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Monday, June 27, 2016

## At a Glance

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## Strategy

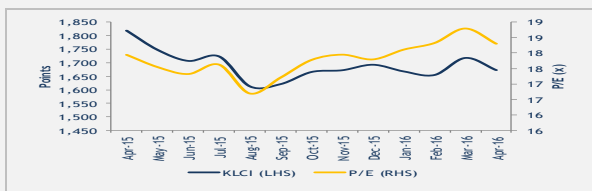
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## Corporate Highlights

- **Cahya Mata, BUY (TP: RM3.70):** Unit buys big stake in MBG
- **RHB Capital, HOLD (TP: RM6.20):** RHB Bank to assume the listing status of RHB Capital
- **Sime Darby (CP: RM7.49):** Confident Of Battersea Project Continuing To Generate Interest

## Economic Update

- **Malaysia:** Major impact on our external trade unlikely-Mustapa
- **China:** Brexit puts UK-China financial services linkages at risk
- **Europe:** Britain votes to leave EU, unleashing global turmoil



KEY ECONOMIC RELEASE				
Date	Local Time	Event	Survey	Prior
US 27-Jun	9:45 PM	Markit US Services PMI	51.9	51.3
US 27-Jun	9:45 PM	Markit US Composite PMI	--	50.9
CN 27-Jun	12:00 AM	Leading Index	--	99.1
US 28-Jun	8:30 PM	GDP Annualized QoQ	1.00%	0.80%
US 28-Jun	8:30 PM	Personal Consumption	2.00%	1.90%
US 28-Jun	8:30 PM	GDP Price Index	0.60%	0.60%
US 28-Jun	8:30 PM	Core PCE QoQ	2.10%	2.10%
US 28-Jun	9:00 PM	S&P/Case-Shiller US HPI MoM SA	--	0.09%
US 28-Jun	9:00 PM	S&P/Case-Shiller 20-City Index NSA	--	184.5
US 28-Jun	9:00 PM	S&P/CS 20 City MoM SA	0.50%	0.85%
US 28-Jun	9:00 PM	S&P/CS Composite-20 YOY NSA	5.50%	5.43%
US 28-Jun	10:00 PM	Consumer Confidence Index	93.1	92.6
US 29-Jun	7:00 PM	MBA Mortgage Applications	--	2.90%
US 29-Jun	8:30 PM	Personal Income	0.30%	0.40%
US 29-Jun	8:30 PM	PCE Deflator MoM	0.20%	0.30%
US 29-Jun	8:30 PM	PCE Deflator YoY	1.00%	1.10%
US 29-Jun	10:00 PM	Pending Home Sales MoM	-1.00%	5.10%
US 29-Jun	10:00 PM	Pending Home Sales NSA YoY	4.80%	2.90%
EU 29-Jun	5:00 PM	Consumer Confidence	-7.3	-7.3
JP 29-Jun	7:50 AM	Retail Trade YoY	-1.60%	-0.80%
JP 29-Jun	7:50 AM	Retail Sales MoM	0.10%	0.00%
US 30-Jun	8:30 PM	Initial Jobless Claims	--	259k
US 30-Jun	8:30 PM	Continuing Claims	--	2142k
EU 30-Jun	5:00 PM	CPI Estimate YoY	0.00%	-0.10%
EU 30-Jun	5:00 PM	CPI Core YoY	0.80%	0.80%
JP 30-Jun	1:00 PM	Housing Starts YoY	4.80%	9.00%
JP 30-Jun	1:00 PM	Construction Orders YoY	--	-16.90%
US 1-Jul	9:45 PM	Markit US Manufacturing PMI	--	51.4
US 1-Jul	10:00 PM	ISM Manufacturing	51.5	51.3
US 1-Jul	10:00 PM	ISM Prices Paid	63.8	63.5
US 1-Jul	10:00 PM	ISM New Orders	--	55.7
US 1-Jul	10:00 PM	Construction Spending MoM	0.60%	-1.80%
EU 1-Jul	4:00 PM	Markit Eurozone Manufacturing PMI	52.6	52.6
EU 1-Jul	5:00 PM	Unemployment Rate	10.10%	10.20%
CN 1-Jul	9:00 AM	Manufacturing PMI	50	50.1
CN 1-Jul	9:00 AM	Non-manufacturing PMI	--	53.1
MY 1-Jul	11:30 AM	Nikkei Malaysia PMI	--	47.2
MY 1-Jul	12:00 PM	Exports YoY	2.00%	1.60%
MY 1-Jul	12:00 PM	Imports YoY	-2.00%	-2.30%
MY 1-Jul	12:00 PM	Trade Balance MYR	7.80b	9.06b

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## Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,634.05	-5.93	-0.36
FBMEMAS	11,393.31	-68.11	-0.59
FBMEMAS SHA	11,968.84	-42.20	-0.35
FBM100	11,106.23	-60.59	-0.54
Volume (mn)	2,224.59	1,117.32	100.91
Value (RMmn)	2,355.07	915.73	63.62
FBMKLCI YTD Chg			-3.45

## Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	62.4	172.7
Local Retail	17.6	44.1
Foreign Investors	20.0	-216.8

## Top Gainers

	Close	Change+/-	(+/- %)
BRIT AMER TOBA	51.00	1.22	1.70
IHH HEALTHCARE	6.70	0.20	3.08
MALAYSIAN PAC	7.30	0.17	2.38

## Top Losers

	Close	Change+/-	(+/- %)
NESTLE (MALAY)	76.14	-0.56	-0.73
CARLSBERG BREW	13.00	-0.48	-3.56
FRASER & NEAVE	24.90	-0.40	-1.58

## World Indices

	Close	Change+/-	(+/- %)
DJIA	17,400.75	-610.32	-3.39
NASDAQ	4,707.98	-202.06	-4.12
S&P 500	2,037.41	-75.91	-3.59
FTSE 100	6,138.69	-199.41	-3.15
DAX	9,557.16	-699.87	-6.82
Nikkei 225	14,952.02	-1,286.33	-7.92
HSI	20,259.13	-609.21	-2.92
KOSPI	1,925.24	-61.47	-3.09
STI	2,793.85	-58.12	-2.08
KLCI Futures	1,616.50	(17.50)	(0.01)
USDMYR 3M	12.74	(0.69)	(0.05)
USDMYR 6M	12.67	(0.62)	(0.05)
USDMYR 12M	12.60	(0.46)	(0.04)

## Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	47	-0.5	-0.9%
Brent (USD/bbl)	48.0	-0.4	-0.8%
Gold(USD/ounce)	1,332	16.7	1.3%
Coal (USD/mt)	54.2	-1.8	-3.1%
CPO (RM/mt)	2,379	-5.0	-0.2%
Rubber	170	-0.4	-0.2%
RM/USD	4.09	0.0763	-1.86%
EUR/USD	4.01	0.007	-0.17%
YEN/USD	0.91	0.0046	0.51%

## What To Expect

### U.S. Market

- The Dow Jones Industrials Average plunged 610.32 points to 17,400.75 and S&P 500 tumbled 75.91 points to 2,037.41. Nasdaq fell 202.06 points to 4,707.98. The U.S. stock market suffered its worst drop in 10 months Friday as shock over the United Kingdom voters' move to exit the European Union and Prime Minister David Cameron's subsequent resignation announcement sent global markets into a tailspin.
- Once the initial market turmoil abates, the "Brexit" decision will become the latest in a long list of headwinds contributing to the American economy's sluggish growth. The U.S. has powered through a number of overseas risks in the seven years since the recession ended and economists expect it will weather this one, too, allowing domestic concerns to again take center stage.

### The Local Market

- FBMKLCI closed at 5.93 points lower at 1,634.05, following volatile trading today as global markets were hammered after Britain voted to exit the European Union. There were 179 gainers and 760 decliners in total value traded of RM2.36 billion.
- Among the decliners on Bursa Malaysia were Nestle which dropped 56 cents to RM76.14, Carlsberg fell 48 cents to RM13.00 and F&N down 40 cents to RM24.90.

### Strategy

- **"Inferno but We Don't Expect Total Carnage Today"**  
Wall Street tanked precipitously last Friday, killed by one enemy, "Brexit". S&P 500 and DJIA bleed out 75.99 (-3.59%) and 610.32 (-3.32%) to end at 2,037.41 and 17,400.75 respectively. Of note, a 3% drop in a day for Wall Street is not its worst as Wall Street did tank its to sharpest by about 5% or over 700 points during the spark of the global twin crises. At this stage, the carnage could be bigger for the EU and US as a result of UK exiting the EU but it may be different for Malaysia in our view. We think that the downside risks to Malaysia are containable given our smaller link to EU and UK trade channel directly. If there is some impact, it will be temporary and the storm will pass quietly, many thanks to our strong fundamentals namely undervalued currency and solid domestic demand which has been the key impetus to our steady economic growth. However, given the sharp drop in Wall Street last Friday and aftermath impact of Brexit, there will be a negative impact to the local market today but we think it will not be total carnage as the aforementioned reasons will be our savior.
- 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

**Cahya Mata, BUY (TP: RM3.70): Unit buys big stake in MBG**

Cahya Mata Sarawak Bhd private equity (PE) arm CMS Opus PE Sdn Bhd is buying a substantial stake in fresh fruit convenient store retailer MBG Fruits Sdn Bhd. MBG said in a statement that it had entered into a share subscription and shareholders agreement with CMS Opus. CMS Opus is also backed by government-linked PE fund Ekuiti Nasional Bhd or Ekuinas. CMS Opus was appointed as one of the outsourced partners under Ekuinas' Tranche II Outsourced Programme. MBG has 32 outlets in shopping malls, supermarkets, public transportation hubs and hospitals. *(Source: The Star)*

**RHB Capital, HOLD (TP: RM6.20): RHB Bank to assume the listing status of RHB Capital**

Following the approval of RHB Capital Bhd's shareholders to wind up the company at an Extraordinary General Meeting (EGM) today, RHB Banking Group is now able to procure the approval of Bursa Securities and list RHB Bank Bhd on the Main Market of Bursa Malaysia. RHB in a statement today said RHB Bank would assume the listing status of RHB Capital with an entire issued and paid-up capital of approximately 4.01 billion shares targeted for listing on June 28 this year. Any surplus cash remaining in the company after settlement of all liabilities and defrayment of expenses will be returned to the shareholders according to their rights and interests in the company once all statutory requirements in relation to the proposed winding up are complied with. *(Source: The Star)*

**Sime Darby (CP: RM7.49): Confident Of Battersea Project Continuing To Generate Interest**

The decision by the United Kingdom to leave the European Union (EU) or Brexit, is not expected to impact the viability of the iconic Battersea Power Station project development, Sime Darby Bhd said. In a statement today, Sime Darby reiterated its long term commitment as a shareholder of the Battersea Power Station project, London's largest and most anticipated development. The group is confident that the project would continue to generate interest in the longer term. *(Source: Bernama)*

**Benalec (CP: RM0.495): Maps out strategy in Johor, talks with foreign partner**

Marine engineering firm, Benalec Holdings Bhd, which has the rights to reclaim land equivalent to half the size of Jurong, Singapore off the south-west coast of Johor, is going into the oil storage business through a joint venture with a large international logistics company. Towards this end, Benalec has inked a memorandum of understanding (MoU) with the company last Friday, which it declined to disclose the details, to conduct a feasibility study with the view of building and operating a greenfield oil storage terminal project at Tanjung Piai Maritime Industrial Park (TPMIP) in Johor *(Source: The Star)*

**MyEG (CP: RM1.94): Fined RM2.27m for abusing dominant provision in foreign worker permit renewal market**

The Malaysian Competition Commission (MyCC) has decided to fine MyEG Services Bhd a total of RM2.27 million, and possibly impose daily fines going

forward, for “abusing its dominant position in the provision and management of online Foreign Workers Permit renewals.” The independent body said the fine consists of a financial penalty of RM307,200 for the infringement periods between Jan 5, 2015 and Jan 22, 2015, plus May 2, 2015 and Oct 6, 2015. The bulk however came from the daily fine of RM7,500 from Oct 7, 2015 up to today, as MyCC said the abusive conduct persisted during the period. “It is the MyCC’s finding that MyEG together with MyEG Commerce Sdn Bhd had infringed section 10(2)(d)(iii) of the (Competition Act 2010) by abusing its dominant position in harming competition in the downstream market in which MyEG Commerce is participating as an insurance agent for online Foreign Workers Permit renewal applications. (Source: *The Star*)

**Kimlun (CP: RM1.79): Bidding for local projects worth RM3 billion**

Construction company Kimlun Corp Bhd, which saw its net profit jump 21.1% in the first quarter ended March 31, 2016, is bidding for RM3 billion worth of projects locally. Its CEO Sim Tian Liang said they include construction and infrastructure jobs such as the Pan Borneo Highway, Damansara-Shah Alam Elevated Expressway, Sungai Besi-Ulu Klang Elevated Expressway, as well as the Refinery and Petrochemical Integrated Development (Rapid) project. He said Kimlun’s outstanding order book stands at RM1.8 billion, which can last the group for two years. Asked on its financial performance, Sim said he expects flat or slightly lower revenue growth in the group’s current financial year ending Dec 31, 2016, as some of its major projects are still at the beginning stage. (Source: *The Sun*)

**Tadmax (CP: RM0.385): Aborts sale of Pulau Indah land to Inai Kiara for RM48.35m**

Tadmax Resources Bhd is no longer selling its 60-acre leasehold land in Pulau Indah in Klang, Selangor, to Inai Kiara Sdn Bhd for RM48.35 million, after the two decided to mutually terminate the deal. Tadmax said the two have signed a mutual termination agreement today, after agreeing to amicably terminate the deal and discharge each other from further performance of any terms and conditions of the sale agreement. Tadmax said the deposit sum of RM4.835 million will be refunded to Inai Kiara, free of interest. Tadmax originally inked the sale and purchase agreement (SPA) for the disposal with Inai Kiara in April 2013. But about a year later, Tadmax inked a varied SPA with Inai Kiara to undertake the disposal of the land via a stake sale in a wholly-owned unit which owns the land, instead of sub-dividing the land. (Source: *The Edge*)

**REDtone (CP: RM0.44): Posts RM23.53m fourth quarter loss**

Telecommunications player REDtone International Bhd recorded a loss of RM23.53 million or 3.03 sen a share for the fourth quarter ended April 30, on revenue of RM51.81 million. For the 11 months to April 30, the group recorded a net loss of RM29.79 million or 3.81 sen a share, on revenue of RM148.59 million. There were no comparison figures, as the group had changed its financial year end from May 31 to April 30, in line with Berjaya Corporation Bhd’s (BCorp’s) financial year end. BCorp took over REDtone on May 8, 2016. REDtone said its losses were due to high project costs arising from the prolonged delay in major projects, high impairment of trade receivables and impairment of goodwill and property, plant and equipment. (Source: *The Edge*)

**Kelington (CP: RM0.255): Expects to be profitable in FY16 - chairman/CEO**

Kelington Group Bhd, an industrial gas and chemical delivery specialist, is expected to report profit this year on a strong order book. Its chairman and chief executive officer Raymond Gan told reporters after Kelington's annual general meeting here today the group's revenue in the current financial year ending Dec 31, 2016 (FY16) is expected to rise. Gan said Kelington's "outstanding order book stood at RM250 million, which is likely to sustain the group's business for six to nine months". He said the company had secured new orders amounting to RM160 million so far this year. Currently, the group is also tendering for RM500 million worth of projects, from which it expects to secure 20% worth of jobs. Among these projects, 40% is from high-tech industry, while 60% is from general industry. (Source: The Edge)

**Privasia (CP: RM0.16): Confident of consistent growth**

Privasia Technology Bhd is confident of recording consistent growth this year as in previous years on the back of its solid order book. Group chief executive officer Puvanesan Subenthiran said the group's total order book currently stood at RM120 million, mostly in the utilities segment with fixed monthly billing and would last until 2020. "These are the work that we have already invested and now providing services to customers. Currently, most of the group's businesses were new and there were still space to grow as long as the company focussed on them, he said. (Source: The Star)

**Petronas: Receives Tallest, Heaviest Fractionator Process Column In Malaysia**

PETRONAS has received the tallest and heaviest propylene fractionator process column in Malaysia for the steam cracker facility located within its Pengerang Integrated Complex (PIC) in Pengerang, Johor. In a statement, Petronas Senior Vice President and Chief Executive Officer of Petronas Refinery and Petrochemical Corporation Sdn Bhd (PRPC), Colin Wong Hee Huing said the fractionator has been recognised by the Malaysia Book of Records as the tallest and heaviest process column in Malaysia. The state-of-the-art equipment was received on June 25. (Source: Bernama)

**ECONOMIC UPDATES****Malaysia: Major impact on our external trade unlikely-Mustapa**

International Trade and Industry Minister Datuk Seri Mustapa Mohamed (pix) said Brexit is unlikely to have a significant disruptive effect on Malaysia's external sector as trade with the UK is relatively small. In a statement last Friday he said that while there may be some impact in the very near term, the medium to long-term impact of Brexit on Malaysia's trade and investment will be minimal. Mustapa was also unfazed by the impact on Malaysia's foreign direct investment (FDI) as they are normally long-term in nature and exchange rate volatility is usually priced into FDI-related contracts. While the UK may no longer be part of the currently negotiated Malaysia-EU free trade agreement (FTA), Mustapa said the government will explore the possibility of having a separate bilateral FTA with the UK as part of efforts to open up more business opportunities. (Source: The Sun)



**China: Brexit puts UK-China financial services linkages at risk**

Britain's shock vote to leave the European Union could derail a raft of financial services projects agreed between China and the United Kingdom, which for years has marketed itself to Beijing as its best economic and financial friend in Europe. The "Leave" camp clinched 52% of the vote at this week's referendum on whether the UK should remain a member of the EU, confounding traders and bookmakers who had expected Britons would opt to stay and sparking turmoil in global markets. Britain now faces a long period of uncertainty, as the government begins an two-year process to renegotiate its relationship with the EU, which allows goods and services to be freely traded within. (Source: *The Star*)

**Europe: Britain votes to leave EU, unleashing global turmoil**

Britain has voted to leave the European Union, results from Thursday's referendum showed, a stunning repudiation of the nation's elites that deals the biggest blow to the European project of greater unity since World War Two. Global financial markets plunged as complete results showed a near 52-48% split for leaving, on fears that the decision will hit investment in the world's 5th largest economy, threaten London's role as a global financial capital and foment uncertainty in the world's biggest trading bloc. The pound suffered its biggest one-day fall in history, falling more than 10% against the dollar to hit levels last seen in 1985, while the euro slumped more than 3%. (Source: *The Edge*)

**Singapore: Manufacturing output up 0.9% in May**

Singapore's manufacturing output increased 0.9% in May from the same month a year ago, said the Economic Development Board (EDB) on Friday. The biomedical manufacturing cluster's output expanded 13.2% in May, compared to the same period a year ago. Among them, the pharmaceuticals and medical technology segments grew 14.2% and 9.2% respectively, where the former's growth was due to a different mix of active pharmaceutical ingredients produced. Strong export demand for medical devices continued to drive the growth of the medical technology segment. On a year-to-date basis, the biomedical manufacturing cluster increased 17.3% compared to the same period a year ago. Output of the electronics cluster increased 5.9%, lifted by higher output in the semiconductors and other electronic modules & components segments. (Source: *The Edge*)

**U.K.: David Cameron resigns**

British Prime Minister David Cameron has resigned and a new leader will take over around October. This comes in the wake of the vote for the UK to leave the EU in a historic referendum. The British cabinet will meet on Monday and a time-table will be drawn up. The British people have voted to leave the EU and their will must be respected. The will of the British people is an instruction that must be delivered. There can be no doubt about the result. (Source: *The Star*)

**U.K.: Moody's cut UK's credit outlook to 'negative'**

The UK has had its credit rating outlook cut to "negative" by the ratings agency Moody's after the country voted to leave the EU. Moody's said the result would herald "a prolonged period of uncertainty". Meanwhile, PM David Cameron is under pressure to speed up "divorce" talks with the EU after Brussels said exit

negotiations should start immediately. EU head Jean-Claude Juncker said it was "not an amicable divorce", but it was "not a deep love affair anyway". Moody's said the referendum result would have "negative implications for the country's medium-term growth outlook", and it lowered the UK's long-term issuer and debt ratings to "negative" from "stable". It added: "In Moody's view, the negative effect from lower economic growth will outweigh the fiscal savings from the UK no longer having to contribute to the EU budget." It also said the UK had one of the largest budget deficits among advanced economies. (Source: BBC)

**World: Central banks move to calm jittery markets after Brexit shock**

Some of the world's biggest central banks offered financial backstops to soothe plunging markets on Friday after Britain voted to leave the EU with some even intervening in currency markets on worries that volatility could hit growth. The Bank of England offered to provide more than 250 billion pounds (US\$347 billion) plus "substantial" foreign currency liquidity and it was ready to take additional measures if needed, Governor Mark Carney said after markets went into a tailspin. The European Central Bank said it was ready to provide additional liquidity and would protect euro zone financial stability. The People's Bank of China pledged to keep the yuan basically stable and said it would maintain ample liquidity. As the vote raised far-reaching questions about Britain's future economic growth prospects, the pound fell by as much as 10% to a 31-year low against the dollar in early trade and European shares were down close to 10% before recovering some ground. (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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