

12 August 2014

## MALAYSIA

### June IPI – Still strong but moderating

**Industrial production (IP) surprisingly grew higher to + 7.0% YoY in June 2014, beating expectations (May 2014: +6.2% YoY; Consensus: +4.6% YoY) on higher expansions in all three indices, mining manufacturing and electricity.** The strong YoY growth in all three indices, indicate strong external and resilient domestic demand. MoM, the IPI grew modestly to +0.1% MoM after a strong rebound in May 2014 of +3.4% MoM. The modest growth was due to decline in mining index at -3.1% MoM and modest growth in both the manufacturing and electricity indexes at +1.2% MoM and +0.7% MoM respectively. On seasonally-adjusted basis, the IPI in June 2014 increased by +0.5% MoM. The increase was contributed by Mining Index (+0.9%) and Electricity Index (+3.3%). The Manufacturing index registered a decrease of -0.3%.

**IP expanded further in 2Q14.** For 2Q14, IP gained by +5.9% YoY (1Q14: +4.6) and +4.4% QoQ (1Q14:-3.1% QoQ). The stellar performance was due to increase in all three indices: Manufacturing (+7.4% YoY); Mining (+1.9% YoY); and Electricity (+5.0% YoY). While the Manufacturing (+6.0% QoQ) and Electricity (+7.9% QoQ) index staged a rebound in the 2Q, the Mining index declined by -0.4% QoQ.

**Manufacturing output accelerated by +9.1% YoY (May 2014: +8.0% YoY),** with expansions across the board. The *Petroleum, Chemical, Rubber & Plastic Products* grew at +4.8% YoY after two consecutive months of negative growth (May 2014: -3.7%; April 2014: -3.9%). Specifically, the bulk of manufacturing sector's output growth came from *Transport Equipment & Other Manufacturers* which continues to surge to +25.4% YoY (May 2014: +75.5% YoY), followed by *Electrical & Electrical products* which continues its double-digit growth of +13.7 YoY (May 2014: +10.7% YoY). *Food, Beverages & Tobacco Products* posted a growth of +10.7% (May 2014: +20.9% YoY) and *Textiles, Wearing Apparel, Leather Product, Footwear* grew albeit at a slower pace at +10.8% YoY (May 2014: +22.7% YoY). *Wood Products, Furniture, Paper Products & Printing* expanded further at +4.5% YoY (May 2014: +13.2% YoY).

**Output of the Mining sector increased by 1.4%** in June 2014 as compared to the same month in 2013 due to the rise in Crude Oil index and Natural Gas index at +1.5% YoY and +1.3% YoY respectively. (May 2014: +3.1% YoY and -0.4% YoY respectively). However, Natural Gas index increased only at +1.7% YoY (April 2014: -6.0% YoY). Export of Crude petroleum surged to +73.4% YoY (April 2014: +37.1% YoY) whilst export of LNG increased only at +17.3% YoY (April 2014: +31.8% YoY) As against May 2014, the seasonally adjusted output for the Mining sector increased by 0.9%.

The Electricity output recorded an increase of 6.5% YoY in June 2014 (May 2014: 4.6% YoY). In seasonally adjusted terms, Electricity output increased by 3.3% in June 2014 compared to the previous month.

**During the period January to June 2014, Malaysia's Industrial Production Index expanded 5.3%** compared with the same period in the previous year. The expansion was contributed by the increase in all indices: Manufacturing (7.2%); Mining (0.4%); and Electricity (4.7%).

**The growth in IPI is also matched by the performance of the exports sector** for the same month which recorded a growth of +7.9 YoY (May 2014: +16.2% YoY). Growth was led by Crude Petroleum, LNG and Palm Oil Products and Petroleum Products. The trend in export and IPI growth is also reflected in the continued growth of intermediate goods albeit moderating at +2.7% YoY (May 2014: +10.4% YoY). On a month on month basis, the moderate expansion of the IP is reflective of the moderate expansion of exports and imports of intermediate components.

**Global manufacturing activities continues its moderate expansion in June 2014,** with global purchasing managers index (PMI) coming at 52.6 (May 2014: 52.2). This was bolstered by expansions in manufacturing activities from the US (June 2014: 57.3; May: 56.4), China (June 2014: 50.7; May: 49.4) and Japan (June 2014: 51.5; May:49.9). Nevertheless the recovery in global manufacturing activities is constraint by weakness in other major economies like Eurozone (June 2014: 51.8; May: 52.8), Brazil (June 2014: 48.7; May 48.8) and South Korea (June 2014: 48.4; May 49.5).

Table 1: Malaysia: Monthly Industrial Production Index

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	YTD 2014	2013
<b>Industrial Production</b>	<b>115.2</b>	<b>111.7</b>	<b>105.2</b>	<b>116.0</b>	<b>113.3</b>	<b>117.1</b>	<b>117.2</b>	<b>113.4</b>	<b>110.2</b>
% YoY	5.1	3.5	6.8	4.3	4.9	6.2	7.0	5.3	3.3
% MoM	1.9	(3.0)	(5.8)	10.3	(2.3)	3.4	0.1		
<b>Mining</b>	<b>101.9</b>	<b>102.0</b>	<b>91.5</b>	<b>101.2</b>	<b>97.3</b>	<b>99.6</b>	<b>96.5</b>	<b>98.0</b>	<b>96.7</b>
% YoY	1.8	0.7	(1.5)	(1.0)	4.7	1.3	1.4	0.4	4.2
% MoM	2.5	0.1	(10.3)	10.6	(3.9)	2.4	(3.1)		
<b>Manufacturing</b>	<b>121.0</b>	<b>115.9</b>	<b>111.1</b>	<b>122.1</b>	<b>119.9</b>	<b>124.3</b>	<b>125.8</b>	<b>119.9</b>	<b>116.0</b>
% YoY	6.2	4.8	9.9	6.4	5.1	8.0	9.1	7.2	0.5
% MoM	1.7	(4.2)	(4.1)	9.9	(1.8)	3.7	1.2		
<b>Electricity</b>	<b>114.4</b>	<b>111.8</b>	<b>105.6</b>	<b>121.6</b>	<b>119.1</b>	<b>122.9</b>	<b>123.8</b>	<b>117.5</b>	<b>113.1</b>
% YoY	6.0	0.2	8.8	4.6	3.9	4.6	6.5	4.7	5.5
% MoM	2.0	(2.3)	(5.5)	15.2	(2.1)	3.2	0.7		

Source: DOS

Table 2: Breakdown of Manufacturing Sector Output by Industries (% YoY)

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
<b>Total</b>	<b>6.2</b>	<b>4.8</b>	<b>9.9</b>	<b>6.4</b>	<b>5.1</b>	<b>8.0</b>	<b>9.1</b>
<b>Food, Beverages &amp; Tobacco</b>	(1.1)	(3.2)	10.7	5.7	12.0	20.9	10.7
<b>Textiles, Wearing Apparel, Leather Product, Footwear</b>	(1.4)	0.0	11.2	10.2	12.4	22.7	10.8
<b>Wood Products, Furniture, Paper Products, Printing</b>	1.5	(7.7)	1.3	(0.4)	10.6	3.2	4.5
<b>Petroleum, Chemical, Rubber &amp; Plastic Products</b>	1.3	6.6	3.5	1.9	(3.9)	(3.7)	4.8
<b>Non-Metallic Mineral, Basic &amp; Fabricated Metal Prod</b>	8.4	(4.2)	10.1	4.4	3.9	4.5	5.4
<b>Electrical &amp; Electronic Products</b>	14.2	15.1	14.7	14.3	15.2	10.7	13.7
<b>Transport Equipment &amp; Other Manufactures</b>	27.2	3.5	47.3	14.1	3.3	75.5	25.4

Source: DOS

Table 3: Global Manufacturing PMI

	Sep-13	Oct-13	Nov-13	Dis-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
<b>Global</b>	<b>51.6</b>	<b>51.9</b>	<b>52.9</b>	<b>52.9</b>	<b>53</b>	<b>53.2</b>	<b>52.4</b>	<b>51.9</b>	<b>52.2</b>	<b>52.6</b>	<b>52.5</b>
<b>US</b>	56	56.6	57	56.5	51.3	53.2	53.7	54.9	56.4	57.3	55.8
<b>Eurozone</b>	51.9	52.1	52.6	53.3	54.4	53.8	53.5	53.9	52.2	51.8	51.8
<b>Japan</b>	52.5	54.2	55.1	55.2	56.6	55.5	53.9	49.4	49.9	51.5	50.5
<b>China</b>	50.2	50.9	50.8	50.5	49.5	48.5	48	48.1	49.4	50.7	51.7
<b>Brazil</b>	49.9	50.2	49.7	50.5	50.8	50.4	50.6	49.3	48.8	48.7	49.1
<b>India</b>	49.6	49.6	51.3	50.7	51.4	52.5	51.3	51.3	51.4	51.5	53
<b>Russia</b>	49.4	51.8	49.4	48.8	48	48.5	48.3	48.5	48.9	49.1	51
<b>S.Korea</b>	49.7	50.2	50.4	50.8	50.9	49.8	50.4	50.2	49.5	48.4	49.3
<b>Taiwan</b>	52	53	53.4	55.2	55.5	54.7	52.7	52.3	52.4	54	55.8
<b>Singapore</b>	50.5	51.2	50.8	49.7	50.5	50.9	50.8	51.1	50.8	50.5	51.5
<b>Indonesia</b>	50.2	50.9	50.3	50.9	51	50.5	50.1	51.1	52.4	52.7	52.7

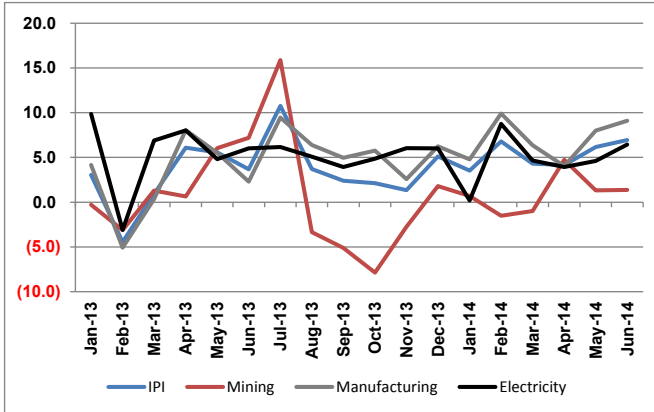
Source: Bloomberg

Table 4: Global Industrial Production (% YoY)

	Sep-13	Oct-13	Nov-13	Dis-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
<b>US</b>	3.4	3.6	3.2	3.3	2.9	3.2	3.7	3.9	4.3	4.3
<b>Japan</b>	5.3	5.4	4.8	7.2	10.6	7	7.4	3.8	1	3.2
<b>France</b>	-0.8	-0.2	1.7	0.5	0.3	-0.6	-0.6	-2.1	-3.4	-0.4
<b>Germany</b>	0.8	1.3	3.8	3.8	4.9	4.4	2.7	1.3	1.1	-0.5
<b>Italy</b>	-2.9	-0.4	0.9	-1.2	1.3	0.4	-0.1	1.5	-1.7	0.4
<b>China</b>	10.2	10.3	10	9.7	-	-	8.8	8.7	8.8	9.2
<b>Russia</b>	1.3	1	2.8	0.4	-0.2	2.1	1.4	2.4	2.8	0.4
<b>Brazil</b>	3.7	0.6	1.2	-2.4	-2.1	4.4	-0.8	-5.8	-3.4	-6.9
<b>India</b>	2.7	-1.2	-1.3	0.1	1.1	-2	-0.5	3.4	4.7	-
<b>S.Korea</b>	-3.8	3.6	-0.7	2.4	-4.3	3.9	2.8	2.5	-2.1	0.6
<b>Taiwan</b>	-0.2	0.8	-0.2	5.5	-1.8	6.8	3.2	5.3	5.4	8.6
<b>Singapore</b>	9.2	8.4	6.8	6.4	4.2	13.3	12.3	5.9	-1.9	0.4
<b>Malaysia</b>	2.3	2.2	1.4	5.1	3.5	6.7	4.3	4.9	6.0	7.0

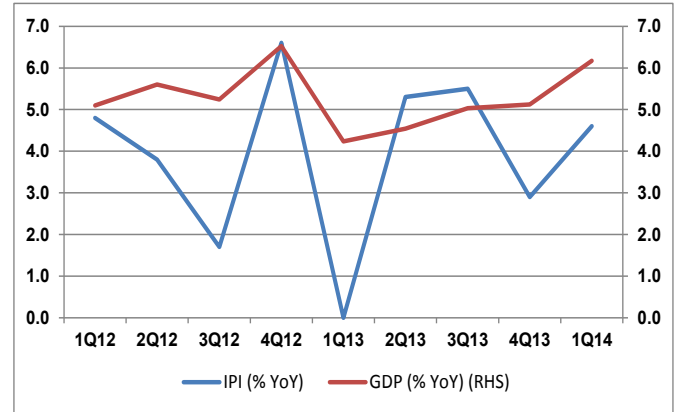
Source: Bloomberg

**Chart 1: Malaysia-IPI (% YoY)**



Source: DOS

**Chart 2: Malaysia-GDP v IPI growth (% YoY)**



Source: DOS

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.