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Monday, June 13, 2016

Report of the Day

Sector Update: Healthcare (Neutral) – “Expecting Decent Growth Beyond Malaysia”

Strategy

“Downside Risk Elevating in Global Growth”

The risk of adjustment is small but jitteriness over unexpected adjustment will always be there.....
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At a Glance

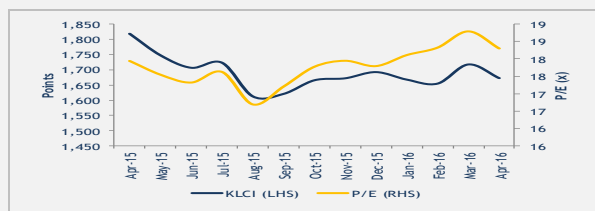
FBMKLCI fell 9.29 points to 1,641.22, in line with the regional pullback weighed by blue chips including Petronas-linked counters and telco stocks.....(See full report next page)

Corporate Highlights

- **CIMB, HOLD (TP: RM4.75):** CIMB-Principal unveils portal for PRS
- **Berjaya Food (CP: RM1.88):** Q4 revenue up on higher sales at cafes
- **Hektar REIT (CP: RM1.51):** Buys 1Segamat mall for RM104m

Economic Update

- **Malaysia:** April industrial output up 3% on-year, below forecast
- **Malaysia:** Government cuts 2% debt to GDP by transferring RM21.9b to new civil service loan board
- **U.S.:** Warns of ‘negative’ world economic impact if UK exits EU



KEY ECONOMIC RELEASE					
Date	Local Time	Event	Survey	Prior	
CN	13-Jun	10:00 AM	Industrial Production YoY	6.00%	6.00%
CN	13-Jun	10:00 AM	Industrial Production YTD YoY	5.90%	5.80%
CN	13-Jun	10:00 AM	Retail Sales YoY	10.10%	10.10%
CN	13-Jun	10:00 AM	Retail Sales YTD YoY	10.30%	10.30%
US	14-Jun	8:30 PM	Retail Sales Advance MoM	0.30%	1.30%
US	14-Jun	8:30 PM	Retail Sales Ex Auto MoM	0.40%	0.80%
US	14-Jun	8:30 PM	Retail Sales Ex Auto and Gas	0.30%	0.60%
EU	14-Jun	5:00 PM	Industrial Production SA MoM	0.50%	-0.80%
EU	14-Jun	5:00 PM	Industrial Production WQA YoY	1.10%	0.20%
EU	14-Jun	5:00 PM	Employment QoQ	--	0.30%
EU	14-Jun	5:00 PM	Employment YoY	--	1.20%
JP	14-Jun	12:30 PM	Industrial Production MoM	--	0.30%
JP	14-Jun	12:30 PM	Industrial Production YoY	--	3.50%
JP	14-Jun	12:30 PM	Capacity Utilization MoM	--	3.20%
US	15-Jun	7:00 PM	MBA Mortgage Applications	--	9.30%
US	15-Jun	8:30 PM	PPI Final Demand MoM	0.30%	0.20%
US	15-Jun	8:30 PM	PPI Ex Food and Energy MoM	0.10%	0.10%
US	15-Jun	8:30 PM	PPI Ex Food, Energy, Trade MoM	0.10%	0.30%
US	15-Jun	8:30 PM	PPI Final Demand YoY	-0.10%	0.00%
US	15-Jun	8:30 PM	PPI Ex Food and Energy YoY	1.00%	0.90%
US	15-Jun	8:30 PM	PPI Ex Food, Energy, Trade YoY	--	0.90%
US	15-Jun	9:15 PM	Capacity Utilization	75.20%	75.40%
EU	15-Jun	5:00 PM	Trade Balance SA	--	22.3b
EU	15-Jun	5:00 PM	Trade Balance NSA	--	28.6b
MY	15-Jun	12:00 PM	CPI YoY	--	2.10%
US	16-Jun	2:00 AM	FOMC Rate Decision (Upper Bound)	0.50%	0.50%
US	16-Jun	2:00 AM	FOMC Rate Decision (Lower Bound)	0.25%	0.25%
US	16-Jun	8:30 PM	Current Account Balance	-\$125.0b	-\$125.3b
US	16-Jun	8:30 PM	Initial Jobless Claims	--	264k
US	16-Jun	8:30 PM	Continuing Claims	--	2095k
US	16-Jun	8:30 PM	CPI MoM	0.30%	0.40%
US	16-Jun	8:30 PM	CPI Ex Food and Energy MoM	0.20%	0.20%
US	16-Jun	8:30 PM	CPI YoY	1.10%	1.10%
US	16-Jun	8:30 PM	CPI Ex Food and Energy YoY	2.20%	2.10%
US	16-Jun	8:30 PM	CPI Index NSA	240.346	239.263
US	16-Jun	8:30 PM	CPI Core Index SA	--	246.574
EU	16-Jun	5:00 PM	CPI MoM	0.30%	0.00%
EU	16-Jun	5:00 PM	CPI YoY	-0.10%	-0.10%
EU	16-Jun	5:00 PM	CPI Core YoY	0.80%	0.80%
JP	16-Jun	--	BOJ Policy Rate	--	-0.10%
US	17-Jun	8:30 PM	Housing Starts	1150k	1172k
US	17-Jun	8:30 PM	Housing Starts MoM	-1.90%	6.60%
US	17-Jun	8:30 PM	Building Permits	1145k	1116k
US	17-Jun	8:30 PM	Building Permits MoM	1.30%	3.60%

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Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,641.22	-9.29	-0.56
FBMEMAS	11,500.57	-44.30	-0.38
FBMEMAS SHA	12,056.71	-61.26	-0.51
FBM100	11,192.05	-44.27	-0.39
Volume (mn)	1,847.79	111.86	6.44
Value (RMmn)	1,388.80	-223.24	-13.85
FBMKLCI YTD Chg			-3.03

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	61.3	64.6
Local Retail	19.7	38.0
Foreign Investors	19.0	-102.6

Top Gainers

	Close	Change+/-	(+/- %)
BRIT AMER TOBA	51.40	1.06	2.11
CARLSBERG	13.46	0.26	1.97
PANASONIC MAN	29.88	0.22	0.74

Top Losers

	Close	Change+/-	(+/- %)
PIE INDUSTRIAL	13.08	-0.30	-2.24
PETRONAS GAS	21.56	-0.20	-0.92
HONG LEONG FIN	14.60	-0.18	-1.22

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,865.34	-119.85	-0.67
NASDAQ	4,894.55	-64.07	-1.29
S&P 500	2,096.07	-19.41	-0.92
FTSE 100	6,115.76	-116.13	-1.86
DAX	9,834.62	-254.25	-2.52
Nikkei 225	16,601.36	-67.05	-0.40
HSI	21,042.64	-255.24	-1.20
KOSPI	2,017.63	-6.54	-0.32
STI	2,818.86	-24.94	-0.88
KLCI Futures	1,625.00	(16.00)	(0.01)
USDMYR 3M	11.76	0.01	0.00
USDMYR 6M	11.77	(0.01)	(0.00)
USDMYR 12M	11.81	(0.01)	(0.00)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	49	-0.4	-0.7%
Brent (USD/bbl)	50.3	-0.3	-0.6%
Gold(USD/ounce)	1,277	2.7	0.2%
Coal (USD/mt)	53.0	0.0	0.1%
CPO (RM/mt)	2,580	-7.0	-0.3%
Rubber	144	-5.0	-3.4%
RM/USD	4.07	0.0265	-0.65%
EUR/USD	0.89	0.0003	0.03%
YEN/USD	106.62	-0.35	0.33%

What To Expect

U.S. Market

- The Dow Jones Industrials Average shed 119.85 points to 17,865.34 while S&P 500 dropped 19.41 points to 2,096.07. Nasdaq fell 64.07 points to 4,894.55. U.S. stocks closed lower Friday, weighed by renewed global growth concerns as benchmark yields fell to record lows and investors looked ahead to U.K. vote on whether to leave the European Union.
- With bond yields down, investors snapped up phone and utility company shares. Household goods makers turned higher late in the day, but that was not enough to cancel out losses elsewhere. U.S. crude oil futures settled down \$1.49, or 2.95 percent, at \$49.07 a barrel.

The Local Market

- FBMKLCI fell 9.29 points to 1,641.22, in line with the regional pullback weighed by blue chips including Petronas-linked counters and telco stocks. There were 300 gainers and 461 decliners in total value traded of RM1.39 billion.
- Among the decliners on Bursa Malaysia were PIE Industries which dropped 30 cents to RM13.08, PETGAS declined 20 cents to RM21.56 and Hong Leong Financial fell 18 cents to RM14.60.

Strategy

- **“Downside Risk Elevating in Global Growth”**
Wall Street endured selling pressure last Friday due to elevating downside risks in global growth. S&P 500 and DJIA erased 19.41 (-0.92%) and 119.85 (-0.67%) points to end at 2,096.07 and 17,865.34 respectively. The concern over reducing global growth jumped after South Korea central bank cut interest rate to a low of 1.25% from 1.50%, indicating South Korea is grappling to steady its ship. Whilst, European yields plummeted after the European Central Bank launched its bond purchase program. Germany's 10-year Bund yield ended the week at 0.02% after marking a record low at 0.01%. All may not be well also especially when nervousness could jump due to US FOMC policy decision this week, due on the 16th of June. Although the risk of adjustment is small but jitteriness over unexpected adjustment will always be there. Hence, expect downside risks to local and regional equity to prevail this week more so when oil price suffered selling pressure to end at USD48.70 per barrel last Friday from a high of above USD50 per barrel previously.
- 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

CIMB, HOLD (TP: RM4.75): CIMB-Principal unveils portal for PRS

CIMB-Principal Asset Management Sdn Bhd (CIMB-Principal) has launched its online portal for corporate Private Retirement Scheme (PRS) plan sponsors in Kuala Lumpur last Friday. Through this portal, employers and human resources (HR) personnel will be able to submit their PRS contribution file, payment slip and list of staff resignations online. This was launched during its second annual PRS conference for its potential corporate plan sponsors. Themed Reward and Retain Your Talents, the conference aimed to create awareness among employers to utilise PRS as a tool to attract, retain as well as to enrich employees' lives. (Source: The Star)

Berjaya Food (CP: RM1.88): Q4 revenue up on higher sales at cafes

Berjaya Food Bhd's (BFood) revenue for the fourth quarter ended April 30, 2016, rose 8% to RM139.05 million from RM128.92 million a year ago due to higher sales recorded by existing cafes and additional cafe openings during the three months. In a filing with Bursa Malaysia last Friday, the group said its pre-tax profit was lower at RM7.67 million compared with RM10.06 million a year ago, due mainly to lower contribution from the Kenny Rogers Roasters (KRR) operations in Malaysia. BFood said Malaysian consumers were more cautious and prudent in their spending after the implementation of the Goods and Services Tax (GST), affecting KRR operations, while the steep depreciation of the ringgit affected the profit margin of Berjaya Starbucks Coffee Company Sdn Bhd (BStarbucks). (Source: The Sun)

Hektar REIT (CP: RM1.51): Buys 1Segamat mall for RM104m

Hektar Real Estate Investment Trust (Hektar REIT) is acquiring 1Segamat Shopping Centre from EcoFirst Consolidated Bhd's unit Tashima Development Sdn Bhd for RM104 million. In a filing with Bursa Malaysia, it said AmTrustee Bhd, being the trustee of the REIT, had on Friday signed a conditional agreement with Tashima Development to buy the three-storey retail mall. Hektar Asset Management Sdn Bhd, as the manager, plans to undertake a renounceable rights issue to raise gross proceeds of up to RM75 million to part-finance the purchase and to issue new units to the manager as part of the acquisition fee of RM1.04 million. (Source: The Sun)

AirAsia (CP: RM2.65): To appoint advisers to evaluate offer for aircraft leasing arm

AirAsia Bhd is appointing advisers, including two or three banks, to evaluate the US\$1 billion (RM4.1 billion) offer it has received for its aircraft leasing company, Asia Aviation Capital Ltd (AAC). "We're about to appoint advisers to evaluate it and make presentations to the board. Whether we do a full sale or partial sale, that's up to the board to decide," AirAsia group CEO Tan Sri Tony Fernandes told reporters after the inauguration of a US\$10 million-US\$11 million flight simulator at the Asian Aviation Centre of Excellence (AAEC) training centre in Glenmarie here last Friday. He said there has been significant interest in AAC and the main thing is to strengthen its management team. "We've found a CEO and a CFO," he said, adding that it will be announcing the news soon. (Source: The Sun)

Scomi Engineering (CP: RM0.235): Scomi Transit files claims totalling RM365m against Prasarana

Scomi Engineering Bhd's wholly-owned subsidiary Scomi Transit Projects Sdn Bhd (STP) has served four payment claims on Prasarana Malaysia Bhd amounting to RM365 million. The claims, which are in relation to the Kuala Lumpur monorail fleet expansion project, were served last Friday pursuant to Section 5 of the Construction Industry Payment & Adjudication Act 2012. "The claims were served after STP received a notice from Prasarana which gave the company 14 days to renew a performance bond connected with the project, failing which the project contract will terminate," Scomi said in a statement last Friday. (Source: *The Sun*)

MKH (CP: RM2.51): Expands oil palm plantation land in Indonesia

MKH Bhd, via its wholly-owned subsidiary MKH Plantation Sdn Bhd, has acquired a 75% equity interest in Indonesia-based PT Sawit Prima Sakti (PTSPS) for RM15mil. In a filing with Bursa Malaysia on Friday, MKH said PTSPS owned about 2,445.49ha for oil palm plantation in East Kalimantan, Indonesia. It said the rationale for the acquisition was to increase the size of its oil palm plantation, as the land is strategically located just beside the group's existing oil palm plantation under PT Maju Kalimantan Hadapan. (Source: *The Star*)

Salcon (CP: RM0.61): RM232mil contract wins fail to excite investors

SALCON Bhd, which has been described by one analyst as a company that would achieve significant turnaround this year, disappointed the market when it reported losses in its first quarter of the year. However, some good news have emerged – it has won new water treatment contracts in Terengganu and Johor totalling RM232.2mil. Salcon, a water and wastewater engineering specialist, said the two contracts were to build a 120 million-litres-per-day water treatment plant in Kuala Terengganu and upgrading of the Sungai Lebam water treatment plant and distribution system in Johor. (Source: *The Star*)

MBSB (CP: RM1.16): To raise RM1.71b from rights issue

Malaysia Building Society Bhd (MBSB) says it will raise up to RM1.71bil from its proposed one-for-one rights issue where the bulk would be used to expand its financing business. The company said on Friday the amount was lower than its earlier plan to raise up to RM2bil from the two-call rights issue. MBSB explained the RM1.71bil was based on the enlarged issued paid-up share capital of MBSB of 2.899 billion shares (after considering the paid-up as at June 3, the new MBSB shares to be issued under the dividend reinvestment plan and the exercise of warrants). (Source: *The Star*)

I-Bhd (CP: RM0.515): Looks to expand land bank

Property developer I-Bhd is looking at expanding its land bank for its next phase of development as its existing land in Shah Alam that houses its iconic i-City is down to 40%. Deputy chairman Datuk Eu Hong Chew said that i-City has used up 20% of its land while another 40% is still being developed. For its urban projects, the group is looking to develop some 20.2ha to 28.3ha with a gross development value (GDV) of up to RM7bil while for townships, I-Bhd is looking at 202ha to 242ha with the same amount of GDV. (Source: *The Star*)

MAHB (CP: RM6.50): Airport traffic increases 4% on-year in May to 9.94m

Malaysia Airports Holdings Bhd (MAHB)'s airports served 9.94 million passengers in May this year or 4% more than 9.56 million a year ago, driven by a double digit growth of passenger volume at Istanbul Sabiha Gokcen International Airport (ISG). In its monthly passenger traffic snapshot to Bursa Malaysia, MAHB disclosed that ISG served 2.68 million passengers in May, a growth of 10.4% year-on-year, from 2.42 million. MAHB pointed out that ISG's international sector achieved a small growth of 1.9%, compared to a negative growth in April 2016. (Source: The Edge)

Perisai Petroleum (CP: RM0.26): Delays rig delivery for second time to Oct 31

Perisai Petroleum Teknologi Bhd has again delayed the delivery of its second jack-up rig Perisai Pacific 102 to no later than Oct 31, 2016, due to soft market conditions. In a filing with Bursa Malaysia, Perisai said today that it had reached an agreement with PPL Shipyard Pte Ltd on the second delay. "The company and PPL had earlier agreed to revise the original delivery date for the Perisai Pacific 102 to March 31, 2016," the filing read. "Seeing that the offshore drilling is currently facing soft market conditions globally, the directors of Perisai are of the opinion that further deferment [is] in the best interest of the company," it added. (Source: The Edge)

ECONOMIC UPDATES**Malaysia: April industrial output up 3% on-year, below forecast**

Malaysia's industrial production index (IPI) rose at a slower pace of 3% in April from a year ago, which was lower than economists' forecast of a 3.5% increase. The Statistics Department said on Friday the rise in April 2016 was supported by positive growth in all indices such as manufacturing (3.3%), mining (0.6%) and electricity sectors (9.4%). The manufacturing sector increased 3.3% in April 2016, shored up by three major sub-sectors. The electrical and electronics products increased by 7.9%; petroleum, chemical, rubber and plastic products (4.8%) and non-metallic mineral products, basic metal and fabricated metal products (4.1%). (Source: The Star)

Malaysia: Government cuts 2% debt to GDP by transferring RM21.9b to new civil service loan board

The government expects to reduce about 2% of public debt to the gross domestic product (GDP) to less than 54% by transferring RM21.9 billion of its borrowings for civil servant loans to the newly formed Public Sector Home Financing Board (LPPSA) this year. Finance Ministry' treasury secretary-general Tan Sri Irwan Serigar said the government was also looking at reducing the debt-to-GDP ratio further by employing a similar model to LPPSA by transferring its pension fund debt to the Retirement Fund Inc (KWAP) soon. He said the government's current contingent liability amounted to RM170 billion, and the transfer of RM21.9 billion from the civil servant's Housing Loan Division (BPP) constituted a 'small percentage'. (Source: The Edge)

U.S.: Warns of 'negative' world economic impact if UK exits EU

US treasury secretary Jacob J. Lew warned that the global economy would be damaged if the UK votes to leave the European Union (EU) on June 23. "It's in the best interest of Europe, the UK and the global economy and for geopolitical stability for the UK to stay in," Lew said in an interview to be broadcast on CNN's "Fareed Zakaria GPS," according to a transcript provided by the network. "I only see negative economic outcomes if the vote goes the other way." Lew added his voice to a chorus of leaders from within the EU about the risks of pulling out of the EU. Financial markets have been whipsawed in recent days as investors grapple with the possibility of a British exit from the EU. (Source: *The Star*)

China: Now rivals US, Europe as growth engine for Asia exports

China is now an equal or even bigger driver of export growth in neighboring economies than the US and EU combined, marking a significant shift in the economic pecking order since the 2008 global financial crisis. That's according to research by Deutsche Bank AG economists who weighed up the influence of the US and China over the rest of Asia through the prism of export growth, as well as the currency and bond markets. In Taiwan and Indonesia, for example, the growth of China's gross domestic product dominates the US and European Union's as a source of export demand. In other economies, the trading giants are equally important. (Source: *The Star*)

Europe: ECB pledges enough stimulus to achieve inflation goal

The European Central Bank has pledged enough stimulus to return eurozone inflation to its goal, policy maker Bostjan Jazbec said, in a sign that officials may sit tight over the summer months. "At the current juncture, I'd firmly confirm that the measures work and that we can only look forward to responding to everything that comes to our table," Jazbec, the Slovenian central-bank governor, said in an interview in Ljubljana on Thursday. Inflation has missed the ECB's target of just under 2% for more than three years, and hasn't been above zero since January, prompting the Governing Council to ramp up stimulus yet again in March. (Source: *The Star*)

Russia: Central Bank cuts rates, says economic recovery 'imminent'

Russia's central bank cut its main lending rate on Friday for the first time in almost a year, signalling confidence that inflation risks are declining and describing an economic recovery as "imminent". The rate cut comes at a time when Russia's economy, plagued in the past few years by plunging oil prices and Western sanctions over the Ukraine crisis, is now showing signs that the worst is behind it. The bank cut the rate by a half-point to 10.5%, the first cut since July 2015, an outcome predicted by a majority of analysts although some had expected no change. (Source: *The Edge*)

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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