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Thursday, June 16, 2016

Report of the Day

Results Review: Top Glove 3Q16 – “Well Played in Volume Game”

At a Glance

FBMKLCI edged up 1.85 points to 1,627.96 as Maybank led the FBM KLCI to a higher close on Wednesday in a late push.....(See full report next page)

Strategy

“Wall Street Still Nervous over Brexit”

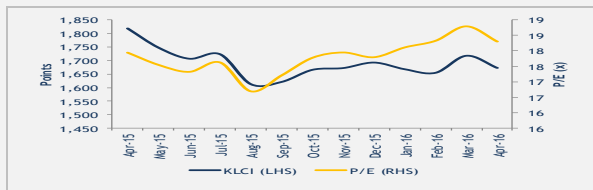
We think that the jitteriness over the UK exiting the EU will continue(See full report next page)

Corporate Highlights

- **Top Glove, BUY (TP: RM6.12):** Sees better Q4 as RM, raw materials stabilise
- **CIMB, HOLD (TP: RM4.75):** Distributes special dividend in Niaga
- **Kossan, BUY (TP: RM8.62):** Partners Chinese firm to produce anti-vibration

Economic Update

- **Malaysia:** Bank Negara adopts more transparent spot-fixing method for US\$/ringgit
- **Malaysia:** May inflation eases marginally to 2%
- **U.S.:** Fed leaves interest rates unchanged, signals two hikes this year



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	10.20%	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 WDA 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	239.261
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%

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,627.96	1.85	0.11
FBMEMAS	11,396.03	-2.11	-0.02
FBMEMAS SHA	11,959.90	-6.04	-0.05
FBM100	11,094.27	-1.54	-0.01
Volume (mn)	1,531.19	63.81	4.35
Value (RMmn)	1,448.57	-167.97	-10.39
FBMKLCI YTD Chg			-3.81

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	58.2	169.4
Local Retail	16.2	14.6
Foreign Investors	25.6	-184.0

Top Gainers

	Close	Change+/-	(+/- %)
DUTCH LADY	57.80	1.00	1.70
FRASER & NEAVE	25.32	0.84	3.43
HUAT LAI	4.40	0.29	7.06

Top Losers

	Close	Change+/-	(+/- %)
CARLSBERG	13.02	-0.28	-2.11
PETRONAS GAS	21.40	-0.16	-0.74
BERJAYA FOOD	1.65	-0.15	-8.33

World Indices

	Close	Change+/-	(+/- %)
DJIA	17,640.17	-34.65	-0.20
NASDAQ	4,834.93	-8.62	-0.18
S&P 500	2,071.50	-3.82	-0.18
FTSE 100	5,966.80	43.27	0.73
DAX	9,606.71	87.51	0.92
Nikkei 225	15,919.58	60.58	0.38
HSI	20,467.52	79.99	0.39
KOSPI	1,968.83	-3.20	-0.16
STI	2,776.59	8.26	0.30
KLCI Futures	1,619.00	5.50	0.00
USDMYR 3M	12.25	0.06	0.00
USDMYR 6M	12.06	(0.00)	(0.00)
USDMYR 12M	11.90	0.03	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	47	-0.5	-1.1%
Brent (USD/bbl)	49.0	-0.9	-1.7%
Gold(USD/ounce)	1,294	1.9	0.1%
Coal (USD/mt)	52.5	0.1	0.1%
CPO (RM/mt)	2,460	-9.0	-0.4%
Rubber	146	0.8	0.6%
RM/USD	4.10	-0.009	0.22%
EUR/USD	0.89	-0.0002	-0.02%
YEN/USD	105.86	-0.15	0.14%

What To Expect

U.S. Market

- The Dow Jones Industrials Average declined 34.65 points to 17,640.17 while S&P 500 fell 3.82 points to 2,071.50. Nasdaq lost 8.62 points to 4,834.93. The stock market fell for a fifth straight day Wednesday as investors set aside the Federal Reserve's interest rate decision and remained focused on next week's vote on whether Britain will remain in the European Union.
- Bond prices remained high, keeping yields low. The yield on the 10-year U.S. Treasury note fell to 1.58 percent from 1.61 percent a day earlier. Bond investors said the uncertainty about the British vote has forced European investors to buy up U.S. government bonds in a search for yield and security, pushing bond yields to their lowest levels in years.

The Local Market

- FBMKLCI edged up 1.85 points to 1,627.96 as Maybank led the FBM KLCI to a higher close on Wednesday in a late push but the broader market was weaker due to on-going anxieties over the Brexit and decline in crude oil prices. There were 311 gainers and 408 decliners in total value traded of RM1.45 billion.
- Among the gainers on Bursa Malaysia were Dutch Lady which increased 100cents to RM57.80, F&N lifted 84 cents to RM25.32 and Huat Lai gained 29 cents to RM4.40.

Strategy

- **"Wall Street Still Nervous over Brexit"**
Wall Street continued its losing streak, 5-day in a row, hammered by the prospect of Brexit. S&P 500 and DJIA unloaded 3.82 (-0.18%) and 34.65 (-0.20%) points to end at 2,071.50 and 17,640.17. In line with the great uncertainty over Brexit that will be held on the 23rd June, the US FOMC has decided to keep the US Federal Funds rate steady in its meeting yesterday. Aptly, the FOMC said that the US may turn into recession if the UK decided to be outside the EU, particularly when the UK is the second largest economy after Germany in a 28-country pact. Noticeably, investors had turned to safe heaven asset especially the US Treasury. US 2-year Treasury yield dropped sharply lower in 2 years to 0.67% while a 10-year yield tanked to 1.58%. As this systematic risk is beyond anyone's control, we think that the jitteriness over the UK exiting the EU will continue until the result of the poll is known at the end of June.
- 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

Top Glove, BUY (TP: RM6.12): Sees better Q4 as RM, raw materials stabilise

Top Glove Bhd's earnings fell 13.5% to RM62.45mil in the third quarter ended May 31, 2016 from RM72.27mil a year ago as it was impacted by the stronger ringgit and higher cost of raw materials but it expects to do better in the current quarter. The world's largest glove maker announced on Wednesday that its revenue rose 1.7% to RM672.27mil from RM661.19mil demonstrating volume growth in spite of a challenging environment. Earnings per share were 4.99 sen from 5.85 sen. It declared an interim dividend of six sen compared with four sen a year ago. "The group's softer performance in 3QFY16 came on the back of a strengthening of the Ringgit against the US Dollar during the quarter in review, as well as significant hikes in raw material prices. (Source: The Star)

CIMB, HOLD (TP: RM4.75): Distributes special dividend in Niaga

CIMB Group Holdings Bhd (CIMB) has proposed a special interim dividend-in-specie by way of distributing 1.3 billion existing Class B ordinary shares, representing a 5.44% stake in indirect subsidiary PT Bank CIMB Niaga TBK to entitled shareholders of CIMB. The distribution of the dividend shares to the company's shareholders pursuant to the proposed dividend-in-specie is an avenue to increase the public float of Niaga, with the aim of meeting the requirement under the new Indonesian Stock Exchange rule," CIMB said in a filing with the stock exchange. The proposed dividend-in-specie has been approved by Bank Negara Malaysia and is not subject to the approval of CIMB shareholders or any other regulatory authorities. (Source: The Sun)

Kossan, BUY (TP: RM8.62): Partners Chinese firm to produce anti-vibration system

Kossan Rubber Industries Bhd plans to partner with the Tong Tech Metro Vibration Control Co Ltd (TMVC) of the Shanghai Tongji University, to jointly design and manufacture anti-vibration system for railways, buildings and bridges along the railways for the China market. The glove producer told Bursa Malaysia today that it had, on June 15, entered into a memorandum of agreement (MoA) with TMVC for the purpose of a strategic alliance for the above venture. The MoA was inked via Kossan's 70%-owned subsidiary, Doshin Rubber Products (M) Sdn Bhd. Under the agreement, Doshin will manufacture the floating slab, base plate vibration isolation technology and rubber pad based on designs supplied by TMVC. (Source: The Edge)

Glomac (CP: RM0.755): Q4 net profit fell 26% to RM21.9 million

Property developer Glomac Bhd's fourth quarter net profit fell 26% to RM21.9 million from RM29.6 million a year ago due mainly to lower fair value recognition for investment properties of RM10.0 million compared with RM30.2 million previously, and provisions. It told the stock exchange yesterday that its revenue for the quarter ended April 30, 2016 rose 1.3% to RM171.7 million from RM169.5 million previously. The stronger revenue was driven by steady construction progress from its ongoing development projects such as Puchong Lakeside Residences, Saujana Rawang, Saujana KLIA, Glomac Centro and Reflection Residences. (Source: The Sun)

Hap Seng (CP: RM7.60): Plans property projects in Kuala S'gor with RM9.3bil GDV

Hap Seng Consolidated Bhd plans to undertake two mixed development projects in Kuala Selangor with an estimated total gross development value (GDV) of RM9.3bil. The plantation and property development group said its unit Euro-Asia Brand Holding Company Sdn Bhd had signed two agreements to acquire 734.82 acres (proposed acquisition A) from Shalimar (Malay) PLC for RM121.54mil and 714.704 acres (proposed acquisition B) from Indo Malay PLC for RM107.21mil. (Source: The Star)

Eco World (CP: RM1.26): To get RM159mil refund over cancelled Penang project

Eco World Development Bhd (EW Bhd) on Wednesday entered into a deed of revocation and rescission with the Penang Development Corp (PDC) to revoke and rescind the letter of award in relation to the aborted RM10bil Eco Marina project in Batu Kawan, and all their respective rights and obligations. EW Bhd told Bursa Malaysia that the PDC would within one month (with an automatic extension of time of another one month) refund to it, free of interest, the initial payment of the purchase consideration of 299.64 acres (including the earnest deposit) and lease consideration for 150 acres. (Source: The Star)

I-Bhd (CP: RM0.50): In talks over land deal for RM5bil to RM6bil project

Property developer I-Bhd is in talks with a few parties over a land deal for the group's next phase of development, which include urban projects and townships. Deputy chairman Datuk Eu Hong Chew said the group is actively looking for land in the Klang Valley. "We are looking at a sizeable project worth RM5bil to RM6bil. As we do this, we continue with our asset light strategy like we've always done before. Eu said as the group's i-City mega project in Shah Alam would keep it busy for another 10 to 15 years, so the focus would be on expanding its footprint outside of Shah Alam. (Source: The Star)

Sapura Resources (CP: RM1.01): Focuses on property project to drive growth

Sapura Resources Bhd is banking on its latest Lot 91, KLCC project to be the key driver of the group's earnings after selling its education business for RM246.99mil. Its shareholders had approved the proposal to dispose of its remaining stakes in APIIT Sdn Bhd, Asia Pacific University Sdn Bhd and Asia Pacific Institute of Information Technology Lanka to Ekuinas' Ilmu Education Group Sdn Bhd. Managing director Datuk Shahrizan Shamsuddin said Sapura Resources was now focusing on its Lot 91, KLCC project and it would be leased out once it is completed in 2020. (Source: The Star)

Hock Seng Lee (CP: RM1.69): Sues Brahim's sugar venture in Kuching

Hock Seng Lee Bhd is seeking a RM6.94 million payment from Brahim's Holdings Bhd's 60%-owned company Admuda Sdn Bhd over the non-payment of progress claims for works done in relation to the design and building of a sugar refinery factory. According to Brahim's bourse filing yesterday, aside from the RM6.94 million, Hock Seng Lee is also seeking interest thereon as the court deems fit from June 24, 2014 until full and final settlement as alleged damages. "Admuda has taken steps to engage lawyer on the matter and will announce further

developments on the above matter in due course," Brahim's said. *(Source: The Edge)*

Daya Materials (CP: RM0.075): To reposition itself in power, infrastructure projects

Daya Materials Bhd will leverage on its strength in the construction business to reposition itself in power and infrastructure projects with the gloomy outlook for the oil and gas (O&G) segment set to remain. With the O&G industry badly hit for the past few years, Daya Materials saw its results for the first quarter ended March 31, 2016 (1QFY16) being in the red with RM29.2 million net loss. Its O&G segment itself has a loss of RM25.6 million in the quarter under review. Daya Materials executive vice chairman Nathan Tham also added that the areas that the Group is looking at would provide synergistic opportunities for its construction business. *(Source: The Edge)*

Grand-Flo (CP: RM0.245): Eyes higher revenue from property segment

Tracking solutions provider and property developer Grand-Flo Bhd, is eyeing higher revenue from its property division, in line with its construction progress, for the financial year ending Dec 31, 2016. Group managing director/group president Tan Bak Hong said on Wednesday the company has two on-going projects located on mainland Penang, namely Vortex Business Park and The Glades. The RM220mil gross development value (GDV) Vortex Business Park comprising commercial and industrial properties in Batu Kawan had a 80% take-up for the 66 units launched in phase one. Phase two is slated for launch in the first quarter of next year. *(Source: The Star)*

Rex Industry (CP: RM1.52): Sells Chinese subsidiary for RM21m

Rex Industry Bhd has disposed of its entire equity interest in Jie Yang Rex Foods Co., Ltd. (JYR), to the group's major shareholder and executive chairman Lee Chai Seng, for RM21 million cash. The proceeds arising from the disposal will be mainly utilised for its expansion plan in the Indonesian market, as well as as working capital. The foods and beverages manufacturer told the bourse today that it had entered into a conditional sale and purchase agreement with Lee on Jun 15, for the proposed disposal. JYR is Rex's indirect wholly-owned subsidiary in China. It is principally involved in the manufacturing and exporting of canned food and frozen food, which include tuna, sardine, crabmeat, mushroom and others. *(Source: The Edge)*

Tien Wah (CP: RM2.11): To acquire factory in Dubai for AED11m

Tien Wah Press Holdings Bhd, which has aborted its RM6 million acquisition plan to acquire an existing facility in Jafza, United Arab Emirates, will be acquiring a factory cum office building that costs twice more. After further deliberation, the Board has decided not to carry on with its plans for the Existing Facility. Instead, the rotogravure printing and photolithography printing specialist said it has entered into another sales and purchase agreement with an unspecified vendor on May 19, which will see it acquire a factory cum office building with a total build-up area of 3,799-sq metres, for AED11 million (RM12.22 million). *(Source: The Edge)*

Petronas: To raise RM29.5bil for Rapid

Petroleum Nasional Bhd (Petronas) is seeking to raise US\$7.2bil (RM29.5bil) for its Refinery and Petrochemical Integrated Development (Rapid) project in one of the largest project financings from Asia in recent years, Thomson Reuters LPC reported on Wednesday. The state-owned oil company has asked banks for underwriting commitments of at least US\$500mil (RM2.0bil) by next week, LPC reported, citing sources. A banking source confirmed to Reuters that Petronas has issued a request for proposals for the loan to be used to finance the US\$16bil (RM65.5bil) Rapid project. *(Source: The Star)*

ECONOMIC UPDATES**Malaysia: Bank Negara adopts more transparent spot-fixing method for US\$/ringgit**

Bank Negara Malaysia (BNM), in collaboration with the Financial Markets Association of Malaysia (FMA), has introduced a new methodology in the US dollar/ringgit (USD/MYR) spot fixing, which is based on market transaction data rather than submission of quotations by selected banks. In a statement, the central bank said the move, effective from July 18, was part of the effort to adopt global best practices for the domestic financial market. Under the new methodology, the reference rate will be known as Kuala Lumpur USD/MYR Reference Rate. To be published daily at 3:30pm, it is computed based on weighted average volume of the interbank USD/MYR forex spot rate transacted by domestic financial institutions between 8:00am to 3:00pm. *(Source: The Star)*

Malaysia: May inflation eases marginally to 2%

Malaysia's headline inflation slipped marginally to 2% in May from a year ago, as the initial price shock due to the Goods & Services Tax (GST) implemented last year gradually faded and the unchanged petrol pump price for the month kept a lid on inflationary pressure. According to the Statistics Department, food and non-alcoholic beverages fell to 4.1%, moderating for the third consecutive month due to decline in fresh fish prices which had dropped for two successive months, while personal care products prices and garments slid by 0.3% and -0.1%, respectively on a monthly basis. *(Source: The Sun)*

U.S.: Fed leaves interest rates unchanged, signals two hikes this year

The Federal Reserve (Fed) kept interest rates unchanged on Wednesday but signaled it still plans two rate increases this year, saying it expects the US job market to strengthen after a recent slowdown. The US central bank, however, lowered its economic growth forecasts for 2016 and 2017 and indicated it would be less aggressive in tightening monetary policy after the end of this year. Fed policymakers gave no indication of when they might raise rates, though their projections leave the door open to an increase next month. *(Source: The Star)*

U.S.: Slumping autos weigh on manufacturing output; inflation tame

U.S. manufacturing output unexpectedly fell in May as the production of motor vehicles and parts recorded its biggest drop in nearly 2-1/2 years, suggesting sustained weakness in the sector even as the overall economy appears to be

gaining momentum. Other data on Wednesday showed underlying producer prices were subdued last month amid weakness in costs for health services, which suggests inflation could remain tame for a while. Weak manufacturing and benign inflation, together with a sharp slowdown in job gains last month, will likely encourage the Federal Reserve to leave interest rates. (Source: *The Edge*)

China: Debt risks are manageable but steps needed

China's debt risks are under control given its high savings rate, but steps are needed to tackle exceptionally high corporate liabilities, an influential government economist said on Wednesday. "The possibility of having a debt crisis in China is small," Li Yang from the Chinese Academy of Social Sciences (CASS), a top government think-tank, told a news conference. China's total debts amounted to 168.5 trillion yuan (US\$25.6 trillion) at the end of 2015, equivalent to 249% of gross domestic product (GDP), according to Li's estimates. China's savings rate is close to 50% and the government still has sizeable assets at hands to deal with debt problems. He estimated that China's net sovereign assets at 103.3 trillion yuan. (Source: *Reuters*)

Indonesia: Central bank seen holding rates despite dovish tone

Most analysts expect Indonesia's central bank to keep all rates unchanged on Thursday, but a significant minority sees a cut following comments by the governor that there could be an easing before the country's benchmark rate is changed in August. Thirteen out of 19 analysts in a Reuters poll said Bank Indonesia (BI) will hold its benchmark rate at 6.75%. The remaining six see BI cutting by 25 basis points, adding to the three trims, by a total of 75 basis points, the central bank made in January-March. BI's two-day policy meeting ends just hours after a Federal Reserve one. (Source: *Reuters*)

Singapore: Economists trim 2016, 2017 Singapore growth forecasts

Economists trimmed their forecasts for Singapore's 2016 and 2017 growth, while downgrading their views on exports as well as private consumption for this year, a central bank survey showed on Wednesday. The median forecast of 22 economists surveyed by the Monetary Authority of Singapore (MAS) was for gross domestic product (GDP) to grow 1.8% in 2016, down from the 1.9% expected in the previous survey published in March. The median forecast for GDP growth in 2017 was also lowered to 2.1%, down from 2.5% in the previous survey. The government expects full-year GDP growth of 1.0%-3.0% this year. (Source: *Reuters*)

Singapore: May home sales hit 10-month high, but outlook cloudy

Singapore's private home sales hit a 10-month high in May helped by new project launches, but the outlook is clouded by a weak economy that is likely to keep potential home buyers cautious. Developers sold 1,056 units in May, up 64.2% from the same period last year, the Urban Redevelopment Authority. The sales volume was also the highest since July 2015, when developers sold 1,655 units. Two newly launched projects helped push up sales, analysts said, while adding that the pick-up was unlikely to be sustained in coming months. (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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