

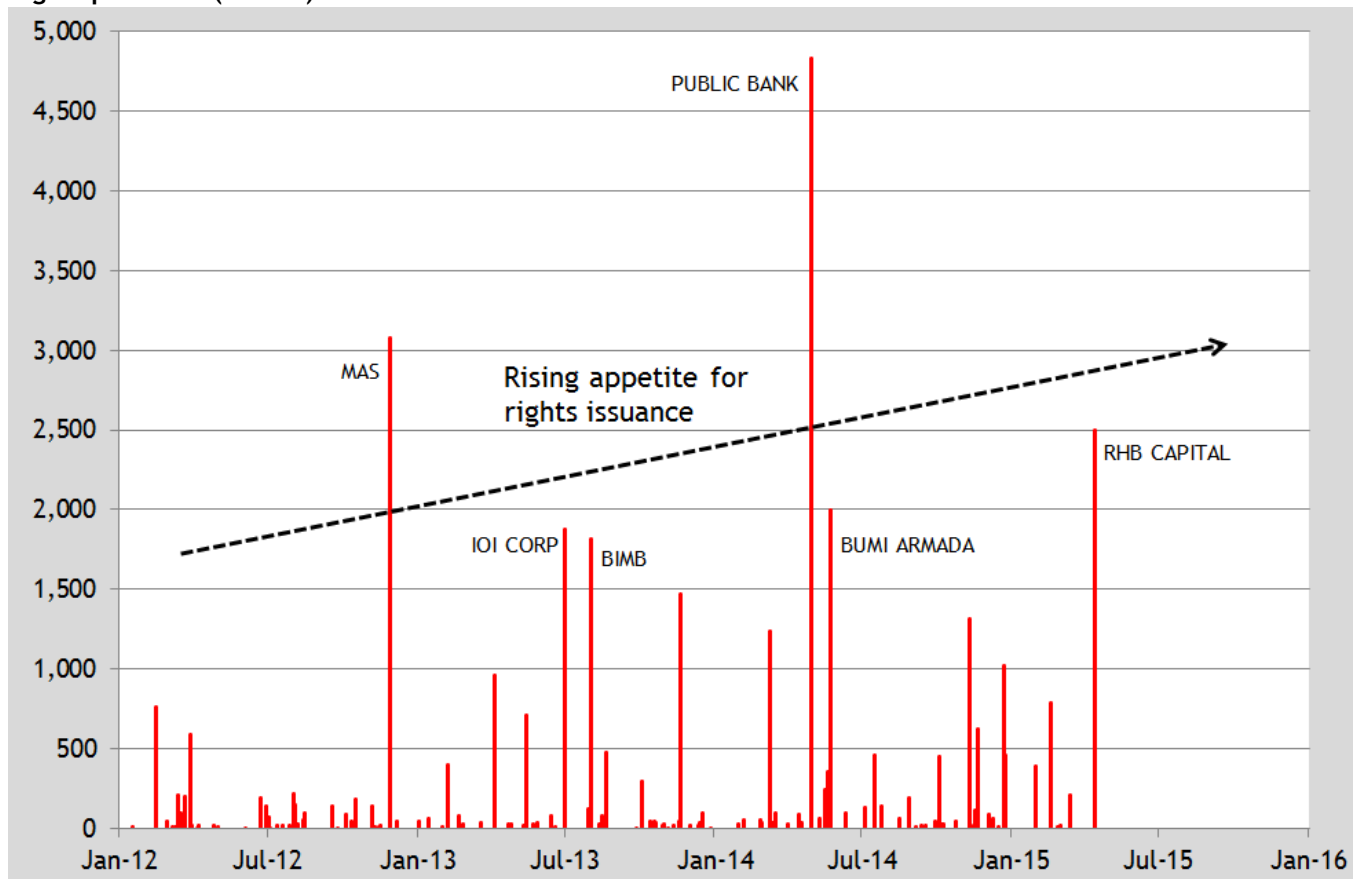
Equity financing remains healthy, reflecting optimism

KLCI: 1,847.94

(2015 Year-end Target: 1,900 points)

The rising trend of capital raising via rights issuances has yet to show any signs of exhaustion. From the chart below, we can quite clearly observe the gradual increase in the quantum of rights proceeds since 2012. Based on our calculations using figures extracted from Bloomberg, the amount raised in the primary market via rights issuances recorded a steady rise during the past three years at RM6.9b in 2012, RM9.4b in 2013 and RM15.4b in 2014. Thus far this year, the amount (announced and/or issued) is already nearing RM4 billion.

Rights proceeds (RM mn) since 2012*



Source: Bloomberg, MIDFR; * Each issuance is dated based on its initial announcement to the bourse

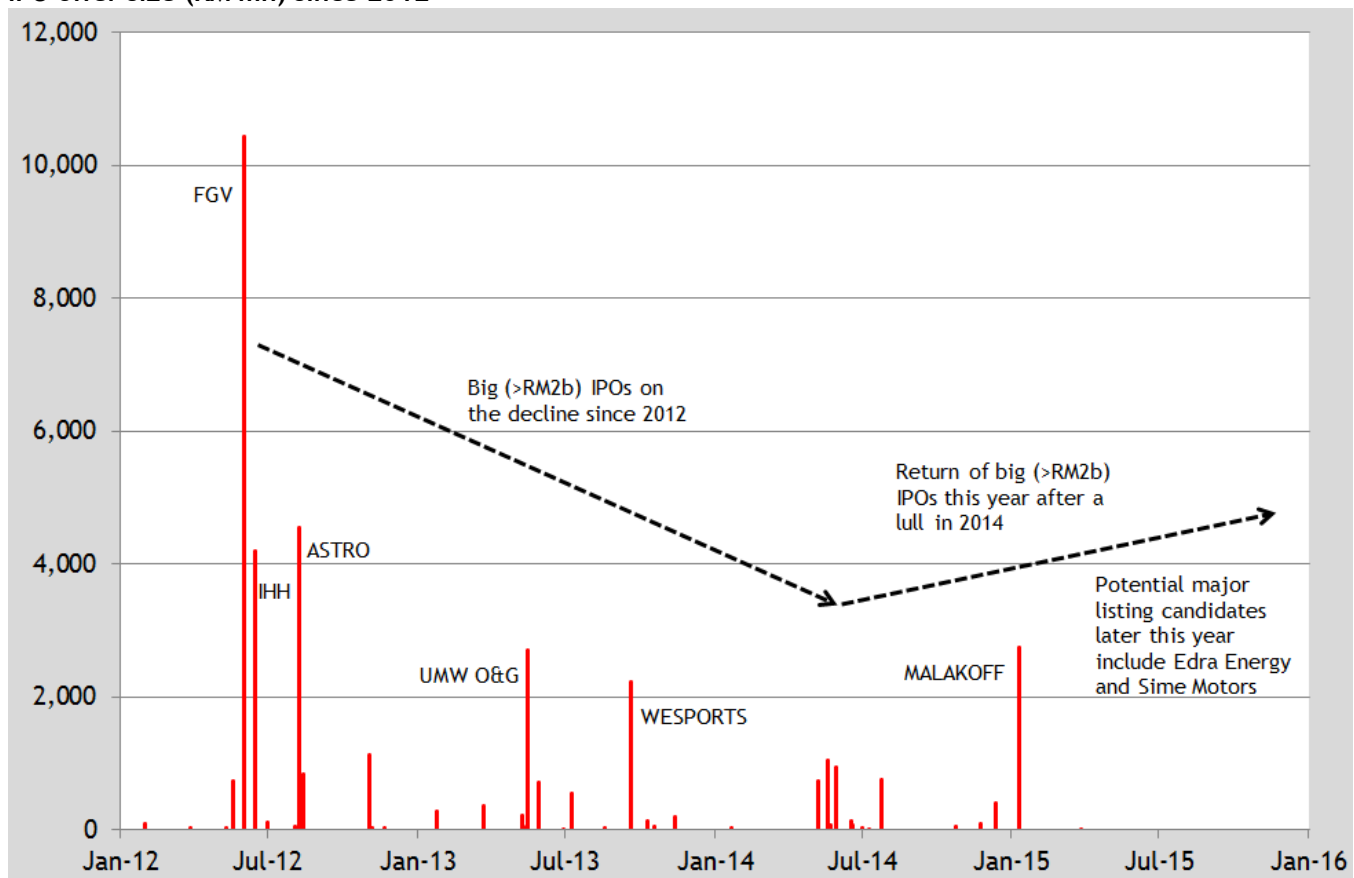
Purposes of issuance varied from operating to capex requirements. There were six major rights exercises (announced and/or issued) during the past three years and their utilization of proceeds were intended as follow: (i) the now delisted MAS needed money to satisfy its working capital and capex requirements as well as to repay borrowings, (ii) IOI Corp indirectly raised the proceeds on behalf of a demerged property subsidiary, (iii) BIMP was planning to completely buy over a partly-owned operating subsidiary, (iv) Public Bank required more capital to improve its common equity tier-1 (CET1) ratio, (v) Bumi Armada solicited fund mainly for future capex requirements, and (vi) RHB Capital rights issuance shall be used mainly to further capitalize RHB Bank.

Rising amount raised in the primary market via rights issuances in spite of various headwinds... It is noteworthy that the amount raised in the primary market via rights issuances continued rising unabated during the past three years in spite of (i) net foreign capital outflows from our equity market totaling -RM6.9b last year, the largest since 2008, and -RM3.0b thus far in 2015, (ii) heightened equity market volatility with more frequent pullbacks, (iii) relative underperformance of the local equity market during the past year, and (iv) multitude of macro challenges, i.e. currency, commodity and fiscal, which resulted in the lowering of GDP growth estimate for 2015.

...which suggests no lack of latent investment capital and both market as well as macro optimisms. In view of the above, we reckon the healthy market stamina exhibited at the primary issuance level points toward (i) no shortage of latent, mainly domestic, investment capital, (ii) unbroken optimism among investors with regard to the secular direction of the equity market, and (iii) by extension, continued confidence with regard to the growth prospects of the economy.

IPO market has been on the decline during past three years, but... On the other hand, based on our calculations using figures extracted from Bloomberg, the amount raised via initial public offerings (IPOs) revealed a steady decline during the past three years at RM22.3b in 2012, RM7.6b in 2013 and RM4.4b in 2014. However, the amount (announced and/or issued) thus far in 2015 is already circa RM2.8 billion.


IPO offer size (RM mn) since 2012*



Source: Bloomberg, MIDFR; * Each issuance is dated based on its initial announcement to the bourse

...expect big-sized offerings to return this year from a lull in 2014. After a brief lull in 2014, we may see a return of big-sized IPOs (with offer size of RM2 billion or more) this year. Based on latest updates, Malakoff Corp is scheduled for listing in the coming month but the status of Edra Global Energy remains a question mark. The latter was reportedly to be floated with an offer size of RM10.8b that would rival FGV Holdings' RM10.4b listing offer in 2012. Furthermore, it was also reported that Sime Darby is planning to list its motor subsidiary, Sime Motors, this year.

Some other prospective listing candidates may lie in wait for better valuations. Going forward, we expect to see better market environment for initial offerings. However, in the interim, we believe that while the equity benchmark index has regained its footing pursuant to the selloff in late last year, the broad market sentiment has not fully recovered and can be quite fickle. Hence the vendors of some prospective companies may decide to put off their listing plans until they see further improvement to this situation. In other words, they may lie in wait for better valuations.

Reiterate FBM KLCI 2015 year-end target at 1,900 points. The primary market is in a relatively healthy state and this is mirrored by the resiliency of the secondary market as evident by its performance thus far this year. Thus we reiterate our FBM KLCI 2015 year-end target of 1,900 points, which is equivalent to (i) 2.8% gain from current level, and (ii) 17.3x PER multiple of 2015 earnings. However, as highlighted in our previous Strategy report dated 3 April 2015, we expect the 2015 earnings revisions going forward to be generally flat or even upward-biased. Hence the resultant PER valuation of our 2015 year-end target may turn out to be lower than 17.3x. 

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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	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.