midf RESEARCH

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Exports data "playbook"

Sectoral "Contributors", "Financier" and "Service Provider"

FBM KLCI: 1,744.67

2017 Year-end Target: 1,830 points

KEY HIGHLIGHTS

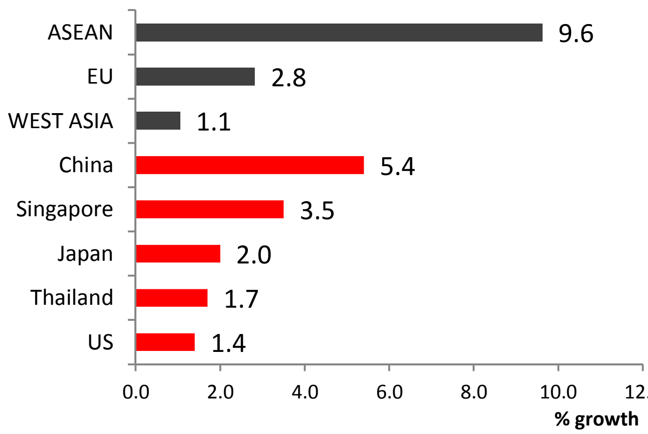
- **Exports growth hit the highest growth amid solid rebounds in global trade activity**
- **Upward revisions of forecasts: exports growth @ 8.5%, GDP growth @ 4.9%**
- **Optimism for Banking, Plantations, Oil & Gas, Gloves, Tech and Transport & Logistic sectors**

What does the trade data tells us?

- **Exports growth hit the highest growth after almost 7 years.** Exports in February grew by 26.5%, the highest since 2010, and our exports hit RM71.8 billion, higher than last year's average of RM65.5 billion. Trade balance and total trade increased by 18.5% and 27.1% respectively last month, pointing to an optimistic path of recovery.

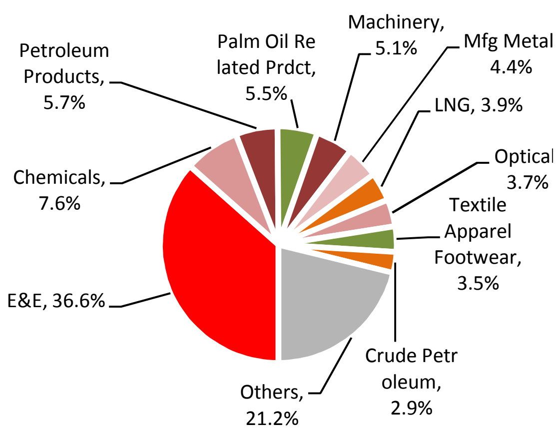
- **Solid rebounds in global trade activity.** Despite of protectionism threat, external trade performance with major economies posted double digit growth in February. Positive developments in major economies translated into higher demand on our exported goods since the middle of 2016.

Chart 1: Exports Growth by Destinations



Sources: DOSM, MIDFR

Chart 2: Exports breakdown by Sectors



Sources: DOSM, MIDFR

- **Asian neighbours exports growth potential.** Increased in demand of E&E products and commodities related exports resulted in higher export growths to China and ASEAN region, while US only saw a 1.4% increase.

Expectation of improving macroeconomic numbers

- **Upward revision our exports growth forecast to 8.5% from 3.0% previously for 2017.** Major economies are experiencing gradual recovery in external trade performance. Trend of commodities prices is expected to rise further at a modest pace which could translate into higher exports of commodity-based products.

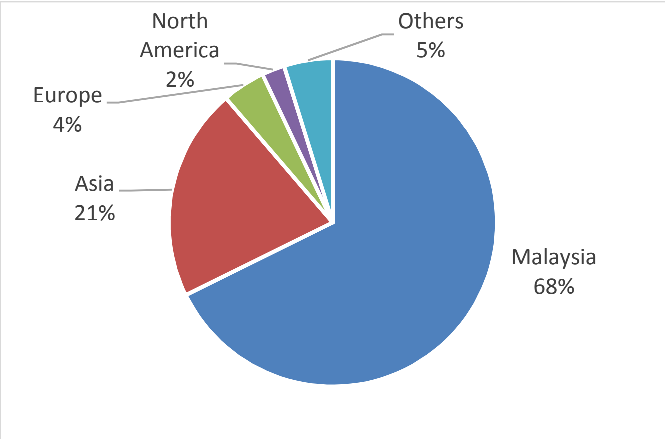
- **2017 GDP forecast upgraded to 4.9%.** The surging trade is a boon especially to exports-oriented industries i.e E&E, chemicals, petroleum products and rubber. In addition, coming off from a low base effect from the agricultural sector, expectation of higher production particularly from palm oil also bodes well for the economy. Hence, we are upgrading our 2017 GDP forecast from 4.3% to 4.9%.

- **Unchanged USD/MYR forecast of 4.30 by year-end.** The outflow from the bonds market by foreign investors 4Q16 have offset some gains in Ringgit, but we do expect to trend to reverse as we have seen in the equity market, with net inflow of ~RM5.3bn in Q1 2017. Therefore, we maintain our Ringgit forecast of USDMYR 4.30.

Bringing it back to the public equities market…

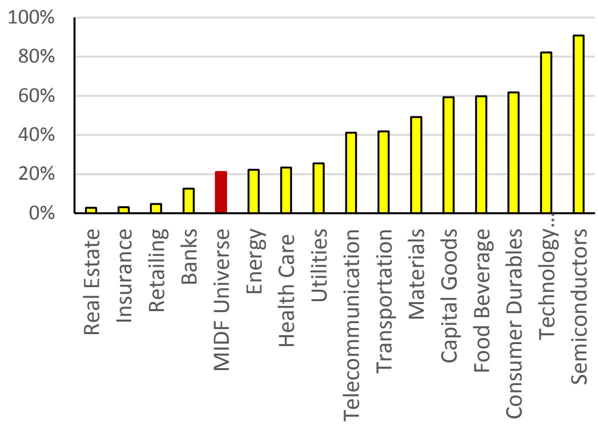
- **Close to 1/3 of revenues were derived from exports.** An analysis of FY2016 revenues for listed companies under our coverage showed that 21% of revenues came from exports to Asian countries, followed by Europe at 4% and North America at 2%.

Chart 3: MIDFR Universe Revenue Breakdown (by Geography)



Sources: Bloomberg, MIDFR

Chart 4: Export revenue % (by GICS sector classification)



Sources: Bloomberg, MIDFR

- **Close to 1/3 of earnings were derived from exports.** Grouping companies in our coverage universe using the GICS sector classification, showed the high export dependencies for the semiconductor, technology (e.g. hardware), consumer durables (e.g. consumer electronics) , Food & Beverage (e.g. Beverage and Palm Oil), Capital Goods (e.g. Industrial conglomerates, construction) and Materials (e.g. Petrochem) derived more than 40% of their earnings from overseas. Despite Banks, on an absolute basis has the biggest share on the total revenue in our universe, on overall basis, the sector overseas contribute is just shy of 20%.

…..and beneficiary sectors and companies

- **Banking Sector – "Financier"**

Filling the funding needs for manufacturing capacity expansion. Given the rapid growth of demand, companies require easily accessible funds to fund their capex. One way for companies to inject funds is through loans as debt is cheaper and faster to obtain compared to internally generated funds which take a longer time to accumulate. As of February 2017, working capital loans grew +6.1%yoy. Working capital loans is a good proxy for overall business borrowing. Moreover, loans growth in Malaysia is set to rebound in FY2017 supported by the pickup in GDP. Therefore the positive trend in working capital loans suggest that either business conditions or business confidence are improving, giving more headroom for earnings to grow.

Table 1: Selected Loans Applied Segments Growth Rate

Month	Total loans (RM b)	Growth (yoy)	Working capital	
			Loans growth (%)	Loans applied growth (%)
Jan-16	1,447.30	7.70%	10.50%	65.10%
Feb-16	1,449.90	7.40%	9.80%	48.60%
Mar-16	1,449.50	6.40%	8.30%	5.90%
Apr-16	1,447.80	6.30%	8.20%	-2.20%
May-16	1,458.50	6.20%	7.50%	9.20%
Jun-16	1,465.20	5.60%	5.70%	-11.20%
Jul-16	1,467.30	5.10%	4.90%	-22.30%
Aug-16	1,472.10	4.20%	1.50%	-30.50%
Sep-16	1,483.80	4.20%	2.10%	1.70%
Oct-16	1,493.40	4.50%	2.30%	-19.80%
Nov-16	1,507.60	5.30%	4.40%	-16.60%
Dec-16	1,521.50	5.30%	5.60%	-16.20%
Jan-17	1,527.90	5.60%	6.30%	-15.00%
Feb-17	1,527.30	5.30%	6.10%	9.00%

Source: BNM, MIDFR

Expectations of better performance this year. We believe that the banking sector have showed steady signs of improvements. Most notably was growth in loans demand and approval, which should provide a steady pipeline for loans growth to continue. We recommend accumulating **Affin (TP: RM3.30)** premised on its turnaround program showing results, and for regional exposure coupled with solid asset growth, we like **CIMB (TP: RM6.40)** and Maybank **(TP: RM9.80)**

- **<u>Plantations Sector – "Contributor"</u>**

Oil palm trees recovering from the adverse effects of El Nino coupled with the current favourable weather in Malaysia will aid production. In fact, production in February has increased by 21% on a yearly basis. As a result, output shall recover from its seasonal low in February given the prospects of strong demand. As the Northern Hemisphere gets warmer, palm oil can be used in more countries. For instance, from April onwards, higher demand is expected from India and Pakistan due to stocking activity ahead of Ramadan which will begin in end of May.

Table 2: Monthly Exports and YTD Exports ('000 MT)

Country	Feb-17	Jan-17	Feb-16	MoM%	YoY%	2M17	2M16	YoY%
China	103	167	53	-38%	94%	271	158	72%
India	133	139	178	-4%	-25%	273	441	-38%
EU	153	137	209	12%	-27%	290	394	-26%
Pakistan	49	48	21	3%	130%	97	86	12%
US	36	36	50	1%	-27%	72	108	-33%
Others	783	750	574	4%	36%	1,533	1,178	30%
Total	**1,259**	**1,277**	**1,085**	**-1%**	**16%**	**2,535**	**2,365**	**7%**

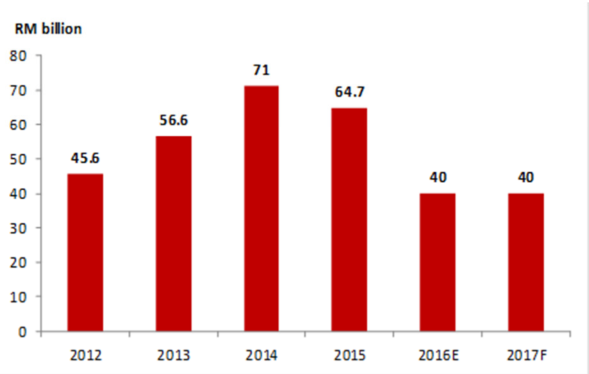
Source: MPOB, MIDF Research

Production numbers to remain strong. Taking the El Nino factor into account, the high probability of El Nino occurring may disrupt earnings of planters in terms FFB volume may decline. Nevertheless, it will be compensated by the increase in the CPO price as inventory will be lower than usual. CPO price is expected to stay between RM2600 to RM2900 per MT up to end of June 2017 as inventory is expected to stay well below 2.0m MT. While palm oil counters have generally priced in these positive news, we still some upside in **KLK (TP: RM29.25)** as the Company's 1QCY17 result should fare better against other planters as it has locked in forward sales when the CPO price is high. The Company's earnings are also resilient and matched consensus expectation most of the time

- **<u>Oil&Gas Sector – "Contributor"</u>**

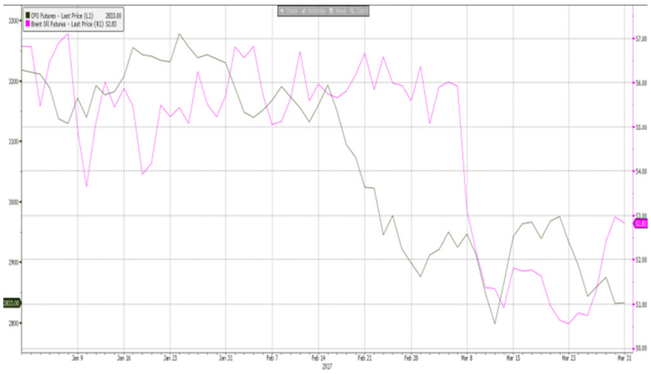
Crude Oil price to remain stable. Brent crude oil prices in the first three months of 2017 were relatively stable, trading between the tight range of USD51-57pb. The year-to-date average is at USD55pb. Although the OPEC member countries have successfully produced below the agreed production ceiling of 32.5mbpd, global crude oil prices are still facing upside resistance due to persistent global supply glut, as the US and other non OPEC countries turned on more rigs. Unlike Crude Palm Oil, in which a weather incident will impact all major producers, Crude Oil producers needs only to open the tap to flood the market and it is difficult to manage the market with so many players all over the world.

Chart 5: PETRONAS Capital Expenditure



Sources: PETRONAS

Chart 6: Crude Palm Oil vs Brent Crude Oil Futures



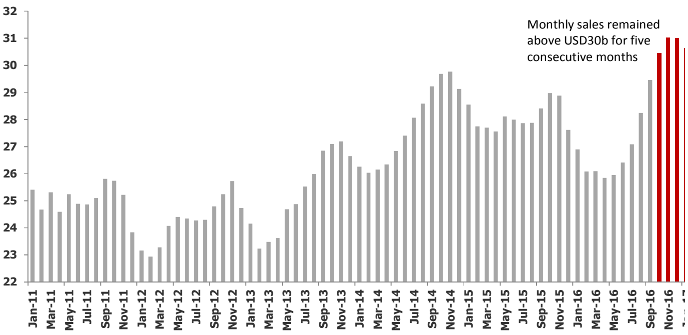
Sources: Bloomberg, MIDFR

Still an attractive play. Petronas is the main beneficiary for the sector but stocks within niche segments of servicing the oil & gas sector remains attractive. **Deleum Berhad (TP: RM1.18)** has niche expertise with the upstream maintenance, construction and modification (MCM) works for PETRONAS and its production sharing contractors. And we like recommend **Gas Malaysia (TP: RM3.33)** and **Petronas Dagangan (TP: RM26.91)** as safe investable companies.

- **<u>Technology sector – "Contributor"</u>**

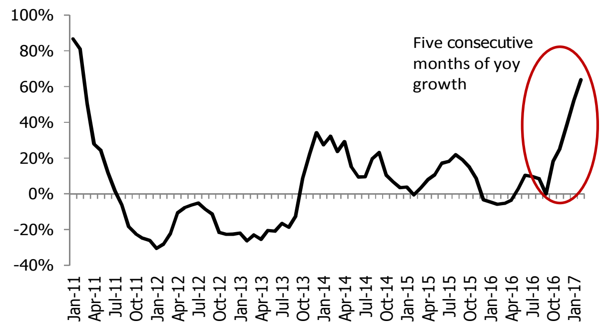
Sales remain strong. In our recent report on the Global Semiconductor Sales, we wrote that China saw sales growth at +25.0%yoy compared to the Americas, Japan and Asia Pacific which grew in the range of +11.2%yoy to +19.1%yoy; As a result, the China market currently made up approximately one-third of global sales and also the main export destination of local semiconductor products. Meanwhile, billings of semiconductor equipment and materials remain elevated. According to the North America-based manufacturers of semiconductor equipment, billings amounted to USD1.97b in February 2017, representing an accelerated pace of 63.8%yoy as compared to January 2016 billings of USD1.20b. This means that semiconductor companies are foreseeing higher demand in the future and this certain bodes well for the local tech sector.

Chart 7: Monthly global semiconductor sales (USD billion)



Sources: SIA, MIDFR

Chart 8: Billings (%yoy)



Sources: SIA, MIDFR

Upside seen for the listed companies. Whilst the EE sector, represented by the Technology and the Semiconductor sector, in the chart above, sees more than 80% revenue contribution from exports, the revenue numbers from the listed space is small. This is due to the major companies racking up most revenues from exports are mainly the MNCs such as Intel, Renesas, Dell and AMD. However we do expect a trickling effect to the local listed players, and we particularly like **INARI (TP: RM2.23)**, which we see as one of the better companies to see stronger sales.

- **Gloves Sector – "Contributor"**

Resilient demand. New developments in the industry such as (i) China's participation in Paris Climate Agreement (PCA) which would drive the switch from vinyl plastic gloves to rubber gloves and; (ii) the ban on powdered medical and surgical gloves by the US Food and Drug Administration (FDA) which we think will help to spur additional demand for sector, whose exports contribution to revenue exceeded 90%.

Pricing competition has abated, it is now volume game. Now that the sector has gone through the period of consolidation and various hikes last year, we think that the sector will perform better in terms of revenue this year. The better performance will be driven by 3 factors which are: (i) a more favourable USD exchange rate in 2017 vs in 2016, at average of RM4.30/USD this year, (ii) ongoing capacity expansion plans by 4 major rubber gloves players, as well as; (iii) due to the nature of the rubber gloves sales which is >90% is denominated in USD. And we continue to like **Hartalega (TP: RM5.07)** and **Kossan (TP: RM7.52)**.

- **Transport & Logistics Sector –"Service Provider"**

Higher exports equals higher cargo movements. The ports and logistics sector would be a main beneficiary from the growth in Malaysia's external trade. For port operators, the higher growth in external trade could translate into higher volume of gateway cargo (for import and export). Gateway cargo as opposed to transhipment cargo, has higher maximum terminal handling tariff of RM265 for a 20' container compared to RM160 for a 20' transhipment container.

Increase of higher yielding gateway containers. Hence, the growth in external trade could be positive, resulting in an increase of higher yielding gateway containers. Beneficiaries include port operators **MMC (TP: RM2.98)** and **Westports (TP: RM5.00)**. Increased trade activity would mean an increase in demand for freight forwarding to facilitate import and export, transportation of goods from manufacturing facilities to warehouses and ports as well as warehousing services for the storage of goods before being shipped or consumed. Hence, we opined that **Tiong Nam (TP: RM1.93)** would also stand to gain from higher external trade.

DISCLOSURES AND DISCLAIMER

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 *rise* 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	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.