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Wednesday, February 03, 2016

Report of the Day

Sector Update: Banking (Neutral) – “Bracing to Softer 2016)

At a Glance

FBMKLCI dropped 14.62 points to close at 1,653.18 in line with negative regional market sentiment.....(See full report next page)

Strategy

“It May be a Wild Ride Today”

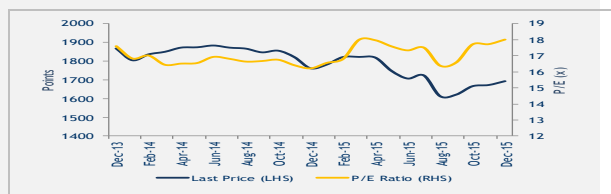
We believe the Chinese New Year rally is almost non-existence, more so when the equity market outlook is grim and murky.....(See full report next page)

Corporate Highlights

- **Maxis, BUY (TP: RM7.00):** Takes note of spectrum reallocation
- **Top Glove (TP: TBC):** To cut foreign labour workforce by 5%
- **Bursa Malaysia (CP: RM8.40):** 4Q earnings down 4.77% on higher opex, plans 18 sen dividend

Economic Update

- **Malaysia:** Central bank to launch new Islamic T-bills this week
- **Japan:** Savers won't play ball as BOJ turns negative
- **U.S.:** Fed's George sees more rate hikes coming despite market swings



KEY ECONOMIC RELEASE					
	Date	Local Time	Event	Survey	Prior
EU	1-Feb	5:00 PM	Markit Eurozone Manufacturing PMI	-	52.3
CN	1-Feb	9:00 AM	Manufacturing PMI	49.6	49.7
CN	1-Feb	9:00 AM	Non-manufacturing PMI	-	54.4
CN	1-Feb	9:45 AM	Caixin China PMI Mfg	48.1	48.2
JP	1-Feb	10:00 AM	Nikkei Japan PMI Mfg	-	52.4
US	1-Feb	9:30 PM	Personal Income	0.2%	0.3%
US	1-Feb	9:30 PM	Personal Spending	0.1%	0.3%
US	1-Feb	9:30 PM	PCE Core MoM	0.1%	0.1%
US	1-Feb	9:30 PM	PCE Core YoY	-	1.3%
US	1-Feb	9:30 PM	Markit US Manufacturing PMI	-	52.7
US	1-Feb	9:30 PM	ISM Manufacturing	48.5	48.2
US	1-Feb	11:00 PM	ISM New Orders	-	49.2
US	1-Feb	11:00 PM	Construction Spending MoM	0.6%	-0.4%
EU	2-Feb	6:00 PM	PPI MoM	-	-0.2%
EU	2-Feb	6:00 PM	PPI YoY	-	-3.2%
EU	2-Feb	6:00 PM	Unemployment Rate	-	10.5%
EU	3-Feb	5:00 PM	Markit Eurozone Services PMI	-	53.6
EU	3-Feb	5:00 PM	Markit Eurozone Composite PMI	-	53.5
EU	3-Feb	6:00 PM	Retail Sales MoM	-	-0.3%
EU	3-Feb	6:00 PM	Retail Sales YoY	-	1.4%
CN	3-Feb	9:45 AM	Caixin China PMI Services	-	50.2
CN	3-Feb	9:45 AM	Caixin China PMI Composite	-	49.4
JP	3-Feb	10:00 AM	Nikkei Japan PMI Services	-	52.2
JP	3-Feb	10:00 AM	Nikkei Japan PMI Composite	-	42.7
US	3-Feb	8:00 PM	MBA Mortgage Applications	-	8.8%
US	3-Feb	9:15 PM	ADP Employment Change	190K	257K
US	3-Feb	10:45 PM	Markit US Services PMI	-	53.7
US	3-Feb	10:45 PM	Markit US Composite PMI	-	53.7
US	3-Feb	11:00 PM	ISM Non-Manif. Composite	55.2	55.3
EU	4-Feb	5:10 PM	Markit Eurozone Retail PMI	-	49.0
US	4-Feb	9:30 PM	Nonfarm Productivity	-1.6%	2.2%
US	4-Feb	9:30 PM	Initial Jobless Claims	-	-
US	4-Feb	11:00 PM	Factory Orders	-0.1%	-0.2%
US	4-Feb	11:00 PM	Durable Goods Orders	-	-
US	4-Feb	11:00 PM	Durable Ex Transportation	-	-
MY	5-Feb	12:00 PM	Exports YoY	-	6.3%
MY	5-Feb	12:00 PM	Imports YoY	-	9.1%
MY	5-Feb	12:00 PM	Trade Balance MYR	-	10.24B
MY	5-Feb	6:00 PM	Foreign Reserves	-	595.1B
JP	5-Feb	1:00 PM	Loading Index CI	-	103.5
JP	5-Feb	1:00 PM	Coincident Index	-	111.9
US	5-Feb	9:30 PM	Trade Balance (\$42.85B)	-	(\$42.37B)
US	5-Feb	9:30 PM	Change in Nonfarm Payrolls	205K	292K
US	5-Feb	9:30 PM	Unemployment Rate	5.0%	5.0%

Bursa Malaysia

	Close	Change+/-	(+/- %)
FBMKLCI	1,653.18	-14.62	-0.88
FBMEMAS	11,499.07	-68.58	-0.59
FBMEMAS SHA	12,324.74	-96.08	-0.77
FBM100	11,207.05	-72.81	-0.65
Volume (mn)	1,616.39	-885.07	-35.38
Value (RMmn)	2,551.52	-1,477.98	-36.68
FBMKLCI YTD Chg			-2.32

Daily Trading Position (RM'mn)

	Participation (%)	Net(RMm)
Local Retail	12.7	-22.4
Local Institution	52.7	-200.3
Foreign Investors	34.6	222.7

Top Gainers

	Close	Change+/-	(+/- %)
LAY HONG BHD	9.13	0.84	10.13
MALAYSIA AIRPOR	6.20	0.40	6.90
PETRONAS DAGA	25.88	0.34	1.33

Top Losers

	Close	Change+/-	(+/- %)
SIME DARBY	7.57	-0.50	-6.20
KLK	23.50	-0.40	-1.67
GENTING PLANTA	11.10	-0.34	-2.97

World Indices

	Close	Change+/-	(+/- %)
DJIA	16,153.54	-295.64	-1.80
NASDAQ	4,516.95	-103.42	-2.24
S&P 500	1,903.03	-36.35	-1.87
FTSE 100	5,922.01	-138.09	-2.28
DAX	9,581.04	-176.84	-1.81
Nikkei 225	17,750.68	-114.55	-0.64
HSI	19,446.84	-148.66	-0.76
KOSPI	1,906.60	-18.22	-0.95
STI	2,579.23	-23.18	-0.89
KLCI Futures	1,621.50	(16.00)	(0.01)
USDMYR 3M	12.61	(0.04)	(0.00)
USDMYR 6M	12.62	(0.03)	(0.00)
USDMYR 12M	13.00	(0.09)	(0.01)

Other Key Economics Data

	Close	Change+/-	(+/- %)
WTI (USD/bbl)	29.74	-0.14	-0.46854
Brent (USD/bbl)	32.72	-1.52	-4.43925
Gold(USD/ounce)	1127.76	-1.25	-0.1107
Coal (USD/mt)	50.4	0.45	0.900901
CPO (RM/mt)	2515	72	2.947196
Rubber	124.5	0.9	0.728155
RM/USD	4.2085	0.047	-1.1168
EUR/USD	0.9156	-0.0002	-0.0218
YEN/USD	119.88	-0.09	0.0751

What To Expect

U.S. Market

- The Dow Jones Industrials Average declined 295.64 points to close at 16,153.54 points, S&P 500 down 36.35 points to 1,903.03 points. Nasdaq dropped 103.42 points to 4,516.95. U.S. stocks retreated as investors shunned risk assets across the world while oil extended a selloff amid deepening concern that global growth is weakening.
- The oil rout and worries about a China slowdown have continued to roil global markets, erasing as much as \$2.4 trillion from the value of U.S. equities this year.

The Local Market

- FBMKLCI dropped 14.62 points to close at 1,653.18 in line with negative regional market sentiment. There were 382 gainers and 463 decliners in total value traded of RM2.55 billion.
- Among the losers on Bursa Malaysia were Sime Darby declined 50 cent to RM7.57, KLK fell 40 sent to RM23.50, Genting Plantation decreased 34 cent to RM11.10 and Petron Malaysia slid 28 cent to RM6.67.

Strategy

- **“It May be a Wild Ride Today”**

Wall Street gave up major precious points on Tuesday, decimated by the bleak prospect of oil price. S&P 500 and DJIA unloaded 36.35 (-1.87%) and 293.64 (-1.8%) points to end at 1,903.03 and 16,153.54 respectively. It was reported yesterday that OPEC and non-OPEC members have not actually agreed on oil production cut, squashing the news as mere speculation. This has pushed oil price benchmark, as in WTI, to linger below the critical level of USD30 per barrel. In addition, Iran is said to increase its oil export next year to 2.3 million barrel a day, putting greater stress on the prospect of oil price. At this juncture, the seemingly nil catalyst on oil price will continue to weigh on its near term prospect, which will put a burden on global equity market. As it is, British Petroleum (BP), Shell, Chevron has reported 4Q15 financial performance that was in the red, with Chevron its first quarterly losses ever while BP its worst performance since the last 23 years. Note that sentiment this week will also be hampered with the US latest unemployment rate, due on Friday. In sum, we believe the Chinese New Year rally is almost non-existence, more so when the equity market outlook is grim and murky.

- Our 1H16 FBMKLCI target is 1,720 based on PER of 16.5x. FBMKLCI is a **NEUTRAL**. We have **OVERWEIGHT** call on construction, telco and oil and gas respectively. We predict Malaysia to grow by 4.5% in 2016.

CORPORATE HIGHLIGHTS

Maxis, BUY (TP: RM7.00): Takes note of spectrum reallocation

Maxis Bhd is taking note of the recent announcement of spectrum reallocation made by the Malaysian Communications and Multimedia Commission (MCMC). "We note MCMC's decision to convert the annual Apparatus Assignment fee to an upfront Spectrum Assignment fee with long term certainty for the spectrum," it said in its filing with Bursa Malaysia on Tuesday. It also notes MCMC's rationale that the spectrum fee needs to be seen as a continuous high investment the industry will need to reach national goals. In a statement released yesterday, MCMC said spectrum in the 900MHz and 1800MHz bands will be reallocated among four players by August this year, in line with the Government's decision to optimise the use of spectrum resources through reallocation and bidding. These two bands of spectrum will be assigned for a fee to Celcom, Digi, Maxis and U Mobile for a period of 15 years. (Source: The Star)

Top Glove (TP: TBC): To cut foreign labour workforce by 5%

Top Glove Corp Bhd intends to cut its foreign labour workforce by 5% this year in view of the new foreign workers' levy rate system announced yesterday. Chairman Tan Sri Lim Wee Chai said this is also in line with the company's plans towards the automation of its plants and the minimum wage hike scheduled to take place on July 1, 2016. The group's foreign labour workforce now stands at about 7,000. Lim said the new system announced by the government was very sudden and did not take into account the impact it had on affected industries. (Source: The Star)

Bursa Malaysia (CP: RM8.40): 4Q earnings down 4.77% on higher opex, plans 18 sen dividend

Bursa Malaysia Bhd saw its net profit fall 4.77% to RM50.6 million or 9.5 sen a share for the fourth quarter ended Dec 31, 2015 (4QFY15), from RM53.14 million or 10 sen a share a year ago, dragged mainly by higher operating expenses (opex). In a filing with the bourse on Tuesday, the stock exchange operator revealed that staff costs, which formed the largest portion of its opex, was 14.23% higher at RM37.69 million in 4QFY15, compared with RM32.99 million a year ago. However, revenue for 4QFY15 increased by 5.51% to RM135.56 million, from RM128.48 million in 4QFY14. Bursa also saw its trading revenue from the securities market rose by 2.2% to RM59.8 million from RM58.5 million a year ago. As for the derivatives market, it recorded a revenue of RM24.2 million for the quarter under review, up 14.2% from RM21.2 million in 4QFY14. (Source: The Edge)

AWC (CP: RM0.41): Gets RM19m plumbing job from AZRB

AWC Bhd has bagged a RM19mil contract to provide the plumbing of the PNB1194 project along Jalan Sultan Ismail comprising a new hotel and the former Malaysia Airlines headquarters. AWC said on Tuesday the project was a 50-storey new hotel and 35 storey office refurbishment project of the old MAS headquarters which was bought over by Permodalan Nasional Bhd in 2006. (Source: The Star)

MBSB (CP: RM1.41): Bank Muamalat merger talks fall through

The proposed merger of Malaysia Building Society Bhd (MBSB) and Bank Muamalat Malaysia Bhd, to create the country's biggest standalone Islamic bank has fallen through. MBSB said on Tuesday that after a series of discussions and negotiations, the financial institution and the shareholders of Bank Muamalat -- DRB-Hicom Bhd and Khazanah Nasional Bhd -- "have not been able to reach an agreement on the terms and conditions of the proposed merger". (Source: *The Star*)

F&N (CP: RM18.28): Profit more than doubles in Q1

Fraser & Neave Holdings Bhd's (F&N) net profit jumped 116.9% to RM151.66mil for the first quarter (Q1) ended Dec 31, 2015 due to various reasons, including a favourable product mix, favourable milk-based global commodity prices and lower advertising and promotion cost. There was also a foreign exchange gain (forex) amounting to RM18mil on the early redemption of the zero coupon bond by wholly-owned subsidiary F&N Dairies (Thailand) Ltd. The soft drink and dairy product manufacturer told Bursa Malaysia that revenue grew 1.64% to RM1.05bil, with increased revenue from the Thai operations offsetting a 5.5% drop in revenue from the Malaysian food and beverages (F&B) segment. (Source: *The Star*)

MAHB (CP: RM6.20): Appoints former Zelan MD as chief financial officer

Malaysia Airports Holdings Bhd (MAHB) has appointed Raja Azmi Raja Nazuddin as chief financial officer (CFO), effective Feb 1. In a filing with Bursa Malaysia on Tuesday, MAHB said that prior to joining MAHB, Raja Azmi held the positions of executive director and group chief financial officer of UDA Holdings Bhd. "Raja Azmi had also served Zelan Bhd as managing director/chief executive officer, UEM Group Bhd as group finance director and Time Engineering Bhd as executive director," it said. (Source: *The Star*)

MRCB (CP: RM1.17): KL Sports City's phase 1 completion date may be extended

Malaysian Resources Corp Bhd's (MRCB) 85% owned indirect subsidiary Rukun Juang Sdn Bhd has signed a supplemental agreement to the RM1.63bil Kuala Lumpur Sports City contract which allows for the extension of Project 1's completion period beyond 17 months. In a filing with Bursa Malaysia, the construction and property development firm said the supplemental agreement signed with the Youth and Sports Ministry and Syarikat Tanah dan Harta Sdn Bhd (a company under the Minister of Finance Inc) amended Project 1's construction period to "the period of construction and completion of the project which shall be within 17 months from the construction commencement date (of) Project 1 or any extended period thereof." (Source: *The Star*)

Sumatec (CP: RM0.11): Gets flexibility in Kazakhstan oil venture contract

Sumatec Resources Bhd has entered into a third supplemental agreement with its vendors for its proposed US\$290mil (RM1.22bil) acquisition of an oilfield in Kazakhstan to alleviate its upfront financial commitment and to give it more financial flexibility. The variations in the new agreement includes extending the deadline to Aug 22, 2016 for the fulfillment of the condition precedent and the payment by Sumatec of the balance cash payment amounting to US\$105mil

(RM442.7mil). The vendors have also agreed to re-allocate the purchase price between themselves, said Sumatec in a filing with Bursa. Abdul Talib Abdul Rahman and Dr Murat Safin have also reallocated among themselves the sums to be paid between themselves for the deposit, balance of cash payment and final payment. *(Source: The Star)*

Southern Steel (CP: RM0.73): Reports smaller losses of RM47.58m in 2QFY16

Southern Steel Bhd reported narrower losses of RM47.58 million for the second quarter ended Dec 31, 2015 (2QFY16), compared with losses of RM59.1 million a year ago, due to lower share of loss in an associated company, as well as foreign exchange translation gain. In a filing with Bursa Malaysia, the group said its revenue fell 1.82% to RM621.32 million, from RM632.85 million during the previous year. However, for the cumulative half year, the group still registered higher losses of RM99.49 million, compared with RM80.76 million in losses a year ago. Revenue fell 2.4% to RM1.21 billion, from RM1.24 billion in the previous year. *(Source: The Edge)*

ECONOMIC UPDATES

Malaysia: Central bank to launch new Islamic T-bills this week

Malaysia's central bank will launch a new Islamic money market instrument later this week, helping broaden the liquidity management tools available in the country's Islamic banking sector. Bank Negara Malaysia will auction RM1 billion (US\$237.7 million) worth of 9-month and 12-month Islamic treasury bills on Friday, according to regulatory filings. Islamic money markets have expanded rapidly in the last few years along with the growth of sharia-compliant banking across the Middle East and Southeast Asia, but such tools still lag behind those available to conventional lenders. The central bank stopped issuing long-term Islamic bonds (sukuk) last year, a move that caused global sukuk volumes to shrink by around 40% in 2015. *(Source: The Edge)*

Japan: Savers won't play ball as BOJ turns negative

The Bank of Japan (BOJ) hopes that cutting interest rates below zero will boost spending and investment, but fear, inertia and years of paltry returns mean the nation's army of savers is unlikely to march to the central bank's tune. After the BOJ made its move on Friday to charge banks for holding their reserves from Feb. 16, some retail banks are already cutting their deposit rates, and the rest are expected to follow suit. Bank of Yokohama Ltd, one of Japan's biggest regional lenders, cut its one-year rate to 0.02 percent from 0.025 percent, and Resona Bank, a unit of fourth-largest lender Resona Holdings, halved its rate to 0.025 percent on five-year deposits. *(Source: Reuters)*

U.S.: Fed's George sees more rate hikes coming despite market swings

The Federal Reserve should push ahead with interest rate hikes because of the strong fundamentals of the U.S. economy, a Fed policymaker said on Tuesday, downplaying the impact of financial market volatility. "My view is that the committee should continue the gradual adjustment of moving rates higher," Kansas City Fed Bank President Esther George, who has a vote this year on the

U.S. central bank's rate-setting committee, said in prepared remarks. George said her view could change if there were a "substantial shift" in the outlook for the U.S. economy and that she was paying attention to financial market volatility as well as the possibility that job losses in the U.S. energy sector could act as a drag on the overall economy. (Source: Reuters)

Singapore: Targets Less Investment Amid Uncertain Global Outlook

Singapore lowered its target for investment this year as the city state contends with uncertain global economic conditions and weaker overseas demand hurts its manufacturing sector. The government forecasts S\$8 billion (\$5.6 billion) to S\$10 billion in fixed-asset investment commitments this year, the Economic Development Board said Tuesday, compared with S\$11.5 billion lured in 2015. "For 2016, EDB expects the level of investments to remain moderate due to uncertain global economic conditions," the agency said in a statement. "We will continue to explore ways to seize new manufacturing opportunities, as a result of advanced manufacturing technologies such as robotics." (Source: Bloomberg)

Thailand: Central bank to keep rates on hold as it counts on fiscal spending

Thailand's central bank is expected to leave its benchmark interest rate steady for a sixth straight meeting on Wednesday, as it pins hopes on government spending to revive the economy. All 21 economists polled by Reuters predicted the Bank of Thailand (BoT) would keep the one-day repurchase rate unchanged at 1.50% - where it has been since April and near a record low of 1.25% - at its policy meeting on Wednesday. The central bank has leeway to keep interest rates on hold as consumer prices have fallen for more than a year. Most economists with longer-term views expect no change this year. (Source: The Star)

Indonesia: Q4 GDP growth seen up

Indonesia's economy is expected to have picked up the pace in the final quarter of 2015, but analysts say plummeting commodities prices and tepid global demand meant growth for the full year will still likely be the weakest in six years. The median forecast of 18 economists in a Reuters poll was for annual economic growth of 4.80% for October-December, edging up from 4.73% in the prior three months. On a quarterly non-seasonally adjusted basis, South-East Asia's largest economy is seen contracting 1.94%. For the whole of 2015, analysts predicted gross domestic product (GDP) to have expanded 4.75%, which would make it the first time since 2009 that growth dipped below 5%. (Source: The Star)

India: Keeps rates on hold, says budget key to more easing

India's central bank kept its policy rate on hold at 6.75% on Tuesday, as widely expected, opting to wait until after the government's annual budget statement at the end February to decide on whether to cut interest rates further. Having cut the policy repo rate by 125 basis points in 2015, Reserve Bank of India governor Raghuram Rajan warned on Friday against straying from the path of fiscal consolidation or relaxing the fight against inflation. (Source: The Star)

Russia: Bonds Drop as Ruble Rout Seen Reducing Rate-Cut Prospects

Russian government bonds retreated for a third day as oil's renewed drop weakened the ruble the most among emerging-market currencies, spurring speculation the central bank will delay a return to a rate-cutting cycle to avoid stoking inflation. Yields on the government's five-year securities rose 14 basis points to a week-high of 10.55 percent. The rate has risen 31 basis points since Jan. 29, when the Bank of Russia removed a reference to resuming an easing cycle, saying instead it would consider hoisting borrowing costs if inflationary pressures worsen. *(Source: Bloomberg)*

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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