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Monday, August 15, 2016

Report of the Day

Economic Report: Malaysian 2Q16 GDP – *"Right on the Minimum Line"*

At a Glance

FBMKLCI ended stronger by adding 5.35 points to close at 1,684.15 aided from Malaysia's second quarter GDP number that reached 4%..........(See full report next page)

Strategy

"Waiting for the Right Signals (If Any)"

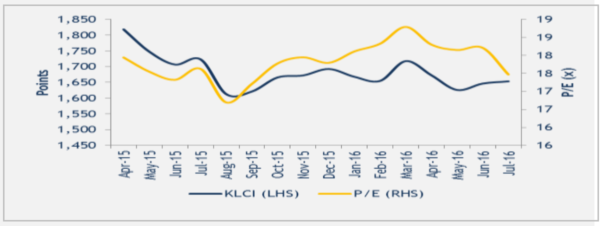
Market activity in equity market and commodity prices may turn cold somewhat ....(See full report next page)

Corporate Highlights

- **Supermax, BUY (TP: RM2.94):** Plans contact lens plants in Singapore, US and UK
- **Petronas Gas (CP: RM22.18), Linde:** Form joint venture for US$172m Pengerang project
- **Media Chinese (CP: RM0.74):** Mulls a special dividend

Economic Update

- **Malaysia:** GDP grew 4% in Q2
- **Malaysia:** Q2 current account surplus narrows to 1.9 bil ringgit
- **U.S.:** Retail sales sag points to seismic shift in economy



KEY ECONOMIC RELEASE

	Date	Local Time	Event	Survey	Prior
JP	15-Aug	7:50 AM	GDP Annualized SA QoQ	0.70%	1.90%
JP	15-Aug	7:50 AM	GDP Nominal SA QoQ	0.20%	0.60%
JP	15-Aug	7:50 AM	GDP Deflator YoY	0.70%	0.90%
JP	15-Aug	12:30 PM	Industrial Production MoM	--	1.90%
JP	15-Aug	12:30 PM	Industrial Production YoY	--	-1.90%
US	16-Aug	8:30 PM	Housing Starts	1176k	1189k
US	16-Aug	8:30 PM	Housing Starts MoM	-1.10%	4.80%
US	16-Aug	8:30 PM	Building Permits	1160k	1153k
US	16-Aug	8:30 PM	Building Permits MoM	0.60%	1.50%
US	16-Aug	8:30 PM	CPI MoM	0.00%	0.20%
US	16-Aug	8:30 PM	CPI Ex Food and Energy MoM	0.20%	0.20%
US	16-Aug	8:30 PM	CPI YoY	0.90%	1.00%
US	16-Aug	9:15 PM	Capacity Utilization	75.60%	75.40%
US	18-Aug	2:00 AM	U.S. Fed Releases Minutes from July 26-27 FOMC Meeting		
US	18-Aug	2:00 AM	FOMC Meeting Minutes	--	--
EU	18-Aug	5:00 PM	CPI MoM	--	0.20%
EU	18-Aug	5:00 PM	CPI YoY	--	0.20%
EU	18-Aug	5:00 PM	CPI Core YoY	--	0.90%
EU	18-Aug	7:30 PM	ECB account of the monetary policy meeting		
JP	18-Aug	7:50 AM	Trade Balance	--	¥692.8b
JP	18-Aug	7:50 AM	Trade Balance Adjusted	--	¥335.0b
JP	18-Aug	7:50 AM	Exports YoY	--	-7.4
JP	18-Aug	7:50 AM	Imports YoY	--	-18.8

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,684.15	5.35	0.32
FBMEMAS	11,834.76	38.91	0.33
FBMEMAS SHA	12,473.76	43.63	0.35
FBM100	11,529.52	38.09	0.33
Volume (mn)	2,008.91	156.26	8.43
Value (RMmn)	1,877.25	214.09	12.87
FBMKLCI YTD Chg			-0.49

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Institution	58.9	-127.1
Local Retail	18.5	-19.4
Foreign Investors	22.6	146.5

Top Gainers

	Close	Change+/-	(+/- %)
PANASONIC	38.22	0.42	1.70
BRIT AMER TOBAC	51.32	0.32	0.63
KESM INDUS BHD	6.95	0.27	4.04

Top Losers

	Close	Change+/-	(+/- %)
NESTLE (MALAY)	79.60	-0.40	-0.50
CHIN TECK PLANT	7.64	-0.36	-4.50
FRASER & NEAVE	24.70	-0.30	-1.20

World Indices

	Close	Change+/-	(+/- %)
DJIA	18,576.47	-37.05	-0.20
NASDAQ	5,232.90	4.50	0.09
S&P 500	2,184.05	-1.74	-0.08
FTSE 100	6,916.02	1.31	0.02
DAX	10,713.43	-29.41	-0.27
Nikkei 225	16,919.92	184.80	1.10
HSI	22,766.91	186.36	0.83
KOSPI	2,050.47	1.67	0.08
STI	2,869.82	-5.56	-0.19
KLCI Futures	1,665.00	2.50	0.00
USDMYR 3M	11.42	0.06	0.01
USDMYR 6M	11.54	0.02	0.00
USDMYR 12M	11.75	0.02	0.00

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	45	0.1	0.2%
Brent (USD/bbl)	47.1	0.1	0.2%
Gold(USD/ounce)	1,339	2.7	0.2%
Coal (USD/mt)	68.3	0.5	0.7%
CPO (RM/mt)	2,525	41.0	1.7%
Rubber	169	4.5	2.7%
RM/USD	4.03	0.023	-0.57%
EUR/USD	0.90	0	0.00%
YEN/USD	101.35	0.05	-0.05%

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Market Access

What To Expect

U.S. Market

- The Dow Jones Industrials Average weakened by losing 37.05 points to 18,576.47 while S&P 500 declined by 1.74 points to 2,184.05. Nasdaq soared by 4.50 points to 5,232.90. U.S. equities closed mostly lower on Friday as investors digested disappointing economic data, following a record-setting day on Thursday.

- Retail sales for July came in unchanged, with economists expecting a 0.4 percent increase. Meanwhile, the July reading of the producer price index showed a decline of 0.4 percent, as economists forecast a 0.1 percent gain.

The Local Market

- FBMKLCI ended stronger by adding 5.35 points to close at 1,684.15 aided from Malaysia's second quarter GDP number that reached 4%. There were 416 gainers and 381 decliners in total value traded of RM1.66 billion.

- Among the gainers on Bursa Malaysia were Panasonic added 42 cent to RM38.22, British American Tobacco increased 32 cent to RM51.32, KESM jumped 27 cent to RM6.95 and Apex Healthcare gained 13 cent to RM3.85.

Strategy

- **"Waiting for the Right Signals (If Any)"**
  Wall Street ended last Friday's affair in lower note as investors were grappling to justify taking big bets in equity market. S&P 500 and DJIA lost 1.74 (-0.08%) and 37.05 (-0.26%) to end at 2,184.05 and 18,576.47 respectively. Of note, all eyes will be focusing on the US Federal Reserve's July's meeting minutes that will be released on the 18th of August (Thursday) that will contain treasure throve of information on what to expect on US policy direction. Hence, market activity in equity market and commodity prices may turn cold somewhat until then, more so when the economic release this week is confined only to 2nd tier. In addition, given Malaysia's less-than-sizzling 2Q16 GDP of only 4%, market participants may need more reason to dip deeper in equity market. In sum, the big bold catalyst (if any) is still being awaited by many.

- 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.

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Market Access

CORPORATE HIGHLIGHTS

Supermax, BUY (TP: RM2.94): Plans contact lens plants in Singapore, US and UK

Rubber glove producer Supermax Corp Bhd, which aims to increase its contact lens capacity to two billion pieces annually in the next 10 years from 40 million currently plans to set up contact lens plants in Singapore, the US and the UK. "My dream is to produce two billion (contact) lenses per year. But then, (by) expanding in Malaysia alone is not good enough. So I need to have multiple manufacturing sites," its managing director Datuk Seri Stanley Thai Kim Sim told reporters after its EGM here last Friday. "However, Malaysia will still remain as our main manufacturing hub. The challenge here is because we are not able to get enough talent in Malaysia (alone), noting that 95%-98% of its workforce are engineers with minimum qualification of a university degree. He said the group is in the midst of obtaining approval from the Singapore government to set up its contact lens plant there. It expects to get approval by next year. *(Source: The Sun)*

Petronas Gas (CP: RM22.18), Linde: Form joint venture for US$172m Pengerang project

Petronas Gas Bhd has executed a shareholders agreement with Linde (Malaysia) Sdn Bhd for a joint-venture company to undertake the development of an air separation unit plant in Pengerang, Johor, a project that is estimated to cost US$172 million (RM692 million). Petronas Gas will hold a 51% stake in the joint-venture company, with its portion of the cost to be an estimated US$88 million. Linde will hold the remaining 49%. The source of funding for the project is expected to be via a combination of equity and debt from the respective parties. Construction on the project is to start by the third quarter of 2016 and the plant is expected to achieve commercial operation by the fourth quarter of 2018. *(Source: The Sun)*

Media Chinese (CP: RM0.74): Mulls a special dividend

Media Chinese International Ltd (MCIL), controlled by Sarawak timber and media tycoon Tan Sri Tiong Hiew King, may consider rewarding its shareholders with a special dividend from the disposal of One Media Group Ltd for HK$498 million. “If there is money, of course we can (consider), just wait for further details that will be out soon,” MCIL executive director and CEO Francis Tiong Kiew Chiong told reporters, after the group’s annual general meeting here today. MCIL is estimated to see a net gain of HK$363 million from the sale of its 73% stake in One Media to Chinese state-owned company, Qingdao West Coast Holdings International Ltd. The Hong Kong-listed One Media is a media subsidiary of MCIL, focusing on the Greater China region. *(Source: The Edge)*

Guan Chong (CP: RM0.905): 2Q earnings up over five-fold on forex gains

Stronger ringgit boosted Guan Chong Bhd's net profit for the second quarter ended June 30, 2016 (2QFY16) to RM10.66 million, which is over five times the RM1.96 million that it recorded in the same period last year. The leading cocoa processor in Asia told the stock exchange today that better earnings were due to higher net gain on foreign exchange. Revenue, on the other hand, only gained

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1.2% to RM583.39 million, from 576.56 million a year ago, which is mainly due to higher average selling price of cocoa solids. The stronger quarterly earnings also lifted its net profit for the cumulative six months ended June 30, 2016 (1HFY16) to RM24.36 million, from RM108,000 or a year earlier; while revenue improved 14.7% higher to RM1.17 billion, from RM1.02 billion. (Source: The Edge)

APM (CP: RM3.51): Teams up with Thai firm to make and sell car seats in Vietnam
APM Automotive Holdings Bhd is teaming up with a Thai firm to manufacture, assemble and sell automotive seats in Vietnam for original equipment manufacturers (OEM). APM Automotive told Bursa Malaysia that its indirect unit, APM Automotive IndoChina Ltd, has inked a joint venture agreement with TACHI-S (Thailand) Co Ltd, a unit of TACHI-S Co Ltd, today, for the above purpose. According to the automotive parts and components maker, a new joint venture company (JV Co) will be incorporated in Vietnam under the proposed name 'APM TACHI-S Seating Systems Vietnam Co Ltd', with an investment capital and charter capital of US$2.5 million. APM Automotive will contribute 49% or US$1.23 million to the JV Co, while TACHI-S will contribute 51% or US$1.275 million. *(Source: The Edge)*

UEM Edgenta (CP: RM3.62): Unit bags RM87m relocation works under MRT2 from Ahmad Zaki
UEM Edgenta Bhd's wholly-owned unit Edgenta PROPEL Bhd has been awarded an RM87 million-deal for the relocation of telecommunication works in relation to the Mass Rapid Transit 2, also known as the Sungai Buloh-Serdang-Putrajaya Line (MRT2) project. In a bourse filing, UEM Edgenta said Edgenta PROPEL has accepted the letter of award for the deal from Ahmad Zaki Sdn Bhd. In a filing with Bursa Malaysia today, UEM Edgenta said the relocation works is in relation to package V202 of the MRT2 project, which comprises construction and completion of viaduct guideway and other associated works from Persiaran Dagang to Jinjang. The contract's tenure is 17 months. The group expects the deal to contribute positively to the group's future earnings and net assets per share, the announcement read. *(Source: The Edge)*

Tek Seng (CP: RM1.36): Solar business lifts 2Q profit sharply higher
Higher contribution from its solar segment business lifted Tek Seng Holdings Bhd's second quarter net profit by more than four-fold to RM16.23 million or 4.89 sen per share, from RM3.69 million or 1.5 sen per share a year ago. Revenue for the second quarter ended June 30, 2016 (2QFY16) doubled to RM159.53 million, from RM78.87 million previously, due to higher sales across all its business segments. The Penang-based PVC products manufacture turned solar cell maker declared a one sen interim dividend, payable on Sept 9. According to its filing with Bursa Malaysia today, Teck Sing's solar segment swung into the black with a profit of RM13.23 million, as compared with a loss of RM3.66 million a year ago. *(Source: The Edge)*

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Golden Agri (CP: RM0.370): 2Q results hurt by El Nino; Company expects better 2H

Weak crude palm oil prices and production output continue to weigh on planter Golden Agri-Resources. The world's second-largest palm oil company posted an operating loss of US$21 million (S$28.2 million) for 2Q2016, compared with US$52.6 million in operating profit in the same quarter the year before. Turnover for the three months was 5% lower at US$1.74 billion. However, a tax benefit from a revaluation of some of its plantation assets in Indonesia added US$131 million to the company's bottomline, resulting in earnings of US$39.5 million during the quarter. That is nearly four times the earnings recorded during the same period the year before. The company expects a similar tax benefit to be recorded in the second half of this year. *(Source: The Edge)*

SMTrack (CP: RM0.095): Inks MoU on acquiring Tutti Fruiti, O'My Buns! master licensor

Loss-making, ACE Market-listed SMTrack Bhd has signed a memorandum of understanding with Wellspring Worldwide Ltd (WWL) to exclusively discuss the acquisition of the master licensor of Tutti Fruiti Frozen Yogurt and bakery line O'My Buns! for the next six months, a move which could lead to a reverse takeover. Wellspring Group is the US-based global master licensor of the two brands, which has 506 Tutti Frutti distributors and 28 O'My Buns! distributors worldwide. Both brands are present in 43 countries and in close to 700 outlets globally, with 60% of its market in the US and the remaining 40% in Europe and Asia. SMTrack executive chairman Mohd Anuar Mohd Hanadzlah said during the six months, SMTrack will work out a proposal to purchase 100% of Wellspring Group by issuance of new SMTrack shares to existing shareholders of WWL based on a valuation to be agreed. *(Source: The Sun)*

ECONOMIC UPDATES

Malaysia: GDP grew 4% in Q2

Malaysia's economy grew in line with market expectations at 4% for the April-June quarter 2016 compared with 4.2% in the first quarter. The gross domestic product (GDP) growth during the quarter in review was supported by domestic demand amid the still weak external environment. "The stronger growth in domestic demand in the second quarter of 2016 was attributed to both private consumption and private investment," Bank Negara Malaysia governor Datuk Muhammad Ibrahim said at a press conference in conjunction with the release of the country's GDP results. On a quarter-on-quarter seasonally adjusted GDP for Q2 grew 0.7%, slower than the 1% in the first quarter. *(Source: The Star)*

Malaysia: Q2 current account surplus narrows to 1.9 bil ringgit

Malaysia's current account surplus narrowed to 1.9 billion ringgit (US$474.64 million) in the second quarter from 5 billion ringgit in January-March, due to a lower trade surplus and higher net income payments, the central bank said on Friday. The net portfolio investment inflow totalled 77 million ringgit, after an inflow of 13.1 billion ringgit in the first quarter. Foreign direct investment showed a lower net inflow of 8.8 billion ringgit in the second quarter, from 15.0 billion ringgit in the previous quarter. *(Source: The Edge)*

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U.S.: Retail sales sag points to seismic shift in economy

US retail sales barely budged in July according to data released Friday, capping a week of tepid earnings results from department stores and underlining a seismic shift in consumer spending. Americans are still splashing out, but they are splurging less on goods such as apparel and electronics and more on entertainment, travel and health care. Demand for clothing and household items in recent years has been markedly softer than during past economic recoveries. And what demand there is has been shifting online away from traditional retailers such as Macy's, Kohl's and Nordstrom, which each reported lower quarterly sales this week. Retail now represents only a slice of household outlays, with consumption of services making up about two-thirds of all personal expenditures. The monthly figures are closely watched as a gauge of consumer sentiment and broader US economic health. *(Source: The Australian)*

China: Economic activity slows in July as reforms begin to bite

China's economic activity slowed in July, with investment growing at its slowest pace in more than 16 years in the year-to period, as the world's second-largest economy grappled with the painful restructuring of its older industrial sectors.The pace of fixed-asset investment slipped to 8.1 percent in January-July from 9 percent in the January-June period. Analysts had expected it to rise 8.8 percent.This is the third consecutive month of growth below 10 percent and the weakest year-to-date growth since December 1999, suggesting the effects of a credit boom in the first quarter are fading. *(Source: The Star)*

Germany: Exports, consumption boost German GDP in second quarter

Expanding exports and domestic consumption pushed Germany's economy - Europe's biggest - to grow slightly faster than expected between April and June, preliminary data showed on Friday.With a 0.4% increase in calendar and seasonally-adjusted terms, gross domestic product (GDP) grew slightly slower than the previous quarter's 0.7%, a statement from federal statistics office Destatis said. That was twice as fast as analysts surveyed by Factset had predicted. "Compared with the previous quarter, positive impulses came from the trade surplus. Preliminary estimates showed exports increased compared with the first quarter of 2016," the statisticians said. *(Source: The Star)*

Indonesia: Mulls developing tax-haven areas to lure investment

Indonesia is considering options for setting up tax-haven jurisdictions as it tries to lure back billions of dollars through its amnesty programme to fund infrastructure projects and finance the widening budget deficit, Coordinating Maritime Minister Luhut Panjaitan said yesterday. News of the haven plan follows an announcement by the government on Aug 11 that it would allow repatriated funds to be invested in assets such as gold and property. The central bank has said the tax amnesty programme could attract about 560 trillion rupiah (US$43bil) of funds stashed overseas. More avenues to park the repatriated money may encourage greater participation and help President Joko Widodo partly plug a shortfall in tax revenue as the nation grapples with a slowdown in China and low commodity prices. *(Source: The Star)*

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Italy: Seeks new deal to scrap EU austerity as its economy stalls

Italy is preparing to negotiate a new deal with the EU that will allow it to reject the politics of austerity and boost public spending in an urgent bid to rescue its crumbling economy. New figures released on Friday showed the Italian economy achieved 0 per cent growth in the second quarter of this year, down from an already disappointing 0.3 per cent in the first quarter. And experts fear the government could be forced to downgrade its growth forecast for this year to 0.8 per cent or even less. Speaking to the daily newspaper La Stampa, Matteo Renzi's economic development minister, Carlo Calenda, said Italy was "fighting to change" a deficit reduction target for 2017 of 1.8 per cent, set by the European Commission. *(Source: Bloomberg)*

Japan: Exports seen down in July on lacklustre global demand, strong yen

Japan's exports are expected to have fallen for a 10th straight month in July on lacklustre global demand and a strong yen, a Reuters poll showed on Friday. Exports likely declined 14% in July from a year earlier, accelerating from 7.4% fall in June, the poll of 19 analysts found. Imports were seen falling 20.6% from a year ago, which would result in a trade surplus of 283.7 billion yen (US$2.78 billion). That would be a second straight monthly trade surplus. Pressure on the yen to appreciate remains strong and oil prices have started picking up since early this year, so there is a low likelihood the trade surplus will expand going forward. *(Source: The Star)*

Hong Kong: Economy Expands Most Since 2011, dodging recession

Hong Kong's economy grew at the fastest pace since March 2011 as a pick up in exports helped offset sluggish retail sales in the city. Gross domestic product expanded 1.6 percent in the three months through June from the previous quarter, the government said in a statement Friday. That beat the median estimate for 0.5 percent growth from analysts surveyed by Bloomberg. The city's economy unexpectedly contracted in the first quarter. Two consecutive quarters of negative growth could have meant a technical recession for the Asian financial hub. Hong Kong's stronger-than-expected growth came as China's economy showed signs of stabilization after authorities stepped up policy support. The city's government kept its prediction of 1 percent to 2 percent economic expansion this year, slower than the 2.4 percent gain last year. Economists forecast 1.2 percent growth for 2016. *(Source: Macau Daily)*

U.K.: Employers 'more cautious' on hiring post Brexit

UK employers have become more cautious about hiring new staff following the vote to leave the EU, a report claims. The proportion of employers expecting to increase staff over the next three months dropped from 40% ahead of the vote to 36% after it, according to a survey by HR body the CIPD and Adecco. It said the fall was "significantly sharper" among private sector firms. The CIPD said the survey's results suggested post-Brexit economic forecasts of a marked downturn in the labour market next year would be proved right. "While many businesses are treating the immediate post-Brexit period as 'business as usual', and hiring intentions overall still remain positive, there are signs that some organisations, particularly in the private sector, are preparing to batten down the hatches," said CIPD acting chief economist Ian Brinkley.

M&A Securities

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+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 ≥-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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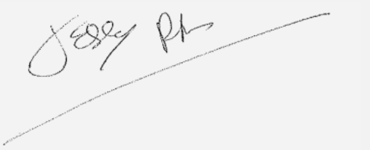

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