenue from defence-related maintenance, repair and overhaul (MRO) activities contributed to the Group’s revenue in the current quarter. “The associates posted higher losses of RM10.8mil in the current quarter arising primarily from provision for variation orders for a shipbuilding project and payment made under the mutual separation scheme. The challenging operating environment arising from the global economic downturn, low oil price and weak ringgit looks set to persist in the near future. (Source: *The Star*)

**TDM (CP: RM0.695): To leverage on healthcare operations**

TDM Bhd may not be a familiar name to most of the market but the smallish plantation player is also involved in the healthcare business. The company, which is based in Terengganu, has been involved in the healthcare sector since its listing and is eyeing further growth from this segment, moving forward. It has two hospitals in the Klang Valley – the Kelana Jaya Medical Centre (KJMC) and Taman Desa Medical Centre (TDMC) – while another two are located on the east coast of Peninsular Malaysia in Kuantan and Kuala Terengganu. The division, which offers secondary healthcare services through these hospitals, is parked under 99.28%-owned subsidiary Kumpulan Medic Iman Sdn Bhd. The company said it operates these services on an “affordably priced” basis. (Source: *The Star*)

**Leader Steel (CP: RM0.33): Sees 20% growth in Q2**

Leader Steel Holdings Bhd expects its second-quarter results to improve by at least 20% over the first quarter 2016 and the same period last year. Group managing director Datin Tan Pak Say said the increased in sales was usually between 5% and 10% per quarter but due to the shortage of hot and cold-rolled raw materials, the demand had “surged”. There is a shortage in the market today for such raw materials because Malaysia had imposed anti-dumping duties on steel coil product such as hot-rolled coil (HRC) and cold-rolled coil (CRC) from China, Indonesia, and Vietnam. “In the country, you can only source steel coil products from maybe three to four players in the market. But the supply is very limited because some of the local steel coil re-rolling mills are exporting their products,” she added. (Source: *The Star*)

**XiDeLang (CP: RM0.04): 1Q profit plunges 66% on lower own-brand sales**

Net earnings of XiDeLang Holdings Ltd declined by 66% in the first quarter of the fiscal year ending Dec 31, 2016 (1QFY16) to 1.39 million yuan from 4.03 million yuan in 1QFY15. Its revenue, however, was 8.16% higher year-on-year at 110.91 million yuan from 102.54 million yuan. The Chinese-based sports shoes manufacturer said the lower earnings corresponded with the fall in its gross

profit, as its own-brand sports apparels and accessories' sales fell by more than 6 million yuan to 19.5 million yuan. "Market competition of the apparels segment has intensified following the active penetration and expansion by international sportswear brands and fast-fashion brands, resulting in increased product and design varieties. (Source: *The Edge*)

**Key Alliance(CP: RM0.07): Bags RM129m construction contract**

Key Alliance Group Bhd, an ACE market technology company, has won a residential construction contract worth RM128.95 million. In a filing with Bursa Malaysia today, the group said its wholly-owned subsidiary has been appointed by OCR Noble Land (The Pano) Sdn Bhd as the main contractor for the proposed construction over a 30-month period. Comprising two apartment towers at Jalan Ipoh here, the project includes 363 units of serviced apartments, eight retail units and five levels of car parks. Key Alliance said the Kuala Lumpur City Council (DBKL) has granted its approval to the project. (Source: *The Edge*)

**Konsortium Transnasional (CP: RM0.19): Aborts rights issue plan on poor market condition**

Konsortium Transnasional Bhd has decided not to go ahead with its three-for-two rights issue citing "unfavourable market conditions which are not conducive for the implementation of the fundraising". In a filing with Bursa Malaysia today, the public bus operator said it will nonetheless continue to explore other proposals to address its capital requirements. The government has not revised bus fares even when costs have increased over the years, which then subsequently eroded Konsortium Transnasional's financials. The group on Sept 19, 2014 proposed to reduce its shares' par value by 40 sen apiece to 10 sen apiece to wipe out its accumulated losses, and issue a renounceable rights issue of 604.2 million rights shares. Konsortium Transnasional said some of the reasons to issue the rights shares were to bolster its shareholders' funds, reduce its gearing level, and reduce the financial risks as compared to increasing its borrowings. (Source: *The Edge*)

**Handal Resources (CP: RM0.28): Q1 earnings fall 60%**

Handal Resources Bhd reported a 60.1% fall in earnings to RM212,000 in the first quarter ended March 31, 2016, due to lower contributions from its crane fabrication and work over divisions. In an announcement to Bursa Malaysia on Friday the integrated offshore crane services provider and fabricator said its revenue, however was up by 10.4% to RM22.4mil from RM20.3mil a year ago. "Gross profit margin of this business segment has decreased. This is mainly due to the competitive market condition in the current oil and gas industry," it said. As for the work over division, the group said revenue from the segment fell to RM378,000 from RM1.84mil due to the decrease in business activities. (Source: *The Star*)



## ECONOMIC UPDATES

**Malaysia: Economy Grew 4.2 Per Cent In Q1 2016**

Malaysia's economy expanded by 4.2 per cent in the first quarter of this year, moderating slightly against the 4.5 per cent recorded in the preceding quarter, on the back of cautious spending by the private sector and external shocks to the economy. Despite the slowest quarterly growth since the third quarter of 2009, the country is on track to achieve its Gross Domestic Product (GDP) growth target of 4-4.5 per cent this year, Bank Negara Malaysia Governor Datuk Muhammad Ibrahim said. "(It's because of our) stability of our income and security of employment," he said at a press conference after announcing the first quarter GDP results here Friday. *(Source: Bernama)*

**Malaysia: Q1 BoP Records Surplus Of RM5 Billion**

Malaysia's overall current account balance of payments (BOP) recorded a surplus of RM5.0 billion in the first quarter of 2016, the Department of Statistics said Friday. The financial account recorded a net inflow of RM5.8 billion while international reserves of Bank Negara Malaysia registered a decrease to RM27.6 billion. Of the BOP, the current account balance decreased RM5.5 billion from the previous quarter mainly due to a lower surplus in the goods account of RM23.5 billion (Q4 2015: RM31.1 billion) and higher deficit of RM6.8 billion in the services account. Moreover, primary income registered a narrowed net outlay of RM6.7 billion while secondary income account recorded a lower deficit of RM4.9 billion. *(Source: Bernama)*

**China: Economy Grinds Down a Gear as Heavy Industry Drags**

China's economy resumed its grind toward slower growth in April, weighed down by overcapacity industries such as steel and coal. Industrial production climbed 6 percent in April from a year earlier, down from 6.8 percent in March and missing economists' estimates for 6.5 percent. Retail sales also missed analyst forecasts, rising 10.1 percent, while fixed-asset investment increased 10.5 percent in the January-April period versus economists' expectation for 11 percent. *(Source: Bloomberg)*

**Europe: Growth Revised Down Slightly Despite Germany**

The euro-area economy grew slightly less than initially estimated in the first quarter, though momentum was still the fastest in a year. Led by a better-than-forecast performance by Germany, its largest economy, the euro region expanded 0.5 percent in the three months through March. That compares with an initial estimate of 0.6 percent. From a year ago, it grew 1.5 percent. Among the euro-area data available so far, Greece's performance puts it as the worst performer in the first quarter. *(Source: Bloomberg)*

**German: Economic growth more than doubles in Q1**

The German economy, Europe's biggest, grew more than expected in the first three months of 2016, driven primarily by robust domestic demand, official data showed on Friday. German gross domestic product (GDP) expanded by 0.7% in seasonally and calendar-adjusted terms in the period from January to March, the federal statistics office Destatis said in a statement. That was faster than the growth of 0.3% notched up in the preceding quarter and also faster than the

0.5% analysts had been predicting for the first quarter of this year. "Positive impulses came primarily from domestic demand," the statisticians said. (Source: AFP)

**Hong Kong: Economy Unexpectedly Contracts in First Quarter**

Hong Kong's economy unexpectedly contracted in the first quarter as falling retail sales and a weakening property market weigh on the city. Gross domestic product fell 0.4 percent in the three months through March from the previous quarter, the government said in a statement Friday, compared with the median estimate for 0.1 percent growth in a Bloomberg News survey. From a year earlier, the economy expanded 0.8 percent, less than half the pace in October through December. (Source: Bloomberg)

**Japan: BoJ will act decisively using its 'ample' tools**

Bank of Japan governor Haruhiko Kuroda said on Friday the central bank will act "decisively" to achieve its 2% inflation target, stressing that it still has "ample" policy options available if it were to expand stimulus again. Kuroda defended the BoJ's decision last month to hold off on monetary easing, saying that more time was needed to scrutinise the effects of past easing measures on the economy. But he said the BoJ would not necessarily stand pat until the policy effects on the economy are confirmed, and will guide policy in a "timely, forward-looking manner." (Source: Reuters)

**S. Korea: Holds policy rate for 11th month, analysts see June cut**

South Korea's central bank kept its policy rate at a record low 1.50% on Friday for an 11th straight month as expected, believing economic recovery could continue at the current level without a cut, although many analysts expect a move in June. Many market participants believe the Bank of Korea (BoK) should cut rates to support economic activity, given weak exports and an ongoing restructuring of South Korea's massive shipping and shipbuilding industries. Four new board members who made their monetary policy debut on Friday were widely perceived as doves by investors and analysts, and therefore likely to favour rate cuts. Kim said the BoK is likely to cut in June, unchanged from her previous view. (Source: Reuters)

# 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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