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Thursday, July 21, 2016

Report of the Day

Result Review: Maxis – 2Q16 – “Blend Well with Competition”

At a Glance

FBMKLCI ended marginally lower by 0.94 points to close at 1,669.61 on late buying support from funds for certain blue chips(See full report next page)

Strategy

“Not So Good News; Dollar Up”

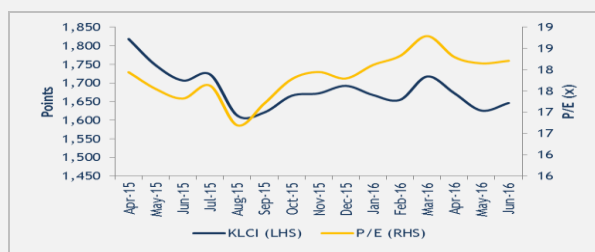
Risk taking may also be take a beating for the time being(See full report next page)

Corporate Highlights

- **Maxis, HOLD (TP: RM6.46):** Q2 net profit up 10.6% to RM488m
- **RHB Bank, HOLD (TP: RM5.60):** Revises base rate and BLR effective July 22, 2016
- **AFG, HOLD (TP: RM4.00):** Cuts base rate by 15 basis point

Economic Update

- **Malaysia:** June CPI Up 1.6 Per Cent From The Same Month Last Year
- **U.S.:** Economy likely to slow to 1.4 pct next year; sluggish global activity to weigh on core inflation
- **Brazil:** Keeps Rate Amid Persistent High Prices, Stagnant GDP



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
US	19-Jul	8:30 PM	Housing Starts	1170k	1164k
US	19-Jul	8:30 PM	Housing Starts MoM	0.50%	-0.30%
US	19-Jul	8:30 PM	Building Permits	1150k	1138k
EU	19-Jul	5:00 PM	Construction Output MoM	--	-0.20%
EU	19-Jul	5:00 PM	Construction Output YoY	--	-0.40%
US	20-Jul	7:00 PM	MBA Mortgage Applications	--	7.20%
MY	20-Jul	12:00 PM	CPI YoY	--	2.00%
US	21-Jul	8:30 PM	Initial Jobless Claims	--	254k
US	21-Jul	8:30 PM	Continuing Claims	--	2149k
US	21-Jul	10:00 PM	Existing Home Sales	5.47m	5.53m
US	21-Jul	10:00 PM	Existing Home Sales MoM	-1.20%	1.80%
EU	21-Jul	7:45 PM	ECB Main Refinancing Rate	0.00%	0.00%
EU	21-Jul	7:45 PM	ECB Deposit Facility Rate	-0.40%	-0.40%
EU	21-Jul	7:45 PM	ECB Marginal Lending Facility	0.25%	0.25%
EU	21-Jul	7:45 PM	ECB Asset Purchase Target	EUR80b	--
US	22-Jul	9:45 PM	Markit US Manufacturing PMI	51.5	51.3
MY	22-Jul	6:00 PM	Foreign Reserves	--	\$97.2b
EU	22-Jul	4:00 PM	Markit Eurozone Manufacturing PMI	52	52.8
EU	22-Jul	4:00 PM	Markit Eurozone Services PMI	52.3	52.8
EU	22-Jul	4:00 PM	Markit Eurozone Composite PMI	52.5	53.1

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,669.61	-0.94	-0.06
FBMEMAS	11,678.43	-2.43	-0.02
FBMEMAS SHA	12,261.27	7.28	0.06
FBM100	11,373.87	-6.00	-0.05
Volume (mn)	1,932.31	51.60	2.74
Value (RMmn)	1,639.08	-371.55	-18.48
FBMKLCI YTD Chg			-1.35

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	56.2	58.1
Local Retail	19.4	-12.7
Foreign Investors	24.4	-45.4

Top Gainers

	Close	Change+/-	(+/- %)
PANASONIC MAN	34.30	0.60	1.70
HEINEKEN MALAY	18.00	0.50	2.86
HONG LEONG FIN	15.66	0.46	3.03

Top Losers

	Close	Change+/-	(+/- %)
BRIT AMER TOBA	54.50	-0.50	-0.91
PPB GROUP	16.26	-0.34	-2.05
TIME DOTCOM	7.35	-0.20	-2.65

World Indices

	Close	Change+/-	(+/- %)
DJIA	18,595.03	36.02	0.19
NASDAQ	5,089.93	53.56	1.06
S&P 500	2,173.02	9.24	0.43
FTSE 100	6,728.99	31.62	0.47
DAX	10,142.01	160.77	1.61
Nikkei 225	16,681.89	-41.42	-0.25
HSI	21,882.48	209.28	0.97
KOSPI	2,015.46	-1.43	-0.07
STI	2,941.06	21.52	0.74
KLCI Futures	1,661.00	1.00	0.00
USDMYR 3M	11.61	0.03	0.00
USDMYR 6M	11.65	0.02	0.00
USDMYR 12M	11.67	0.02	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	46	0.0	0.0%
Brent (USD/bbl)	47.2	0.5	1.1%
Gold(USD/ounce)	1,314	-2.3	-0.2%
Coal (USD/mt)	60.9	-0.1	-0.1%
CPO (RM/mt)	2,347	44.0	1.9%
Rubber	192	5.7	3.1%
RM/USD	4.03	0.0184	-0.46%
EUR/USD	0.91	-0.0003	-0.03%
YEN/USD	107.23	0.34	-0.32%

What To Expect

U.S. Market

- The Dow Jones Industrials Average continued the upward momentum by adding 36.02 points to another record high of 18,595.03 with S&P 500 gaining 9.24 points to 2,173.02. Nasdaq also jumped 53.56 points to 5,089.93. July 20 marked the seventh all-time closing high for the S&P 500 this month. The Dow's nine-day winning streak is its longest in more than three years. Meanwhile, the U.S. 10-year Treasury bond yield is not too far from its all-time low of 1.37 percent.
- Low bond yields signal low inflation and poor macro fundamentals for stocks—weak economic growth. But also, U.S. bond yields have been dragged lower by negative rates in Europe and Asia. Bouts of U.S Treasury bond flight to safety buying, which lowers the yield, arise from uncertainty-creating events like Brexit.

The Local Market

- FBMKLCI ended marginally lower by 0.94 points to close at 1,669.61 on late buying support from funds for certain blue chips such as Petronas Chemicals and Genting Bhd. There were 415 gainers and 378 decliners in total value traded of RM1.63 billion.
- Among the losers on Bursa Malaysia were BAT tumbled 50 cent to RM54.50, PPB Group lost 34 cent to RM16.26, Time dotCom fell 20 cent to RM7.35 and Kuala Lumpur Kepong declined 14 cent to RM23.10.

Strategy

- **“Not So Good News; Dollar Up”**
Wall Street smashed record after record and is currently at all-time high, thanks to rising Dollar. S&P 500 and DJIA gained 9.24 (0.43%) and 36.02 (0.19%) points to end at 2,173.02 and 18,595.03 respectively. Dollar Index, which is Dollar against a basket of major currencies, gained by 0.1% to end at 97.202, driven by the expectation that the US Federal Reserve may adjust interest rate by or before the end of the year. Essentially a bad news for emerging economies, Malaysia included, as local currency will continue to be depressed. This may also take a toll on commodity prices which is proven through oil price which remained lethargic. Oil price (WTI) ended almost unchanged at USD44.85 per barrel. With these 2 potential catalysts (local currency and oil price) seemingly at risk due to the anticipation of rising systematic risk, risk taking may also be take a beating for the time being.
- 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

Maxis, HOLD (TP: RM6.46): Q2 net profit up 10.6% to RM488m

Maxis Bhd's net profit rose 10.65% to RM488mil in the second quarter ended June 30 and declared a second interim dividend of 5 sen net per share. Its revenue for the quarter was flat at RM2.10bil compared with RM2.11bil in the same period a year ago. Its earnings per share for the quarter rose to 6.50 sen against 5.90 sen a share previously. Chief executive officer Morten Lundal said the quarter was not its easiest where competition tried to improve subscriber market share by lowering prices. *(Source: The Star)*

RHB Bank, HOLD (TP: RM5.60): Revises base rate and BLR effective July 22, 2016

RHB Banking Group will revise its base rate (BR), base lending rate (BLR) and base financing rate (BFR) in line with Bank Negara's recent decision to reduce the overnight policy rate (OPR) to 3%. In a statement, RHB said with effect from July 22, 2016, RHB Bank and RHB Islamic Bank will reduce its BR from 3.90% to 3.80% per annum, and will also reduce the BLR and BFR from 6.85% to 6.75% per annum. The revision in rates will spur a more agile financial environment. It will also promote greater domestic demand and boost economic growth, as well as ease the financial burden of our customers," group managing director Datuk Khairussaleh Ramli said in the statement. *(Source: The Star)*

AFG, HOLD (TP: RM4.00): Cuts base rate by 15 basis point

Alliance Financial Group Bhd (AFG) has lowered its base rate by 15 basis points (0.15%) for loans/financing products, in view of Bank Negara's recent Overnight Policy Rate (OPR) cut. With effect from July 20, 2016, the base rate for Alliance Bank Malaysia Bhd, Alliance Investment Bank Bhd and Alliance Islamic Bank Bhd will be revised from 3.97% per annum to 3.82% per annum. Concurrently, the base lending rate (BLR) and the base financing rate (BFR) will be revised from 6.82% per annum to 6.67% per annum. As a result, all loans/financing pegged to BR/BLR/BFR will be adjusted accordingly. *(Source: The Star)*

PPB Group (CP: RM16.26): Advises caution after Wilmar warning

PPB Group Bhd expects Wilmar International Ltd's weaker financial performance to adversely impact its financial results and advised shareholders and investors to be cautious. The plantations, flour milling and property company said on Wednesday while its share of its 18.55%-associate Wilmar results has yet to be determined, "it is expected that this would have an adverse impact on the financial results of the PPB Group for Q2, 2016". Details of the PPB Group's financial performance for Q2, 2016 and H1, 2016 will be disclosed when PPB announces its consolidated financial results for the respective periods. Shareholders and investors are advised to exercise caution when dealing in the shares of the company. *(Source: The Star)*

DBE Gurney (CP: RM0.05); In JV to expand Harumi business

Integrated poultry company DBE Gurney Resources Bhd (DBE) has inked a joint venture with Distinct Legacy Sdn Bhd to set up HARUMi retail outlets nationwide via a dedicated entrepreneur development programme. The programme will be implemented through a newly set-up company, in which

DBE and Distinct Legacy will hold a 40% stake each, while the other 20% will be held by a private investor. The joint venture agreement was signed here on Wednesday. Through the agreement, Distinct Legacy will handle the marketing and assist entrepreneurs to obtain financing, while DBE will provide the kiosk sets and supply marinated chicken products to the licensees. *(Source: The Star)*

I-Bhd's (CP: RM0.54): 2Q profit jumps 72% on strong property sales

I-Bhd's net profit for the second quarter ended June 30, 2016 (2QFY16) soared by 72.32% from the previous comparable period to RM14.68 million, as the developer of i-City credited it to stronger property sales. Its revenue rose by 64.39% to RM86.68 million in the quarter, from RM52.73 million. In the financial period to date (1HFY16), I-Bhd made a net profit of RM30.04 million, up 60.17% year-on-year. Its earnings per share in the period was 2.83 sen, versus 1HFY15's 1.77 sen. Revenue for 1HFY16 came to RM167.12 million, which was 30.49% higher than the previous corresponding period's RM128.07 million. *(Source: The Edge)*

Maxwell (CP: Suspended): Auditor unable to verify Maxwell unit's RM64.6mil ad spending

Ferrier Hodgson MH Sdn Bhd is unable to verify and prove that sports footwear maker Maxwell International Holdings Bhd had benefitted from the 92.4 million yuan (RM64.62mil) which is said to have been spent by its unit Maxwell (Xiamen) Co Ltd for billboard and LED signboard advertising in China. The auditor has given to Maxwell's board its report on the six advertising contracts signed between Maxwell Xiamen and six contractors, and Maxwell in turn attached a copy of the report's executive summary in a filing with Bursa Malaysia on Tuesday. According to the executive summary, Ferrier Hodgson MH had launched a search of the six advertising contractors (similar to the company searches made with the Companies Commission of Malaysia) and found that two of these companies "were not in existence" while one was no longer operational. *(Source: The Star)*

Auto Sector: Weaker vehicle sales sees MAA revising downwards TIV forecast for 2016

The Malaysian Automotive Association (MAA) has revised its 2016 total industry volume (TIV) forecast downwards to 580,000 units from 650,000 units initially, due to lower vehicle sales in the first half of this year. MAA president Datuk Aishah Ahmad said in light of the volatility in the global economy and weaker consumer sentiment, demand for new vehicles was affected in the first half of this year. "Given the cautious business sentiment, with companies unwilling to invest amid economic uncertainties and subdued consumer sentiment, new vehicle sales had contracted during the period under review, she said today during a review of vehicle sales for the first half of 2016. *(Source: The Star)*

ECONOMIC UPDATES

Malaysia: June CPI Up 1.6 Per Cent From The Same Month Last Year

The Consumer Price Index (CPI) for June 2016 increased by 1.6 per cent to 114.8 compared with 113.0 in the same month last year. Among the major groups which recorded increases was the index for alcoholic beverages & tobacco which rose by 21.9 per cent from June 2015, food & non-alcoholic beverages in increasing 4.2 per cent and housing, water, electricity, gas & other fuels up 2.4 per cent, the Department of Statistics Malaysia said in a statement. Other groups, miscellaneous goods & services (+2.3 per cent), restaurants & hotels (+2.2 per cent) and education (+2.1 per cent). However, the transport group decreased by 8.5 per cent compared to June 2015 as communication declined 2.2 per cent and clothing & footwear (-0.6 per cent). (Source: Bernama)

U.S.: Economy likely to slow to 1.4 pct next year; sluggish global activity to weigh on core inflation

In the US, financial conditions continue to be in a state of flux, with a decline in yields giving significant cushion as investors have reacted to Brexit by marking down projections for federal funds rates' future trajectory, noted Morgan Stanley in a research report. Under such a scenario, possible changes in the economic outlook might alter to a wide range of uncertainty. An increasing difficult global scenario is countered by additional accommodative stance on policy. All indications direct towards US business growth moving into late phase of the cycle. It is marked by slowdown in job growth, a turn in credit and earnings under pressure, according to Morgan Stanley. Risks to the outlook are tilted on the downside with a higher likelihood of recession in the next 12 months. (Source: Econotimes)

Brazil: Keeps Rate Amid Persistent High Prices, Stagnant GDP

Brazil's central bank kept the benchmark interest rate unchanged Wednesday, matching analyst expectations as policy makers struggle to tame stubborn inflation without exacerbating a crippling recession. Policy makers, led for the first time by their new chief, Ilan Goldfajn, held the so-called Selic rate at 14.25 percent for their eighth consecutive meeting. All 38 analysts surveyed by Bloomberg forecast the decision. Traders in the swaps market don't expect the rate to budge until October, when they forecast the first reduction since 2012. Goldfajn took the bank's helm last month to confront an annual inflation rate of almost 9 percent and an economy in its worst downturn in a century. (Source: Bloomberg)

Europe: Outlines Revamp of Tariff Methods as Deadline on China Nears

The European Commission said it would push before the end of the year to recognize China as a market economy in trade cases while pledging new investigative tools that would help keep tariffs on Chinese goods relatively high. The commission, the European Union's executive arm, said it would propose to abolish the non-market-economy label that the EU assigns to 15 countries including China when probing alleged below-cost -- or "dumped" -- imports. By itself, such a step would make it more difficult for European companies such as ArcelorMittal and Solarworld AG to win sufficiently high EU anti-dumping duties on imports from China. (Source: Bloomberg)

Vietnam: Prime Minister Warns Economy May Miss Growth Target

A crippling drought in Vietnam will probably cause the government to miss its 6.7 percent growth target this year, adding to pressure on new Prime Minister Nguyen Xuan Phuc as he seeks to reassure investors of his economic reforms.

The economy will need to expand 7.6 percent in the second half of the year to achieve its full-year goal, Phuc said in a prepared speech he is due to deliver to lawmakers in Hanoi next week and obtained by Bloomberg News. The target "will be hard to reach," he said. Phuc took office in Communist Party-ruled Vietnam in April amid the worst drought in 30 years and falling oil revenue. That's putting the brakes on an economy that's otherwise benefited from a booming export industry as companies such as Samsung Electronics Co. opened factories to build and ship smartphones. (Source: Bloomberg)

U.K: Unemployment rate falls to fresh 11 year low

The UK unemployment rate has fallen to 4.9%, the lowest since July 2005, according to official figures. The unemployment total fell to 1.65 million in the March-to-May period, down 54,000 from the previous quarter, the Office for National Statistics (ONS) said. The number of people in work rose by 176,000, with the employment rate remaining at a record high of 74.4%. The figures cover the period before the UK vote to leave the European Union. Earnings, not adjusted for inflation and excluding bonuses, rose by 2.2% compared with last year. There were 23.19 million people working full-time, 401,000 more than for a year earlier. (Source: BBC)

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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