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11 JULY 2016

MALAYSIA EQUITY

3Q16 OUTLOOK

COMING TO TERMS WITH BREXIT

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EXECUTIVE SUMMARY

2Q16 IN BRIEF

- Entering 2Q16, crude oil prices became the main market mover. Buoyed by a rally in Brent price, Ringgit strengthened to USD/MYR3.86 on 20 April while FBM KLCI held firmly at above 1,700 points and attained its year-to-date high of 1,727.99 points on 15 April 2016.
- In May however, concerns on China and disappointment from Japan pushed world's equities lower. FBM KLCI also felt the negative spill over as it reached its month low of 1,621.21 points on 16 May, down -6.2% from its peak one month ago.
- Global markets were shocked by a Brexit vote pursuant to the 24 June referendum and heavy sell-off on equities ensued. Nonetheless, the risk-off mode appeared transient as investors believe the world's central banks will pull out all the stops to cushion the shock. FBM KLCI recouped its post-Brexit losses and came back even stronger to close the quarter at 1,654.08 points.

BREXIT: EARNINGS AND VALUATION

- Weak global trade post-Brexit may drag on GDP growth as some businesses may pull the brake on future investments decision and adopt a 'wait and see' stance amid elevated uncertainties. Hence MIDFR 2016 GDP growth estimate for Malaysia is trimmed from 4.4% to 4.0%.
- On this score, a more tepid GDP outlook presents heightened risk to our forward earnings figures.
- Nonetheless, the equity market may see valuation expansion in view of the apparent readiness among monetary authorities worldwide to counter the Brexit shock.
- Among notable examples, the US Fed is no longer expected to conduct any rate hike in 2016 (as opposed to earlier market expectation of 4 rate hikes and which later was reduced to 2) while the BNM may cut the OPR by 50bps this year (as opposed earlier market expectation of between zero to only 25bps cut) and the ECB might loosen the rules for bond buying in its stimulus program.

REITERATE FBM KLCI 2016 YEAR-END TARGET AT 1,750 POINTS

- Valuation and earnings are the direct functions of price. While there is heightened risk to our forward earnings estimates due to a more tepid GDP outlook post-Brexit, however the price downside may be countered by likely valuation expansion consequent to the relative easing of global liquidity.
- Therefore, we reiterate our FBM KLCI 2016 year-end target at 1,750 points which equates to PER16 of 17.26x and PER17 of 15.98x.

11 JULY 2016

KLCI (04 JULY 2016) : 1,654.84
END-2016 TARGET : 1,750.00

SECTOR VIEW

POSITIVE	
Aviation	Oil & Gas
Construction	Plantation
Glove	Port
Healthcare	Shipping
Insurance	Power
NEUTRAL (with Positive bias)	
Banking	REIT
NEUTRAL	
Automotive	Technology
Consumer	Telecommunication
Media	
NEUTRAL (with Negative bias)	
Cement	Tobacco
Property	
NEGATIVE	
Steel	

TOP BUYS

STOCK	Price 30 June (RM)	Target Price (RM)	Total Return
MRCB	1.06	2.08	99.7%
MMC Corp	2.01	3.11	56.7%
Muhibbah	2.20	3.05	40.9%
Media Prima	1.38	1.75	34.8%
Gas Malaysia	2.38	2.92	27.0%
TNB	14.10	16.80	23.1%
UOA Dev	2.19	2.54	22.4%
Maybulk	0.86	1.04	20.9%
KL Kepong	23.26	27.38	20.3%
IJM Corp	3.49	4.00	19.8%

A. MARKET & EARNINGS REVIEW

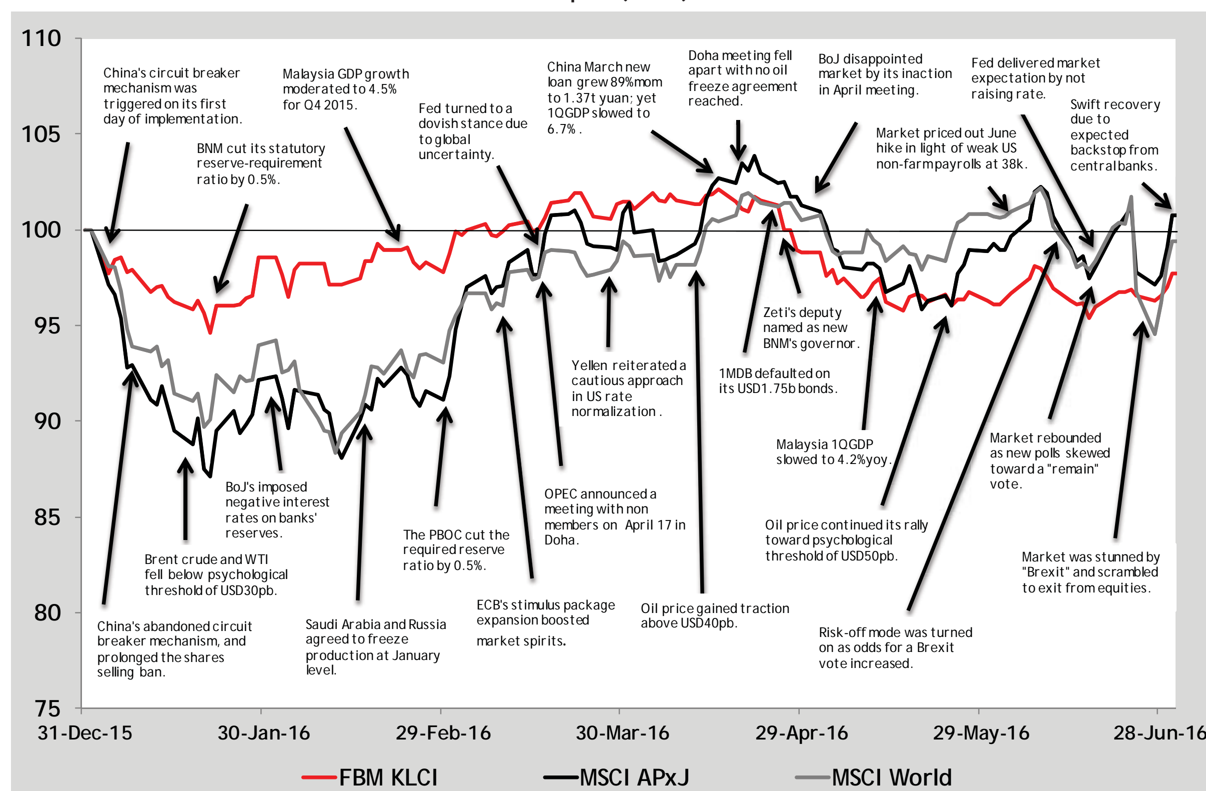
I. MARKET PERFORMANCE

- **Rally in crude oil prices buoyed world's equity market...** Entering 2Q16, crude oil prices became the main equity mover. Buoyed by a +12.9% rally in Brent price over the first three weeks of April, MSCI World Index advanced by +2.6%, emerging from red zone for the first time this year.

- **...with Ringgit and FBM KLCI strengthened to their respective year's highs.** Ensuing to the promising oil price rally, Ringgit strengthened against the greenback to its 8-month high at USD/MYR3.86 on 20th April, while year-to-date foreign cumulative flow peaked at +USD1.63b on 25th April. Meanwhile, FBM KLCI held firmly at above 1,700 points in April. It attained its year-to-date high of 1,727.99 points on 15th April 2016.

- **Market remained resilient amid Doha meeting failure.** The highly anticipated meeting fell apart with no freeze agreement reached. Saudi Arabia backed off in the last minute wanting Iran's commitment to the pact. Oil and equity prices declined in the aftermath, but only transiently.

Chart 1: FBM KLCI vis-à-vis MSCI Asia-Pacific ex-Japan (APxJ) and MSCI World Index



Source: Bloomberg, MIDFR

- **1MDB's default the inflection point for FBM KLCI.** 1MDB defaulted on its USD1.75b bonds amid dispute with the guarantor IPIC on 25th April. Market sentiment was hurt. FBM KLCI fell below the 1,700 points psychological level on the following day for the first time since the mid of March.

- **China's ballooning debt level worried the market.** China's March new loan grew 89%mom to 1.37t yuan. Despite that, its 1QGDP slowed to +6.7%. Market was concerned by the efficacy a potential debt-fuel recovery by the authority to prop up the faltering growth momentum.

- **BOJ's inaction upset the market.** BOJ defied market's will in its April meeting by restraining itself from further stimulus. Market's disappointment was translated into downward pressure on global equities.

- **Bearish May for equity markets.** Concerns on China and disappointment from Japan pushed global equities lower. MSCI World and MSCI APxJ Index retreated back into red zone, both reaching its trough on 19th May. FBM KLCI also felt the negative spillover. It reached its month low at 1,621.21 points on 16th May, down -6.2% from its peak one month ago.

- **Oil prices continued to be the bright spot.** Market sentiment was supported by a consolidating Brent price at the higher-end of USD40-50pb range since the end of May. FBM KLCI also benefited from that, rallying +2.4% from its May's trough to 1,660.62 points on 7th June.

- **Global equities on roller coaster ride as "Brexit" referendum looming.** Investors became more risk-aversive as the odds for Brexit increased, dumping equities in favor of safe havens like Yen and German bunds. FBM KLCI took a -2.8% hit amid a -4.0% plunge in MSCI World.

- **Quick rebound as Brexit odds swung.** Market staged a quick rebound a few days before the referendum as new polls skewed toward a "remain" vote. Risk appetite was also supported by the US Fed's decision to maintain its benchmark rate.

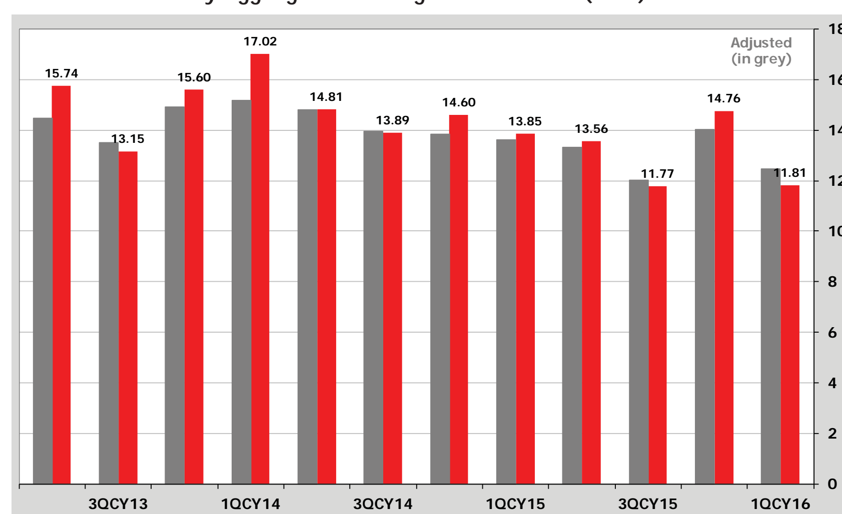
- **Market meltdown as Britain unexpectedly voted to exit…** Global investors were shocked by a Brexit vote from the referendum. Heavy sell-off on equities ensued as investors scrambled to safety. Nikkei225 plunge -7.9%, while Dow Jones and FTSE100 tumbled by -3.4% and -3.2% respectively. FBM KLCI also felt the shock with an immediate -1.5% retreat, but managed to narrow the loss to -0.36% before market closed on Friday.

- **…but the Brexit selloff appeared short-lived.** Nonetheless, the market risk-off mode appeared transient as investors anticipating the world's central banks to pull out all the stops to cushion the Brexit shock. Brent crude price, which dipped below USD47pb in the wake of Brexit, swiftly rebounded within a week back to above USD50pb. Meanwhile, Ringgit reclaimed its pre-Brexit strength at USD/MYR4.02. Furthermore, buoyed by these catalysts, FBM KLCI recouped its post-Brexit losses and came back even stronger to close the quarter at 1,654.08 points.

II. CORPORATE EARNINGS

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM11.81b in 1QCY16. The figure was lower both sequentially and on-year at -20.0%qoq and -14.8%yoy respectively. However, the aggregate reported earnings figure requires some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance.

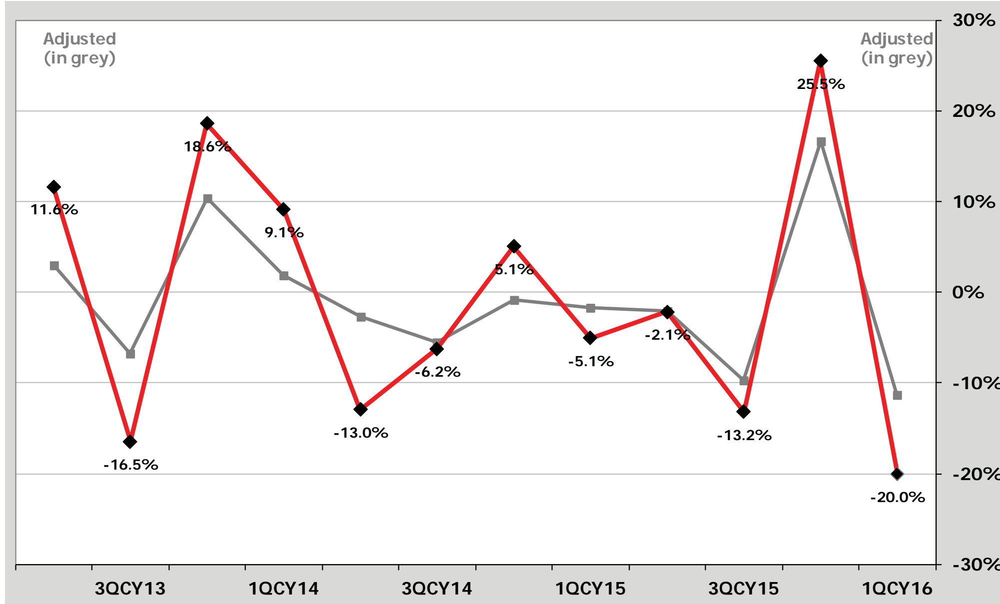
Chart 2: Quarterly aggregate earnings of FBM KLCI (RMb)



Source: Bloomberg, MIDFR

- The aggregate adjusted 1QCY16 earnings of FBM KLCI 30 constituents was slightly better at RM12.46b. Some of the major non-ordinary items reported during the review quarter include (i) RM858m net provision for impairment for plant, property & equipment and oil & gas properties by SapuraKencana, and (ii) RM73m net impairment provisions by MISC.

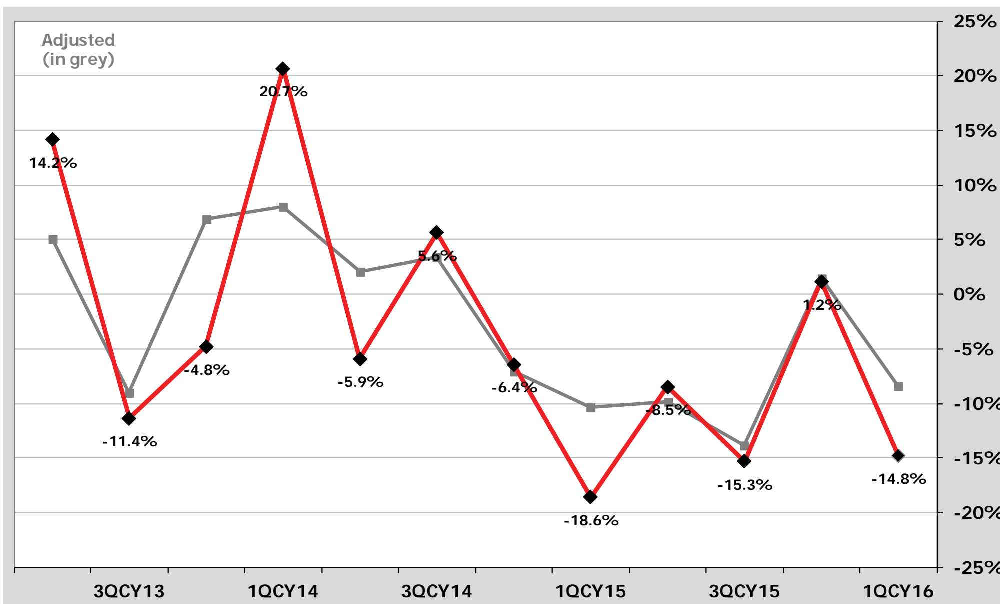
Chart 3: Quarterly aggregate earnings of FBM KLCI (QoQ % growth)



Source: Bloomberg, MIDFR

- After normalizing the impact of non-ordinary items (1QCY16: +RM656m, 4QCY15: -RM722m, 1QCY15: -RM242m), the adjusted sequential growth in 1QCY16 is less negative at -11.2%qoq. Likewise, the adjusted on-year growth number also improved to -8.4%yoy, but nonetheless it is still inferior to the +1.2%yoy adjusted growth performance of the preceding 4QCY15 quarter.

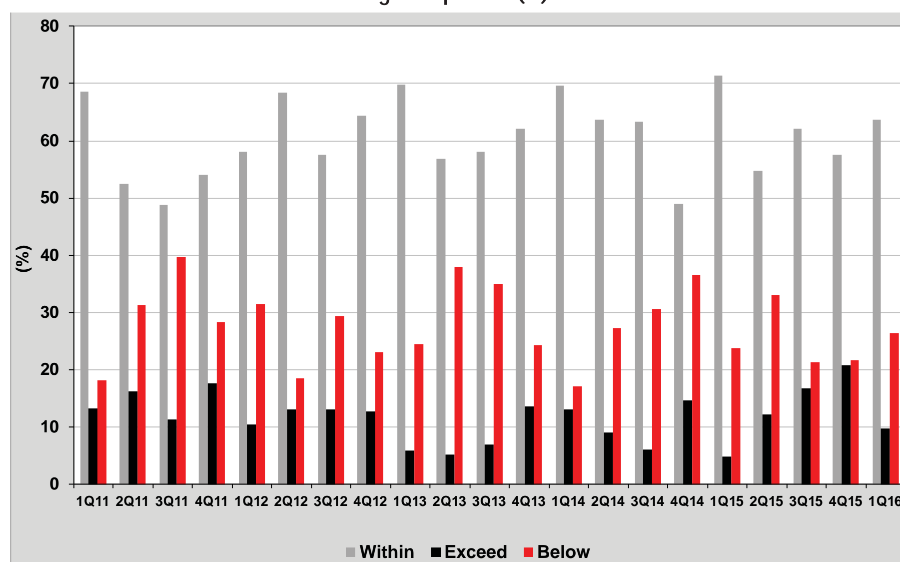
Chart 4: Quarterly aggregate earnings of FBM KLCI (YoY % growth)



Source: Bloomberg, MIDFR

- It is notable that prior to the 1QCY16 earnings reporting season, the adjusted aggregate earnings of FBM KLCI constituents was estimated to come in at RM13.41b. However, basing on the actual results, the adjusted aggregate figure of RM12.46b accounted for only 93% of our estimate.

Chart 5: MIDFR Universe - Earnings surprises (%)



Source: Bloomberg, MIDFR

- Under the MIDFR Universe, we made 13 changes to our stock recommendations with 6 upgrades and 7 downgrades. Moreover, target price changes involved 23 upward against 27 downward adjustments. Also, we added Vivocom International Holdings Berhad to our universe in April 2016 and ceased coverage of Puncak Niaga Holdings Berhad.

- The percentage of companies within the MIDFR Universe which registered earnings that came below our expectations recorded an increase to 26% in 1QCY16 from 22% in the prior quarter. Moreover, it is noteworthy that the proportion of positive surprises slumped to merely 10% during the quarter under review vis-à-vis 21% recorded in 4QCY15.

- Accordingly, companies with results that were in line with expectations climbed to 64% in 1QCY16 from 58% in the prior quarter.

- Consumer, Media, Telecommunication and Transportation were the sectors which recorded higher total earnings (as reported) in 1QCY16 when compared to both the preceding quarter and corresponding period last year.

- On the other hand, sectors such as Auto, Banking, Building Material, Construction, Oil & Gas, Property, Technology, Tobacco and Utility were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 1QCY16.

- The adjusted aggregate 1QCY16 earnings of FBM KLCI constituents was estimated to come in at RM13.41b prior to the just concluded earnings reporting season. Hence, basing on the actual results, we thereby conclude that the 1QCY16 earnings of FBM KLCI constituents came below (±5ppts) our expectation as the adjusted aggregate figure of RM12.46b accounted for only 93% of our estimate.

- It is also notable that the ratio of outperformer against underperformer among the FBM KLCI constituents worsened to 0:8 in 1QCY16. The underperformers were Axiata, BAT, Hong Leong Financial, Petronas Chemicals, SapuraKencana, Sime Darby, UMW Holdings and YTL Corp.

- Recall that in 4QCY15 there were 7 outperformers against 7 underperformers. Earlier on, the ratio stood at 5:8 in 3QCY15, 4:9 in 2QCY15 and 0:10 at its recent nadir in 1QCY15 period.

Table 1: FBM KLCI - Outperformer versus Underperformer

	Outperformers	Underperformers
1QCY16	0	8
4QCY15	7	7
3QCY15	5	8
2QCY15	4	9
1QCY15	0	10

Source: MIDFR

- The aggregate FY2016 earnings of the FBM KLCI constituents under our coverage was adjusted lower by -2.7% to RM55.18b vis-à-vis our earlier estimate pursuant to the prior reporting season. Likewise, the aggregate FY2016 earnings of the stocks under MIDFR coverage universe was also trimmed by -2.4% to RM71.74b vis-à-vis our earlier estimate pursuant to the prior reporting season.

Table 2: Sectorial valuation

KLCI: 1,654.08	Earnings Growth (%)			PER (x) 1/			Recommendation
	FY15	FY16E		FY15	FY16E		
		Previous	Revised		Previous	Revised	
AVIATION	(46.8)	453.9	725.2	83.0	21.2	14.0	Positive
CONSTRUCTION	(9.5)	33.8	44.9	17.2	13.2	12.3	Positive
GLOVE	25.1	40.2	32.7	32.2	16.9	17.2	Positive
HEALTHCARE	14.6	21.8	16.1	48.5	40.3	42.2	Positive
OIL & GAS	3.3	11.3	(0.9)	22.0	18.1	20.3	Positive
PLANTATION	(49.6)	13.3	15.0	29.0	25.4	25.1	Positive
PORT	(1.4)	19.5	19.5	27.8	23.7	23.7	Positive
POWER	(8.2)	5.1	9.2	12.3	12.2	11.8	Positive
SHIPPING	(41.8)	102.1	101.4	33.0	13.1	13.1	Positive
TOLL	2.8	20.4	26.3	18.9	17.9	17.1	Positive
BANKING	(0.8)	3.7	1.7	12.0	11.0	11.2	Neutral+
REIT	(5.0)	(14.6)	(8.4)	15.9	20.6	19.2	Neutral+
AUTOMOTIVE	(67.0)	117.4	52.7	43.2	15.9	22.6	Neutral
CONSUMER	(5.0)	18.8	28.7	23.3	21.4	19.8	Neutral
FINANCE	(62.4)	1.5	(22.3)	18.6	18.9	24.7	Neutral
MEDIA	24.6	17.9	9.6	22.1	20.1	21.6	Neutral
TECHNOLOGY	70.8	7.6	(7.3)	15.8	10.9	12.8	Neutral
TELECOMMUNICATION	(3.1)	6.7	(1.0)	26.1	21.8	23.5	Neutral
CEMENT	(1.9)	3.6	3.6	30.1	25.6	25.6	Neutral-
PROPERTY	17.4	(9.2)	(16.6)	10.8	11.6	12.6	Neutral-
TOBACCO	0.9	1.7	(11.5)	17.6	16.3	18.7	Neutral-
STEEL	(19.1)	(22.6)	(33.6)	(1.4)	(2.6)	(3.1)	Negative
MIDFR Universe	**(8.9)**	**8.4**	**5.8**	**18.3**	**16.2**	**16.6**	
FBM KLCI 2/	**(5.3)**	**3.5**	**0.7**	**17.5**	**16.1**	**16.5**	

Source: MIDFR
1/ As at 30 June 2016
2/ Only 28 FBM KLCI component stocks covered under the MIDFR Universe

III. MACRO ECONOMICS PERFORMANCE AND OUTLOOK

EU REFERENDUM: BREXIT IS CURRENTLY THE BIGGEST RISK TOWARDS GLOBAL ECONOMY

- **Scotland to possibly call for second referendum, Northern Ireland may choose to leave the United Kingdom.** The United Kingdom as we know constitutes of four countries i.e Scotland, Wales, England

and Northern Island. Recall that in 2014, Scotland has held a referendum to decide either to stay or leave the UK. The vote leaned in favour of the 'remain' camp, winning by 56% majority. We believe that could change rapidly since the Scots have shown their preference towards the EU during the recent referendum with all 32 counties voted to remain in the EU. Staying in the UK is non-sensible when the former had decided to leave the EU. A second referendum could quickly follow suit for the Scottish people in the near future.

- **Further disintegration of the EU could follow through lead by Greece, Sweden and Netherland.** Euroscepticism has been rising on the run up to the Brexit and now it has occurred, we expect that more residents of countries within the EU to be more vocal with their intention to leave the union. For now, countries which are more likely to quit the EU would be Greece, Sweden and Netherland though we would assume that they would want to wait the repercussion on UK prior to making any such move.

- **UK & EU to enter recession as uncertainties sets in.** The economic and structural change from this event remains uncertain, as such there is a high possibility that both UK and EU could enter into a recession in the coming quarters. Businesses are expected to hold on their investment and hiring activities, while related immigrant workers will be confused with their job status in the UK and vice versa. Note that UK and Euro Area GDP grew by a marginal 0.4%qoq and 0.6%qoq respectively in 1Q16. Brexit and possibility of EU fallout would affect both its financial and real economic activities, leading to a recession. On the other hand, we could feel the pressure of Bank of Japan, as all of their effort to depreciate their currency in order to boost their economy has been futile as investors seek Yen as a safe haven which leads to hefty appreciation of Yen in recent days.

- **It is not just the UK and EU, the global economy itself is at risk.** The huge uncertainty from this event could signal another financial crisis, as currently the global economy is not strong enough to withstand massive financial market shock of this level. However, we are not expecting a crisis seen in the Global Financial Crisis 2007-2008 (GFC), rather it would be closer to the ones during Asian Financial Crisis 1997 (AFC), where it could be considered as a V-shape recession – reflecting that recovery period will be faster as compared to the one in GFC.

- **Brexit could be good for Malaysia economy in the long term.** Despite the possibility of a global recession in the short to mid-term period due to the financial shock caused by the event, in the long term Brexit or even EU fallout could actually be good for Malaysia economy. Realise that our currently low trade activity with the UK and EU region as a whole are mainly due to the EU trade policy itself, which prioritize trade and investment activity among the union members. However, if fallout between the unions happens, there exists a possibility that the European countries will begin to strengthen their political and economic relationship with emerging market economies, as what has been done by other developed economies. As such, in the long term Malaysia economy could benefit from EU fallout due to higher trade and investment activity coming from the ex-EU countries.

NO RATE HIKE FOR THE YEAR AMID HEIGHTENED UNCERTAINTIES POST BREXIT

- **As expected, the Fed keeps its interest rate unchanged in June FOMC meeting.** In line with our expectation and all economists surveyed by Bloomberg, Fed decided to keep the fed fund rate (FFR) unchanged at 0.50% in June FOMC meeting. The decision has been widely expected due to the disappointing non-farm payroll (NFP) data in May, with only 38,000 jobs being added in May.

- **Despite the positive tone, the optimism has softened and FFR target revised lower.** Prior to the release of the May NFP data, the Fed was very optimistic with the US economic performance. Most Fed officials were being hawkish, citing live possibility for June hike. The tone experienced sudden shift post May NFP data released.

- **In the latest Fed's economic projection, Fed maintains all of its main indicators forecast in the longer run, except for the FFR.** In the longer run, FFR was revised lower to 3.0% from 3.3% in March projection, while it had been significantly reduced for 2018 projection from 3.0% to 2.4%, which reflects that the Fed no longer thinks that they will be able to achieve their long term interest rate target by year 2018. GDP was also revised lower for both year 2016 and 2017 while core inflation is expected to be slightly higher than initially expected for the same corresponding periods.

- **With heightened uncertainties post Brexit, rate hike is off for the year.** The Fed has made it clear in the past that they are not going to increase their interest rate during market volatility; as such we are revising our expectation that the Fed is not going to conduct any rate hike this year. However, due to uncertainties and high volatility post Brexit, any forecast longer than the 6 months period will have to wait for further developments emerging from this Brexit episode.

- **The use of monetary policy is inevitable .** External economic condition continues to be against our favour with all of the economics and political issues remain uncertain. We opine that there is a need for the use of our domestic monetary policy to stimulate the economy in order to support and accommodate the domestic economy. The risks of prolonged slowdown in the economy are possible given latest developments in both internal and external fronts.

- **Risk of further downside in the external economy could push BNM to cut interest rate this year.** Due to the economic and political uncertainty from the Brexit, financial market volatility could affect the global economic condition adversely, slowing down economic growth further. As a small open economy, Malaysia is vulnerable to external shock, particularly one at a large scale such as Brexit. We perceive BNM will need to stimulate domestic economic activity via easing monetary policy in order to support Malaysia economy. As such, we are now expecting BNM to cut the OPR by 50 bps this year, specifically by 25 bps each in September and November 2016.

- **We are revising our year-end 2016 Ringgit forecast to RM4.10/USD.** Due to both domestic and external developments, we are expecting Ringgit to be at RM4.10/USD by year-end 2016. Our earlier forecast on Ringgit was on the assumption that domestic issue and risk will subside while there is no further shock from external factor, though currently it seems that we are once again faced with huge uncertainty in both fronts. In line with the latest developments, we are revising our Ringgit forecast for both average and year-end 2016 to RM4.10/USD.

CHINA: GOING BACK TO THE OLD ECONOMY

- **China's economy grew by 6.7% in 1Q16, slightly higher than our estimate of 6.6%.** Despite the higher than expected number, the details paint a disturbing picture. The secondary industry moderated from 6.0% last quarter to 5.8% while the tertiary industry experienced a sharp slowdown from 8.3% to 7.6%. The figures made one to wonder whether their 'rebalancing' effort is proceeding as planned, as the ones supporting the economy from experiencing a hard landing was the manufacturing industry, rather than the supposedly services industry. Despite that, we maintain our stand that regardless of China's

transformation outcome i.e from a manufacturing-exports oriented industry to a services-domestic oriented economy, Malaysia is still going to be affected negatively as the majority of Malaysia's exports to China are intermediate goods rather than the final products.

- **Year-to-date until May, China's fixed asset investment increased by 9.6%yoy while the figure was lower in May by 7.4%yoy.** China economy continues to be supported by its Government where investment activity of its state-owned and holding enterprises grew by 24.0%yoy in May. However, disregarding the pump priming by the Chinese Government, the numbers are worrying. In May, investment for expansion activity grew by 6.6%yoy while investment for equipment purchase, which contributes approximately 17.9% to the overall fixed asset investment, grew only marginally at 1.4%yoy. Investment in 'other' items moderated to 7.1%yoy in May, down from 13.7%yoy in the previous month. In other words, the one investment activity which is supporting China's fixed asset investment is the 'construction and installation' component which was the result of Government's pump priming activity but even that fell into single digit growth. As a side note, industrial production maintained its 6%yoy growth while retail sales moderates to 10.0%yoy, the lowest in 11 months.

- **Looking at the numbers, we are concerned with the long-term China's economic sustainability** as pump priming for construction and installation despite slowdown in expansion and equipment investment activity raised the possibility of worsening the overcapacity issue in China's economy. At the moment, there is yet any indication that the global trade activity is recovering; as such it raises the question on who will be buying the extra production that will be made in China. Indeed, the industrial production index maintained its 6% growth in May, though we are sceptical that China will be able to maintain the production level in the coming months. At the moment, we are maintaining our expectation that China's GDP will grow by 6.4% and 6.0% in 2016 and 2017 respectively.

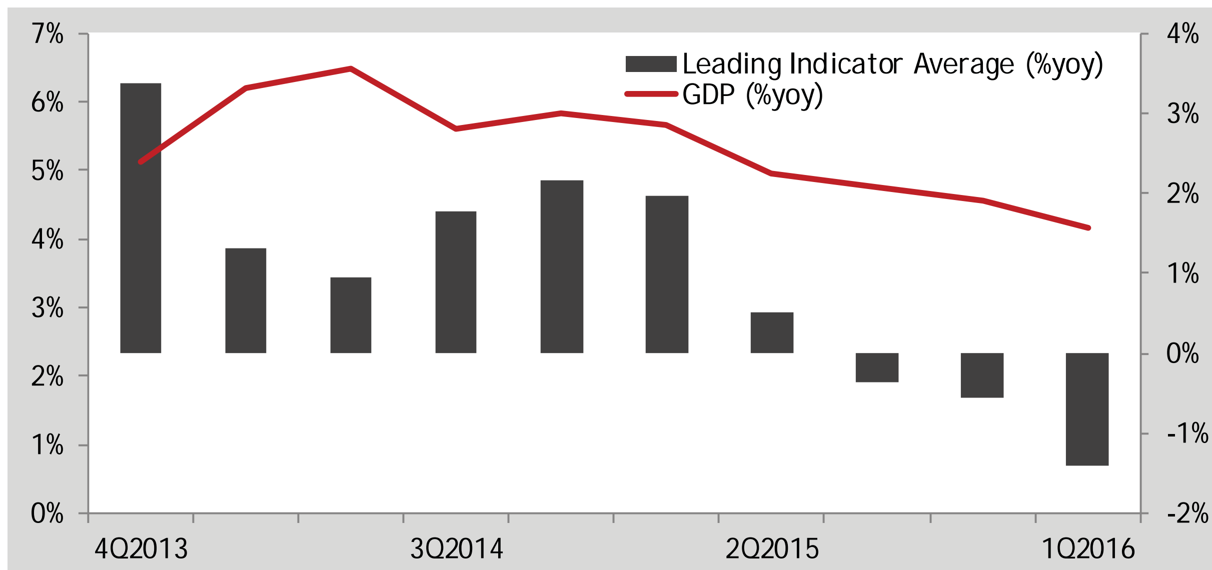
GDP EXPECTATION REVISED TO 4.0% FROM 4.4% DUE TO LACKLUSTRE INVESTMENTS AND GLOBAL TRADE

- **Year-to-date exports growth was timid at 1.2%, falling below 2015 average.** Exports strengthened slightly in April, expanding by 1.6%yoy after nearing a halt in the previous month. Year-to-date, growth was only 1.2% and this was 1.0% lower than our initial estimate at 2.2%. There was obviously lack of catalyst and momentum for trade to edge higher in 2Q16. In April, 26 out of 49 countries (or 53% of total reporting countries) saw their imports decline year-on-year including Malaysia, underlining worldwide weak demand. Global trade has suffered multiple blows this year with Brexit being the latest. Therefore, based on the current weak global trends and developments we revise our exports forecast for the year to -0.5%.. Meanwhile, we expect imports to decline by -3.0% in FY16.

- **Private consumption to ease in 2Q16 after strong growth in the first quarter.** 1Q16 GDP figure met our forecast at 4.2% but was only due to unanticipated strong private consumption which grew at 2.9%qoq on a seasonally adjusted basis. This was the biggest uptick in more than 4 years but we believe it was 'unsustainable'. We reckon that consumption was partly influenced by El-Nino phenomenon which drove consumers to visit malls, eateries or shopping places to enjoy cooler environment. The second quarter has seen a more temperate climate thus we opine that consumption would grow modestly in the period.

- **Lack of investments, weak global trade Post Brexit to drag on GDP growth.** Apart from the expected easing of the private consumption, we believe businesses will pull the brake on future investments decision at least in the short-term. Despite we see less direct impact on trade and FDI due to Brexit, investors will be risk-off and adopt a 'wait and see' stance amid elevated uncertainties. In a tepid investment and weak demand environment, it is difficult to see economic growth surge to higher level.

Chart 6: Malaysia Leading Indicator VS Real GDP Growth

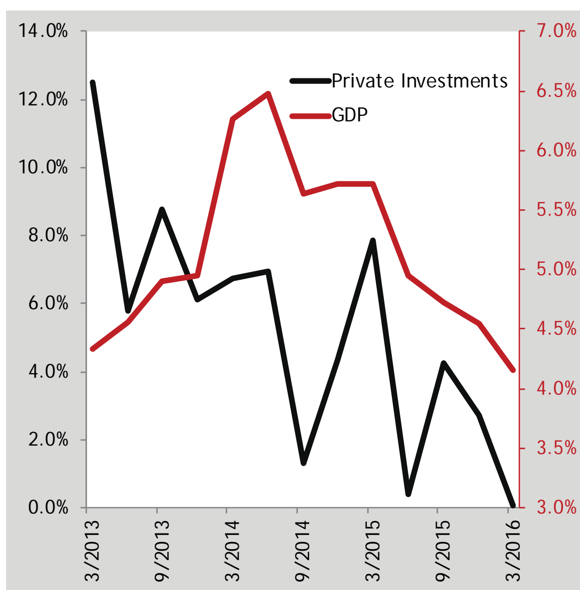


Source: DOS, CEIC, MIDFR

- **Leading indicator and moderating industrial production index (IPI) indicate slower growth in future.** The leading indicator turned red in September last year and the 3-month moving average had since been in negative for 8 consecutive months. The fall in April was the sharpest in 7 years as imports of semi-conductors, housing permits slid while lesser new companies were registered for the month compared to last year. On other hand, IPI remains below 4.0% after gaining modestly in April to 3.0% from 2.8% in the previous month.

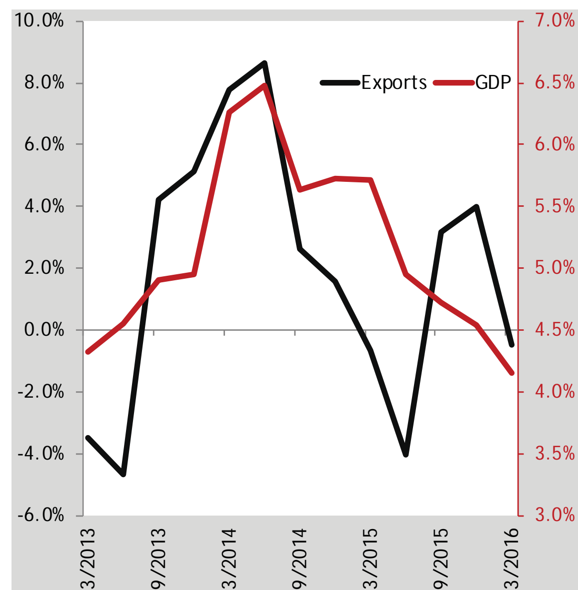
- **Thus, we revised downwards our GDP forecast to 4.0% from 4.4% for FY16.** Most economic indicators that we have tracked thus far points to a moderation in overall economic growth, therefore we have revised downward our GDP forecast to 4.0% for FY 16. We expect 3.9% growth in 2Q16, 4.1% in 3Q16 and 3.9% in the last quarter.the last two quarters. In such environment, economic growth might moderate further than anticipated hence pressuring BNM to cut OPR by 0.25%, possibly in the second half of 2016.

Chart 7: Private Investments vs GDP Growth



Source: MIDFR

Chart 8: Exports vs GDP Growth



Source: DOS, MIDFR

Table 3: Key macroeconomic indicators

(YoY%) unless stated otherwise	2014	2015	2016f	1Q16	2Q16f	3Q16f	4Q16
Real GDP	6.0	5.0	4.0	4.2	3.9	4.1	3.9
Private consumption expenditure	7.1	5.5	4.5	5.3	5.0	4.8	2.7
Government expenditure	4.4	4.7	4.5	3.8	3.3	4.2	6.6
Gross fixed capital formation	4.8	3.4	0.2	0.1	4.7	-0.3	-3.6
Exports of goods and services	5.1	0.6	-1.8	-0.5	1.3	-3.6	-4.6
Imports of goods and services	4.2	1.2	-2.0	1.3	2.2	-4.6	-6.7
Net exports	12.8	-3.3	-0.5	-12.4	-5.5	3.6	12.2
Nominal GDP	8.6	4.5	4.1	4.7	4.4	4.3	4.2
Exports of Goods (f.o.b)	6.3	1.9	-0.5	2.2	-1.6	-2.3	0.9
Imports of Goods (c.i.f)	5.3	0.4	1.3	2.3	0.6	1.7	3.1
Trade Balance - RMb	82.5	94.3	81.9	23.9	16.4	14.4	27.1
Consumer price index	3.2	2.2	2.6	3.4	2.0	2.3	2.4
Current account - RMb	47.3	34.0	25.0	-	-	-	-
Current account - % of GNI	4.8	2.8	2.5	-	-	-	-
Fiscal balance - % of GDP	-3.5	-3.2	-3.1	-	-	-	-
Federal government debt - % of GDP	52.7	54.3	53.8	-	-	-	-
	2014	2015	2016f	1Q16	2Q16f	3Q16f	4Q16
Brent Crude Oil (Avg)	99.4	53.6	45.0	-	-	-	-
Crude Palm Oil (Avg)	2,415	2,168	2,500	-	-	-	-
USD/MYR (Avg)	3.273	3.907	4.100	-	-	-	-
EUR/MYR (Avg)	4.347	4.336	4.400	-	-	-	-
JPY/MYR (Avg)	3.096	3.228	3.500	-	-	-	-
SGD/MYR (Avg)	2.583	2.840	2.950	-	-	-	-
Brent Crude Oil (End of)	57.3	37.3	50.0	39.0	49.0	50.0	50.0
Crude Palm Oil (End of)	2,297	2,200	2,500	2,600	2,378	2,500	2,500
USD/MYR (End of)	3.497	4.294	4.100	3.900	4.060	4.080	4.100
EUR/MYR (End of)	4.251	4.691	4.300	4.446	4.500	4.400	4.300
JPY/MYR (End of)	2.922	3.572	4.000	3.464	3.970	4.000	4.000
SGD/MYR (End of)	2.647	3.040	2.950	2.895	3.000	2.950	2.950
Yield on generic 10-year MGS (%)	4.15	4.19	3.65	3.77	3.85	3.70	3.65
3-month KLIBOR (%)	3.86	3.84	3.20	3.71	3.65	3.40	3.20
Overnight policy rate (%)	3.25	3.25	3.00	3.25	3.25	3.00	3.00

IV. MARKET VALUATION AND STOCK SELECTION

VALUATION

- **FBM KLCI valuation is cheaper in comparison to emerging market peers…** As at the close of week ended 24 June, the PER of FBM KLCI stood at 16.2x based on current year earnings. With a standard deviation (SD) to PER of 0.54, the valuation of FBM KLCI is relatively cheaper in comparison to its emerging market regional peers such as Jakarta's JCI, Bangkok's SET and Manila's PCOMP. Conversely, the local benchmark is more expensive vis-à-vis Singapore's FSSTI.

Table 4: FBM KLCI - Valuations against regional markets

	FBM KLCI	FSSTI	JCI	SET	PCOMP
SD	0.54	-0.96	0.60	1.22	1.29
PER	16.2	12.4	15.6	15.2	19.5
PER (+1SD)	16.9	15.5	16.5	14.7	18.6
PER (Mean)	15.3	13.9	14.3	12.3	15.6
PER (-1SD)	13.7	12.4	12.0	10.0	12.6

Source: Bloomberg, MIDFR
Note: Data for the purpose of Mean and SD calculations are from Jan 2006 to present

- **…as well as against Wall Street.** Similarly, against the proxies of Wall Street namely DJIA and S&P500, the FBM KLCI is also relatively cheaper in the SD to PER valuation term. On the other hand, the local benchmark is more expensive if compared to the European's Euro Stoxx and German's DAX.

Table 5: FBM KLCI - Valuations against international markets

	FBM KLCI	DJIA	S&P500	Euro Stoxx	DAX
SD	0.54	0.94	1.39	0.48	-0.17
PER	16.2	16.2	17.3	12.9	12.0
PER (+1SD)	16.9	16.3	16.7	13.9	14.0
PER (Mean)	15.3	14.4	15.0	11.9	12.3
PER (-1SD)	13.7	12.5	13.3	9.9	10.7

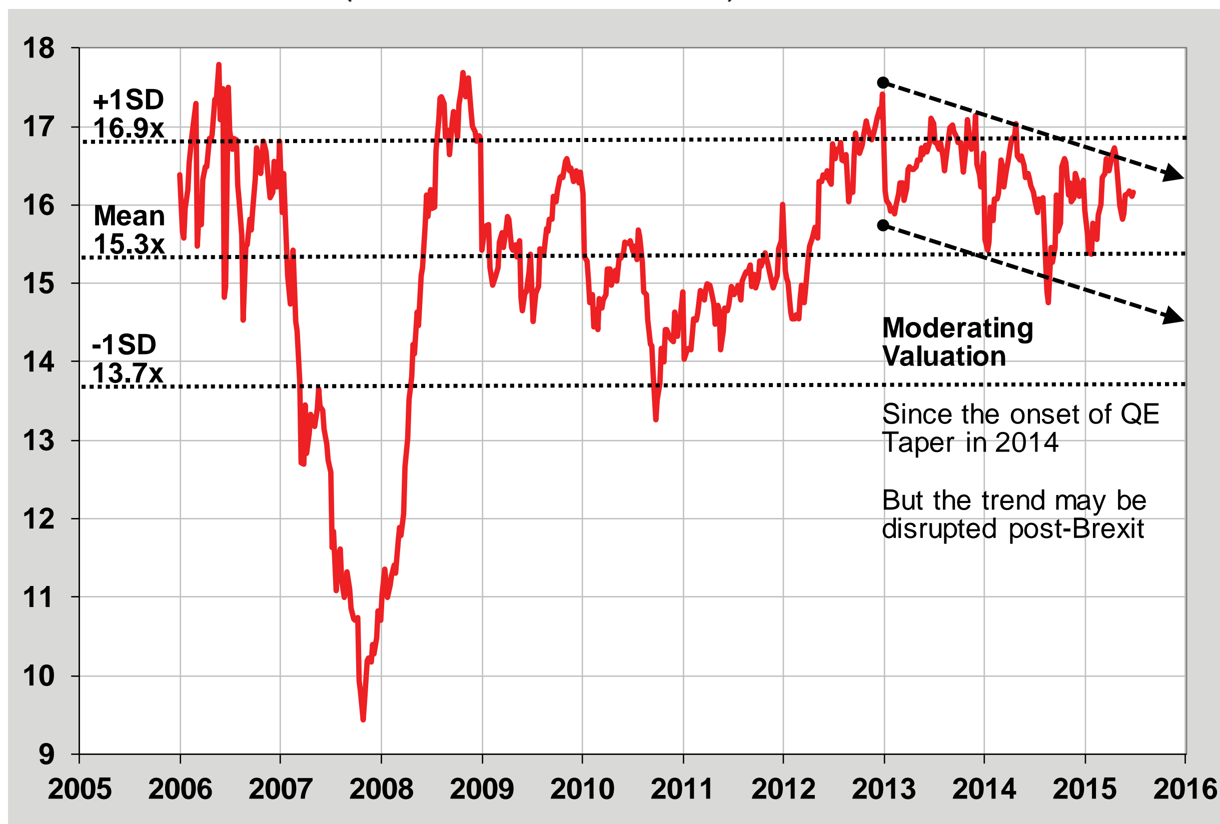
Source: Bloomberg, MIDFR
Note: Data for the purpose of Mean and SD calculations are from Jan 2006 to present

- **FBM KLCI valuation trend was gradually moderating…** It must be highlighted that the PER of FBM KLCI has exhibited a gradual descending trend towards its long-term mean ever since its peak in end-2013. It is also notable that the valuation apex corresponded with the onset of QE3 taper beginning January 2014.

- **…in line with relative tightening of dollar-based global liquidity.** The downward trend was arguably precipitated by relative tightening of liquidity pursuant to the unwinding of QE3 in 2014. Thenceforth, the valuation contraction continued on until the US interest rate liftoff in late 2015.

- **But the valuation trend may be disrupted going forward by…** However, we reckon the moderation in PER multiple may become less pronounce going forward, or the market may even see slight valuation expansion, in view of the apparent readiness among monetary authorities worldwide to counter the Brexit shock.

Chart 9: PE Ratio of FBM KLCI (with Mean and +/- 1-Std dev lines)



Source: Bloomberg, MIDFR

- **...the relative easing of global liquidity post-Brexit.** On this score, due to heightened uncertainty post-Brexit, our in-house economists believe that (i) the US Fed is not going to conduct any rate hike this year (as opposed to earlier market expectation of 4 rate hikes and which later was cut to 2), and (ii) the BNM shall cut the OPR by 50bps this year, specifically 25 bps each in September and November 2016 (as opposed earlier market expectation of between zero to only 25bps cut). It was also reported that the European Central Bank may loosen the rules for bond buying in its stimulus program thus expanding the amount of debt available for purchase.

EARNINGS

- **GDP expectation for Malaysia trimmed post-Brexit.** Our in-house economists reckon weak global trade post-Brexit to drag on GDP growth as businesses may pull the brake on future investments decision at least in the short-term and adopt a 'wait and see' stance amid elevated uncertainties. Thus our 2016 GDP growth estimate for Malaysia is trimmed down from 4.4% to 4.0%.

- **Resumption of positive earnings growth...** The FBM KLCI is expected to show a resumption of positive earnings growth in 2016 partly attributable to the low-base effect from general earnings underperformance in 2015. At this juncture, the consensus forward earnings growth for this year and next are estimated at 7.43% and 8.03% respectively.

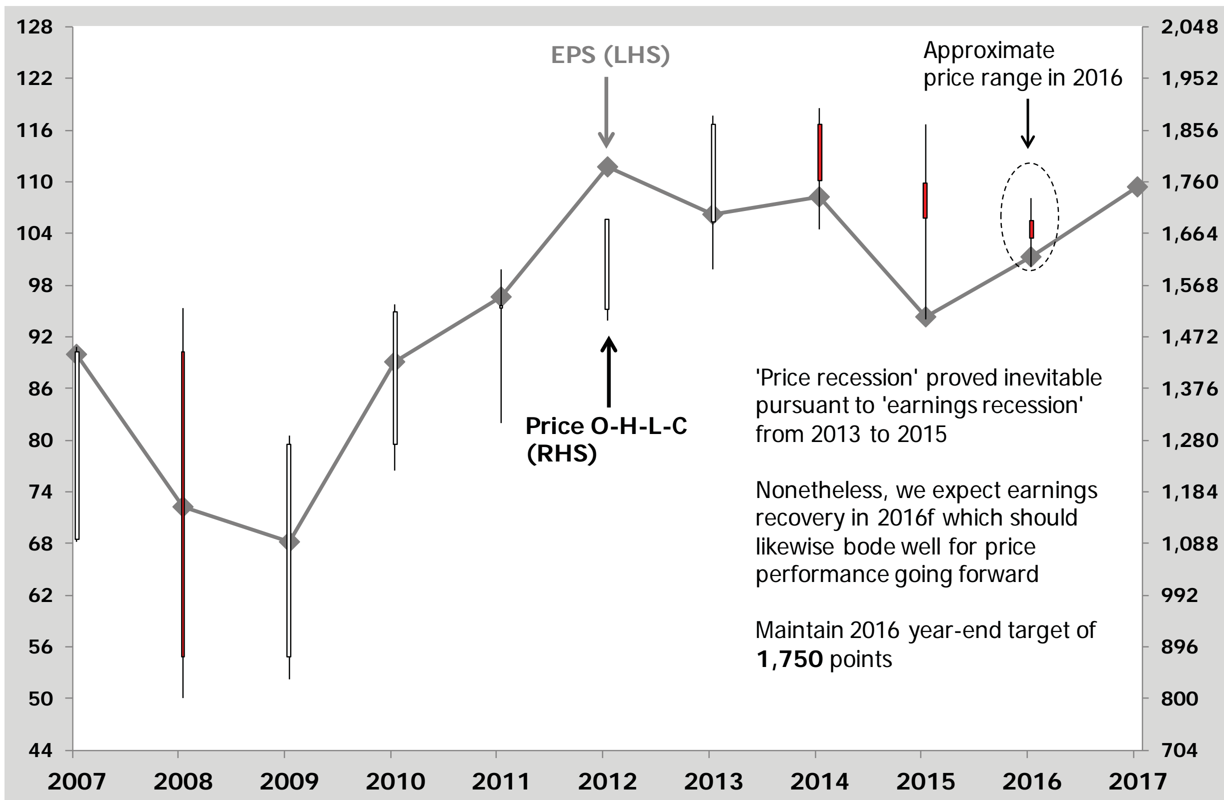
- **...but with a slight risk of forward earnings underperformance.** Having said the above, a more tepid GDP outlook presents a heightened risk to our forward earnings figures. Nonetheless, we foresee only a slight risk of material downward revisions to the forward estimates due to the already lowered

expectation hurdles (with key revenue and cost drivers as well as other assumptions pegged at quite pessimistic levels) pursuant to earlier earnings disappointments.

YEAR-END PRICE TARGET

- **Valuation and earnings are the direct functions of price.** On that score, while there is heightened risk to our forward earnings estimates due to a more tepid GDP outlook post-Brexit, however the price downside may be countered by likely valuation expansion consequent to the relative easing of global liquidity.
- **Reiterate FBM KLCI 2016 year-end target at 1,750 points.** Therefore, we reiterate our FBM KLCI 2016 year-end target at 1,750 points which equates to PER16 of 17.26x and PER17 of 15.98x.

Chart 10: FBM KLCI - Earnings versus Price



Source: Bloomberg, MIDFR

STOCK SELECTION

- **Portfolio & stocks selection criteria.** We once again reiterate our following views, namely (i) reasonable sanguinity on continued macroeconomic growth despite the slight adjustments post-Brexit, and (ii) resumption of corporate earnings growth beginning this year pursuant to 3 years of 'earnings recession'. Nonetheless, we are also mindful that the risks associated with these return expectations are also elevated due to the fragility of the underlying macro dynamics both external and domestic. Hence we remain an advocate of a 'bias' towards risk-conservative equity portfolio.

- Accordingly, we continue to recommend portfolio exposures with a combination of stocks in the following order of preference (high to low): (i) inherent earnings quality, (ii) attractive valuation, and (iii) superior earnings growth potential.

- Furthermore, we are also guided to a certain extent by our analysis of stock momentum to select recent leading stocks and discard laggards as well as potential underperformers.

- **Change to Top 10 list.** We made three changes to our current list of Top 10 stock picks (refer to our 2Q16 Outlook: The Tap is Open dated 11 April 2016) due to the following reasons:

  - **SapuraKencana Petroleum** is removed as its operating environment is expected to remain tough (despite the recent advances in crude oil prices) which will limit its prospective earnings growth for the next two years.

  - Meanwhile, **Ta Ann Holdings** is relegated due to weaker than expected earnings from timber division in 1Q2016. Moreover, the outlook for timber division is lackluster due to subdued prices for export log and plywood.

  - **SP Setia** is substituted due to superior expected sales growth for its peer, UOA Development. Nevertheless, it must be highlighted that SP Setia is still fundamentally strong and we have a Buy call on the company with target price (TP) of RM3.70.

  - In place of the above stocks, we introduce UOA Development Berhad, Malaysian Bulk Carriers Berhad and IJM Corporation Berhad to our Top 10 list.

- Below is a list of 10 stocks that fit the investment criteria and which we reckon are in good stead to outperform the broader market:

  - **Malaysian Resources Corporation Berhad (BUY; TP: RM2.08).** MRCB's performance for FY16E will be buoyed by inflows of iconic transport-oriented developments such as KL Sports City (RM1.6b), Penang Sentral (RM2.3b) and Kwasa Damansara MX-1 (RM8.0b) as well as infrastructure project role such as PDP for LRT3 (RM540m: RM9.0b@6%). Furthermore, we assess that (i) the completion of the proposed private placement (RM494m), (ii) its total outstanding construction orderbook (c.RM1.58b), and (iii) the proposed sale of Eastern Dispersal Link (EDL) in Johor (c.RM1.4b), could soften the overhang on its total debt level of around RM4.7b.

  - **MMC Corporation Berhad (BUY, TP: RM3.11).** We like MMC due to earnings visibility from its ports, construction and energy segments. We expect the ports segment, which is ripe for listing, to continue its upward trajectory with PTP, JPort and NCB throughput growth estimated at +7%, +5% and +5% respectively. MMC-Gamuda had recently secured the RM15.47b KVMRT2 tunneling package (MMC's portion: RM7.7b) helping MMC's order book to balloon to RM9.6b which translates into 10x FY15 construction revenue (RM964m) and keeping its construction arm busy until 2021. Furthermore, MMC's 37.6% associate Malakoff had in March 2016 achieved commercial operation for its 1,000MW coal-fired power plant (T4, Tanjung Bin Energy) raising its effective capacity by 19% from 5,346MW to 6,346MW. Based on our estimates, MMC's current market cap of RM6.4b prices in only its 3 port assets which we value at RM6.9b while ignoring the remaining assets worth a combined RM8.5b (after deducting debt). In addition, MMC is currently trading at an undemanding PBR of 0.9x and -1.5 standard deviation (sd) below its 5-year mean.

  - **Muhibbah Engineering (M) Berhad (BUY, TP: RM3.05).** Muhibbah stands to reap the benefit of government's policy implementation from Pengerang Integrated Petroleum Complex (PIPC) which is slated to be operational by 2019. Moreover, its foray into the Eastern Corridor Economic Region (ECER) to operate Kuantan Maritime Hub and earnings contribution by its airport concessions in Cambodia would be potent to lift Muhibbah's earnings in FY16E by 19.0%.

- **Media Prima Berhad (BUY, TP: RM1.75).** Post consolidation phase, the group is actively strengthening its various business segments. The home shopping business has been identified as the key catalyst to reduce dependency on adex-based revenue. For the out-of-home media segment, the group will continue to further secure new sites along the new rapid transit lines for its advertising panels as well as converting the traditional billboard signs to digital billboards to enhance the digital inventory networks. Championing itself as a content provider, Media Prima also seeks to widen the distribution network in the region. All these would enhance the group's overall earnings, enabling the provision of attractive dividend payment.

- **Gas Malaysia (BUY, TP: RM2.92).** Gas Malaysia has performed considerably well this year as the incentive based regulation (IBR) regime adopted in January 2016 will provide earnings stability and visibility for the company. With the IBR regime in place, the average gas distribution margin will be at approximately RM1.58 per mmbtu. Apart from the regulated business, Gas Malaysia is also keen on growing its other non-regulated businesses to further grow the revenue and earnings base of the company. These non-regulated businesses are: (i) Virtual Pipeline; (ii) Combined Heat & Power; and (iii) Bio-Compressed Natural Gas. We are reiterating our BUY recommendation on GMB with a target price of RM2.87 per share. Our TP is based on Gordon Growth Model with a risk-free rate (rfr) assumption of 3.9%, market-risk premium of 6.1%, beta of 0.6x and a terminal growth rate of 4%.

- **Tenaga Nasional Berhad (BUY, TP: RM16.80).** We like Tenaga for: (1) Strong earnings visibility post-ICPT implementation, (2) Dividend catalyst on the back of FCF yield of ~7% over FY16F/17F, a relatively under-geared balance sheet at 0.35x and the upcoming capital optimisation exercise, (3) Overseas expansion provides scope for stronger growth in the mid-term, and (4) The heatwave in 1HCY16 provided a temporary boost to demand in an otherwise, weak economic growth environment. Capital management and the resolution of its RM2b tax issue with the Inland Revenue Board are key catalysts over the next 12 months. 4% dividend yield looks attractive.

- **UOA Development Berhad (BUY, TP: RM2.54).** We like UOA Development for three reasons: i) its property sales is set to surge 88%yoy in FY16, ii) superior dividend yield of 6.5% (highest among property developers), and iii) its sturdy balance sheet with net cash position of 44sen/share. Our TP is based on 15% to its RNAV.

- **Malaysian Bulk Carriers Berhad (BUY, TP: RM1.04).** The Baltic Dry Index (BDI) which measures charter rates across dry bulk ship sizes and routes has maintained at above 600 for the most of 2QFY16, well above its low of 290 recorded on 10/2/2016. While the Handysize, Supramax and Panamax vessel charter rates remain below our estimated average fleet breakeven cost of ~US$7.5k/day for Maybulk, we believe losses could have bottomed for the dry bulk segment in 1QFY16 while associate PACC Offshore Services Ltd (POSH) could spring some positive surprises. Furthermore, its sanguine outlook is premised on: 1) China's average monthly iron ore and coal import volume has grown at +4%yoy and +1.4%yoy respectively in 2016 (2015: +2%yoy and -30%yoy); 2) Dry bulk overcapacity concerns could subside as we estimate that 5MFY16 net capacity addition of only 2.9m DWT is negligible; 3) SGX listed POSH has gained 24% year-to-date, riding on a recovery in crude oil prices and having secured 5 contracts for its T&I, OSV and SSAV vessels.

- **Kuala Lumpur Kepong Berhad (BUY, TP: RM27.38).** We like KL Kepong for three reasons: i) its high exposure to palm oil business, ii) good earnings growth of +41%yoy to RM536m in 1HFY16, and iii) it is one of the rare big cap index-linked planters which is Shariah compliant and also an RSPO member. Our TP is based on Forward PER of 26.8x on FY16 EPS of RM1.02. The Forward PER of 26.8x reflects a +1.0 Standard Deviation valuation due to positive factors mentioned above.

- **IJM Corporation Berhad (BUY, TP: RM4.00).** We reckon IJM's core competency of infrastructure engineering and the expansion of industrialised building content would propel its bottomline higher by 8.9% to 10.0% via profit margin improvements in FYE16/17. The growth in earnings from its strong orderbook of RM8.5bn coupled with sturdy recurring income from its tollway assets would provide comfort to IJM. Its financials illustrate strength with (i) net working capital growing at 15.25%, and (ii) positive cash flow from operations rising steadily amid the inflows of projects.

Table 6: TOP 10 STOCK PICKS

STOCK	BETA	PRICE (RM)	TARGET PRICE (RM)	% PRICE RETURN	% DIV. YIELD	% TOTAL RETURN	% YTD RETURN
		30-Jun					
MRCB	1.03	1.06	2.08	96.2%	3.5%	99.7%	-17.2%
MMC Corp	1.10	2.01	3.11	54.7%	2.0%	56.7%	2.6%
Muhibbah	1.41	2.20	3.05	38.6%	2.3%	40.9%	-0.5%
Media Prima	0.87	1.38	1.75	26.8%	8.0%	34.8%	8.7%
Gas Malaysia	0.68	2.38	2.92	22.7%	4.3%	27.0%	-0.8%
TNB	1.12	14.10	16.80	19.1%	4.0%	23.1%	5.9%
UOA Dev	0.55	2.19	2.54	16.0%	6.4%	22.4%	6.3%
Maybulk	1.36	0.86	1.04	20.9%	0.0%	20.9%	6.8%
KL Kepong	1.08	23.26	27.38	17.7%	2.6%	20.3%	1.7%
IJM Corp	0.96	3.49	4.00	14.6%	5.2%	19.8%	3.3%

Source: Bloomberg, MIDFR

B. SECTORS WE LIKE

I. AVIATION

Bullish stance on the sector paid off handsomely.............................. Maintain POSITIVE

- **From biggest losers to largest gainers.** Both airlines under our coverage, Airasia and AAX have gained +102% and +97% respectively year-to-date. This is in stark contrast to 2015's dismal performance of -52% and -72% respectively. The strong recovery in share prices can be attributed to: 1) Low jet fuel prices which have averaged at US$49/bbl so far in 2016 versus FY15's average of US$65/bbl which is a -28%yoy decline; 2) More conducive competitive environment with Malaysia Airlines Berhad (MAB) reducing capacity by up to -30% and Malindo switching to a full service carrier model; and 3) A return of Chinese tourists in FY16 with a +30%yoy growth to-date.

- **Key drivers still looking positive.** We believe that the aforementioned factors, i.e. jet fuel prices, competition and travel demand are still accommodative: The lower jet fuel prices enables airlines to reap a windfall in savings, i.e. up to 14% savings in operating expenses assuming -28%yoy drop in fuel prices and 50% contribution to overall operating expenses, removal of capacity and less competition in the low cost carrier (LCC) space creates upside potential for yields which have risen double digits in 1QFY16 and travel demand holding firm ensures load factors remain healthy after recording >80% loads in 1QFY16.

- **Assessing the effects of Brexit on the local aviation industry.** We do not foresee any major impact on the local aviation sector from Brexit as passenger arrivals from the UK contribute only 1.6% of overall arrivals in FY15. Meanwhile, neither Airasia nor AAX flies directly to the UK or Europe and are thus unlikely to be directly affected. Our only concern is the USD/MYR which constitutes 65% of overall operating costs which whipsawed from 4.03 to 4.10 due to a flight to safe haven currency after Brexit. However, we believe that natural hedges via receipts in USD from associates could cushion the impact of FX volatility.

- **MAHB passenger traffic growth remains tepid.** Cumulative passenger traffic growth in 5MFY16 was tepid at +3.1%yoy but better compared to FY15's meagre +0.5% growth. Growth was largely within management's and our forecast of +2.5% and +3% respectively, benefitting from a return of Chinese visitors (+30%yoy) and a rebound in passenger numbers after capacity cuts by MAB following its restructuring efforts in 4QFY15.

- **We remain POSITIVE on the aviation sector.** We maintain our BUY calls on AirAsia with TP of RM2.56 and NEUTRAL calls on AAX (TP: RM0.40) and MAHB (TP: RM6.35). We continue to like Airasia for its improving yields and load factors with earnings set to stage a healthy turnaround in FY16. However, we are less bullish on AAX due to the launching of new routes to Tehran, Mauritius and Auckland which are likely to be a drag in earnings due to gestation and promotional periods. Meanwhile, our NEUTRAL call on MAHB is premised on its positive passenger traffic numbers being largely negated by stubbornly high operating and amortization costs.

II. CONSTRUCTION

Sector will continue to grow .... Maintain POSITIVE

- **Total sector orderbook will expand.** Taking cue from the infrastructure project largesse from public intra- and inter-urban transport infrastructure, we are still persistent on the notion that the total construction orderbook under our coverage will grow to 10% from RM35.0bn to RM38.5bn for FYE16. Thus, we are expecting the ETP and GTP programmes to intensify especially for the development of Sabah, Sarawak and East Coast Economic Region (ECER). We are optimistic on the flurry of awards of

LRT3 by Syarikat Prasarana Bhd which will further boost the construction sector especially the big cap construction companies such as Gamuda, IJM and Sunway Construction.

- **Another 'white space' brewing in the East Coast.** On a more interesting note, we are eyeing closely on the development of heavy infrastructure projects on the ECER belt from especially along its Node 1 which is Gambang, Kuantan, Pekan, and Kerteh in Terengganu and Pahang. This 'white space' could provide a gust of projects especially on chemical processing plants, marine hubs, and petrochemical infrastructures. Recently, Muhibbah announced purchase of land to be developed as Kuantan Maritime Hub for RM26.45m. Not only we think that the move is positive, we also anticipate that the announcement will open more doors to sizeable inflow of civil and structural engineering projects for heavy industry due to its strategic location in the South China Sea.

- **Margins will continue to be stable.** We maintain our stable outlook for the sector's marginal profile. The average 8-year margin for KLCON Index is 6.60%, Our view on the sector's marginal profile are still consistent stable as result of two factors, namely i) stable construction materials price, and ii) entrance of alternative pre-cast concrete materials to lower construction cost and the similar profile of construction projects such as highway, railway and marine engineering. Additionally, we maintain our marginal assumptions relatively modest to reflect i) the competitive cost of winning the bids, and ii) prudency in procurement procedures for public projects by imputing the concept of 'value for money' (VFM) for public private partnership (PPP) model.

- **Rising Trend of PFI contracts.** Our opinion derives from observing the rising trend of PFI contracts by the government to construction companies under our coverage such as IJM and WCT. The concept of VFM is embedded in the government's PPP Guidelines under the Prime Minister's department. Hence, we reckon that the flurry of the government urban public transport project awards will not deviate from the view of our sector's median margin of 6.6%. At best, we believe our assumption on the sector's margin will not exceed 7.8% for urban public transport except for tunnelling packages.

- **Limited Downside.** We reckon there are bounteous opportunities in KLCON Index as it is still trading at a discount relative to its historical 5 years rolling 4-quarter PER of 15.1x whilst our stock coverage's forward PER is trading at 12.2x.

- **Maintain POSITIVE.** We maintain our POSITIVE stance on construction sector. Our top picks for the sector are: (i) Gamuda (TP: RM5.11), (ii) Muhibbah (TP: RM3.05), and (iii) Vivocom (TP: RM0.59).

III. GLOVE

Earnings to be buttressed by strong demand .... Maintain POSITIVE

- **Sustainable earnings despite strengthening of Ringgit.** Despite the stabilizing of the Ringgit against USD of late, we believe that the earnings of the rubber gloves players will continue to be sustainable in 2016. This is mainly premised on the strong and robust demand for rubber gloves products globally which is anticipated to grow at about 6-8% growth per annum. In 2016, it is expected that global demand for rubber gloves will reach about 212b pieces versus 180b pieces in 2015. Pursuant to that, the Malaysian Rubber Glove Manufacturers Association (MARGMA) is optimistic of achieving 11% growth in exports to RM14.5b. Additionally, the increasingly stringent healthcare regulation imposed in developed countries such as the US and European countries will continue to augur well for the players as these countries do not only require high volume of rubber gloves but also powder free high quality gloves that commands higher margins versus the natural rubber gloves.

- **Low raw material prices to persist.** We are expecting the low raw material prices condition to remain throughout the year due to the global rubber supply glut. The supply glut is likely to climb further as the tripartite agreement between Malaysia, Indonesia and Thailand to curb rubber production is expiring in August 2016. Apart from that, the slowdown in China's economy will likely weigh on latex prices in an absence of a follow-through demand. Although this might translate to lower ASPs, we think that the expected increase in sales volume of rubber gloves will offset the impact on revenue.

- **Minimal impact from minimum wage implementation.** The increase in minimum wage from RM900 to RM1,000 in Peninsular Malaysia and from RM800 to RM920 in East Malaysia effective from July 2016 is expected to have minimal impact on the glove players' bottomline. Although we expect the hikes to impact the glove players' earnings by 3-5%, we note that the impact could be smaller due to the cost pass through mechanism employed by the players with their customers. In fact, some glove players have taken steps to mitigate this impact by increasing their automation processes and concurrently reducing the number of workers. Hence, we do not expect any substantial variation from our earnings forecasts due to the hike.

- **Maintain POSITIVE.** We remain POSITIVE on the rubber gloves sector despite the persistent strengthening of Ringgit recently. We reiterate the fact that the earnings of the rubber gloves players will be underpinned by strong global demand as well as increasing adoption of nitrile gloves by the developed countries which commands higher margin when compared against natural rubber gloves.

IV. HEALTHCARE

Resilient amidst cost pressures .... Maintain POSITIVE

- **Favourable demographics still the main driver.** We reiterate our view that the demographics shifts and developments in the markets that the operators are in will continue to bode well for the sector in 2016. The demographic factors that encourage the adoption of private healthcare services are: (i) increase in ageing population, (ii) increase in lifestyle diseases, (iii) increasing awareness on health diseases, (iv) improvement in standard of living and, (v) urbanisation. We also think that with the Ringgit at its current level, it will be attractive for medical tourism travellers to seek medical treatments in Malaysia as oppose to neighbouring countries. Furthermore, the increasing adoptions of medical insurance policy and employer tie-up with private hospital operators are also expected to encourage the usage of private medical services. According to Frost & Sullivan, at this rate, Malaysia's healthcare expenditure will reach USD20b by 2020.

- **More public-private sector partnership expected.** We are expecting to witness an increase in public-private sector partnership happening within the industry in the medium term due to the increasing demand. Currently the average nationwide bed occupancy ratio (BOR) in the government hospitals stands at about 68.2% and MoH is concentrating on equipping the public hospitals with departments and machineries which focuses more on oncology and various complex cases. This has indirectly led the responsibility of providing primary healthcare services to shift from the public sector to the private sector in order to reduce the pressure on the public sector. This is also so that the public sector can concentrate more on providing services to the lower income patients and those with more complex health issues.

- **More participation from smaller players.** Recently, we've been seeing players which core business operations are non-healthcare related are beginning to ramp up their healthcare divisions. This is in order to capitalise on the sector's increase in demand for private healthcare, resilient earnings and better earnings visibility. Some of these players are TDM Bhd and Oriental Holdings Bhd with new

pipeline of beds planned for the next 2-3 years. Despite the potential increase in competition, we do not think that this will affect IHH and KPJ as we believe that demand is still greater than supply currently. Additionally, the target market for TDM and Oriental will be different as compared to IHH and KPJ whereby TDM expects to operate an "affordable" private healthcare model while Oriental, we believe will be targeting medical tourists due to its location. Nonetheless, we believe that the emergence of new players and expansion of existing ones are in line with our view that demand for private healthcare is still in an uptrend and has a big potential to bring in good revenue.

- **Resilience in earnings expected despite persistent cost pressures.** For FY16, we are expecting both hospital operators to continue recording a low-double digit revenue growth of about 11-15%yoy stemming from both organic growth from existing hospitals as well as newly commissioned hospitals. Despite the increasing cost pressure from the volatile currency market as well as inflationary effect on medical consumables, we believe the hospital players will be able to maintain their PAT margin via: (i) various forms of cost control, and, (ii) increasing the complex cases mix.

- **Maintain POSITIVE on the sector.** We are maintaining our POSITIVE view on the sector with IHH Healthcare as our Top Pick due to: (i) strong earnings growth of 21-23% forecasted for FY16-17, (ii) strong management team, (iii) robust balance sheet and, (iv) well-diversified revenue base. At present, we believe that there is potential for further upside to the earnings of both IHH and KPJ should the current condition improve in 2HFY16. Backed by strong demand and lack of public healthcare amenities especially in the urban areas, we opine that private healthcare operators will continue to be the preferred choice for the urban dwellers with higher disposable income and insurance coverage.

V. INSURANCE

A transitional phase begins .... Maintain POSITIVE

- **First phase of de-tariffication begins.** As previously announced, insurance and takaful markets are in the focus of a transition from a tariff based regime to a risk based pricing methodology. This will be implemented in gradual phases, with the first phase begining from July 2016 to June 2017. The 1st phase allows insurers to offer new products/coverage at market rates. As detariffication will lead to a paradigm shift in insurance business activities, the overall impact to the industry is still too pre-mature to be determined at this stage. Having said that, we see that 1st phase of detariffication as able to encourage the increase in number of new innovative insurance products. Hence, this may result in higher premium income and lower claims ratio which will be beneficial to insurance companies.

- **Takaful business to continue to outperform.** We believe that the strong fundamentals of Takaful insurance operators will be able to endure from the unprecedented downside risk to the insurance sector. We expect this sector will to continue to benefit from: (1) the continued growth of Islamic financials products and services, (2) migration of corporate clients' insurance needs to Takaful products and (3) untapped participation of non-Muslim market. On conventional insurance, we anticipate that the premium income to continue to register a single digit growth this year.

- **No direct impact of Brexit.** Overall the years, the growth and development of our insurance industry has developed with a stringent and robust regulatory framework by Bank Negara Malaysia. Insurers and Takaful operators do not have a direct exposure in overseas insurance market as these underwriters are not allowed to underwrite insurance and reinsurance policies directly in the EU countries. Thus, there is neither a direct benefit of Britain being part of the EU or a negative impact directly from the divorce of Britain from EU on Malaysia's insurance industry.

- **Recommendation.** To conclude, we maintain our POSITIVE recommendation on the sector. Our top

pick for the sector remain unchanged of Syarikat Takaful Malaysia (TP: RM4.65) and for small cap, Tune Protect (TP: RM2.14).

- **Risks.** Downside risks to the sector includes: (1) changes to regulatory framework, (2) higher-than-expected claims, (3) interest rate movements that could impact investment returns and discount rate on future contract liabilities and (4) compression of profit margin due to intense competition from the liberalisation of motor and fire tariff.

VI. OIL & GAS

Crude oil price expected to hold ground .... Maintain POSITIVE
(Downstream positive, Upstream negative)

- **Oil prices stabilized circa USD50pb.** In 2Q16, Brent crude oil prices have stabilized at approximately USD50pb, lending positive support to both investor sentiments and optimism on the industry. Year-to-date, Brent crude oil prices have rebounded by over >45% averaging USD40pb for the first six months of the year. We believe that the uncertainties shrouding crude oil price directions have largely been alleviated and that crude oil prices are still bound for an upward trajectory rise, albeit at an unhurried pace. We have since upgraded our average 2016 Brent crude oil price forecast to USD45pb.

- **Upstream segment to remain challenging.** Although crude oil prices have since rebounded from low of USD27pb in 1Q16, the rebound has yet to reach meaningful levels needed to revive upstream offshore activities which are still in the doldrums. Southeast Asia drilling rig utilization rates for both jackups and tenders are below 60% and day charter rates are still at a multi-quarter low. In addition, utilization rate and day charter rates for offshore support vessels regionally are at approximately 50% and USD1per brake horsepower respectively.

- **Brighter outlook for downstream companies.** The upstream (exploration and production) sub-segment of the oil and gas industry is still under cost pressure despite stabilising crude oil prices. We are reiterating our view that Malaysia's downstream sub-segment industry is expected to remain robust. Work and activity levels at the RM90b Refinery and Petrochemical Integrated Development (RAPID) Project within the Pengerang Integrated Petroleum Complex (PIPC) are expected to be at its peak in 2016-2017. As such, key beneficiaries are oil and gas companies which have downstream specialties such as KNM Group Berhad (BUY; TP: RM0.59) and Muhibbah Engineering Berhad (BUY; TP: RM3.05). For downstream exposure, we are reiterating our Buy recommendation on Gas Malaysia Berhad (BUY; TP: RM2.92) as we the adoption of the Incentive-Based Regulation (IBR) regime will provide better earnings visibility and predictability.

VII. PLANTATION

CPO regained its competitiveness against soybean oil .... Maintain POSITIVE

- **CPO has regained its competitiveness against soybean oil.** CPO-Soybean Oil discount has more than doubled to USD114/MT currently from its recent low of USD54/MT. The current discount is higher than the one-year average of USD98/MT and is now at +0.5 Standard Deviation above the 1-year mean. Hence, we believe that palm oil has regained its competitiveness level and should win global market share of vegetable oils going forward.

- **Risk to global soybean production has emerged.** According to Oil World, world soybean plantings are unlikely to increase in 2016/17. We gather that North America plantings will be unchanged or up marginally while South America plantings will also be unchanged or slightly down. It is estimated that Argentina planting should drop by 0.9m MT while Brazil acreage should only expand by only 0.5mha.

The news is positive to CPO price as this should lead to higher price of soybean oil (due to lower supply of soybean).

- **Stockpile should increase in Jun-2016 to 1.83m MT (still well below 2.0m MT).** We are revising our end-June inventory forecast to 1.83m MT (from 1.65m MT) as demand has been weaker than expected. Note that palm oil exports has declined 10%mom in June based on cargo surveyors data. Despite the revision in our inventory forecast, the ending stocks level is still below the psychological threshold of 2.0m MT and hence be supportive to CPO price.

- **Maintain POSITIVE view on the sector.** We maintain our average CPO price assumption of RM2,450/MT (YTD: RM2,512/MT) for the year 2016 which is 14% higher than 2015 average of RM2,153.50/MT. Accordingly, we maintain our earnings forecast and Target Price for all planters under our coverage. Our top pick is KLK due to: i) its earnings is expected to benefit from high CPO price due to its high exposure to palm oil business, ii) good earnings growth of +41%yoy to RM536m in 1HFY16, and iii) it is one of the rare big cap index-linked planters which is Shariah compliant and also an RSPO member.

VIII. PORT & SHIPPING

Looking past short-term uncertainties .... Maintain POSITIVE

- **Port Klang throughput growth healthy at the expense of Port of Singapore (PSA).** In the first quarter of 2016, Westport's throughput volume grew +7%yoy which was on the upper-end of both management's and analysts' forecast of 0-8%yoy and 3-6%yoy respectively (6% ceiling being our forecast). Meanwhile, NCB which is now owned by MMC Corp posted throughput volume growth of +16%yoy. We believe that both Westports and NCB could have benefitted from its cost advantage over its neighboring ports such as PSA which saw its throughput decline -9%yoy.

- **Impact from Brexit minimal.** Our house economics team have forecasted a -0.3ppt decline in global trade growth from +2.8% to +2.5% arising from a dip in consumer spending as both private and public investments slow due to uncertainty pertaining to the Brexit. Correspondingly, if we reduce our throughput growth forecast for FY16 for Westports by -0.3ppt from +6% to +5.7%, the impact will be minimal at -0.4% decline in our earnings estimate. Thus, we make no changes to our earnings forecast.

- **2QFY16 and beyond are likely to register similar strength** as updates from management indicate that 2QFY16 container throughput volume could rise strongly by +9-10%yoy. Meanwhile, the gateway cargo segment could register a small positive growth after a -1.3%yoy decline in 1QFY16. Recent sentiment on Westports was dampened due uncertainties arising pertaining to its biggest customer CMA CGM which established a joint venture with PSA to operate 4 berths in PSA. However, we believe that CMA CGM is unlikely to fully pull out of Westports as it had earlier indicated a dual hubbing strategy utilizing both Westports and PSA. Within the sector, we have BUY calls on Westport (TP: RM5.00) and MMC (TP: RM3.11).

- **Petroleum tanker rates have eased for Suezmax and Aframax vessels** by -26%yoy as new tanker supply hit the market without fixed charters. However, VLCC spot rates have held up well, declining only -2%yoy. We believe that downturn in rates will not be as severe as in 2013-2014 as crude oil supply remains heightened with the combination of OPEC members, the US shale industry and Iran pumping record amounts of crude oil. Meanwhile, MISC is set fully recognize the earnings from the remaining 50% of Gumusut-Kakap in 2QFY16 which could cushion the impact of layoffs of its other offshore vessels. We have a BUY recommendation on MISC (TP: RM9.53).

- **Maintain positive on the dry bulk shipping sector.** We maintain our BUY call on Maybulk with TP of RM1.04 despite the company registering losses in 1QFY16. Our positive stance on Maybulk is premised on Chinese steelmakers curbing excess capacity, thus creating a more sustainable industry which bodes well for the importation and demand for iron ore. Meanwhile, dry bulk shipping overcapacity issues are set to ease with forecasted net capacity addition of +1.3%, versus a higher +2.4% growth in demand. In addition, the Baltic Dry Index (BDI) which measure the time charter rates across ships sizes and routes have bounced off its lows of 290 in Feb 2016 to trade at 609 as of 27/6/2016, an increase of 101% from its lows.

IX. UTILITY (POWER)

Electrifying Quarter in the Making .... Maintain POSITIVE

- **El-Nino and Equinox heatwave more than cushioned underlying demand.** The exceptionally strong 2QFY16 demand growth (Tenaga) of 4% will gain strength in 3QFY16 as this reflects the peak of heatwave that has hit the country in the past few months. The heatwave has driven peak power demand to multiple new highs in May 2016. Our FY16F/17F electricity growth assumption stays at +3.4%/+2.2%, but there could be small upward tweaks if demand does not drop too drastically beyond the heatwave-driven demand period.

- **Tenaga gets to keep benefits from incremental volume.** Benefits from incremental volume will accrue 100% to Tenaga. Under the IBR framework, growth assumption is set at 3% per annum (for the current regulatory period up till end-2017). If there is a shortfall, Tenaga is not compensated but on the flip side, if there is stronger than expected demand, such as the case currently, the benefits will accrue directly to Tenaga.

- **PPA extension improves IPP visibility.** The recent extension of first generation PPAs improves earnings visibility for the independent power producers (IPP), albeit some of the extensions are short-term i.e. ~3 years. Among the renewals recently include: (1) Malakoff's PD Power extended up till February 2019, (2) Powertek's Teluk Gong plant extended up till December 2018. YTL Power's Paka plant has received approval form the Energy Commission for renewal up till December 2018, but negotiations are still ongoing with Tenaga on its land lease with the latter. Meanwhile, YTL's Pasir Gudang plant has yet to see any renewal.

- **Sitting pretty.** Most importantly, all the local power players are sitting on strong balance sheets, i.e. low net gearing of 0.35x -1.20x relative to regional average of 1.5x. Tenaga, in fact, is one of the most underleveraged among regional peers at just 0.35x net debt-to-equity. This positions the local power sector strategically to capitalize on acquisition or expansion opportunities that may arise in the current downcycle, particularly overseas. We also see scope for dividend upside - besides an underleveraged balance sheet, Tenaga entails strong FCF yields of 6%-7% (FY16F) while YTL Power entails FCF yields of up to 13% (FY16F).

- **Capacity additions to maintain a comfortable reserve margin.** While peak demand has hit new highs this year, reserve margin should remain comfortable given the addition of 2.8GW of new capacity this year. Key capacity additions this year include: (1) Malakoff's Tanjung Bin plant (1000MW) commissioned in March 2016 (2) TNB's Prai plant (1071MW) (3) Ulu Jelai hydro (372MW). By year end, total installed capacity is estimated to expand by 13%yoy to ~25GW and reserve margin to improve to 29%, assuming the current peak demand of 17,689MW remains unchanged.

- **We maintain POSITIVE on the power sector.** Key catalysts over the next 12 months: (1) Dividend upside – all power players attain great balance sheet position and are generating strong FCF yields of 7% - 13%, (2) Overseas expansion, (3) Completion of Edra sale removes a big overhang on Tenaga, (4) Resolution of Tenaga's RM2b tax dispute with the Inland Revenue Board.

C. OUR NEUTRAL-VIEW SECTORS

I. BANKING

Upticks in credit cost to offset cost savings initiatives .... Maintain NEUTRAL (positive bias)

- **Continue to expect overall loan momentum to be slower for CY16** on the back of weaker household spending and cautious business sentiment. Nevertheless, loan growth could pick up pace from the low levels in 1QCY16 and 2QCY16 supported by gradual improvement in consumption spending from government measures to improve disposable income and implementation of infrastructure projects.

- **Arising from way the liquidity coverage ratio (LCR)** is computed which accounts for lower run-offs for retail deposits, we expect competition for deposits, in particularly retail deposits to remain stiff. The contraction in deposit growth in the system which reflected liquidity outflow is expected cause funding cost to remain high as banks continue to offer high deposit rates to protect their deposit base. Pressure on NIM will still persist, largely due to high funding cost.

- **Fee income from capital market activities remain subdued** while deterioration in asset quality is expected ahead, resulting in upticks in credit cost aside from lower recoveries.

- **On the positives, we are seeing operating expenses more contained** with cost initiatives showing benefits. Cost savings from initiatives implemented such as CIMB's IB restructuring, MSS exercises of CIMB and Hong Leong Bank and RHB Caps' CTS exercise will flow through earnings.

- **Growth in total income of banks remains challenging** amidst i) weaker loan demand resulting in slower asset growth, ii) commodity prices and rates remaining volatile, iii) slowdown in China's economy, and iv) the rise of inflation rate domestically. Also, the potential OPR cut by 25bp to 3.00% will have negative impact on banks' interest income. This could occur in 3QCY16.

- **Maintain NEUTRAL on the sector.** Our BUY calls are only CIMB (TP: RM5.50) and AMMB (TP: RM5.10). We are NEUTRAL on Hong Leong Bank (TP: RM14.10), RHB Cap (TP: RM6.30), Public Bank (TP: RM20.40), Maybank (TP: RM8.70), AFG (TP: RM4.00), BIMB (TP: RM4.22) and Affin (TP: RM2.30).

II. REIT

May benefit from the flight to safety .... Maintain NEUTRAL (positive bias)

- **Improving consumer sentiment.** The Malaysian retail industry recorded a 4.4%yoy decrease in sales for 1Q2016 due to high base effect in 1Q2015 which was attributed to pre-GST sales last year. Nevertheless, we see improving prospect for retail REITs in Malaysia as consumers' sentiment improved in 1Q2016. Note that Consumer Sentiment Index in 1Q2016 rebounded to 72.9 from all-time low of 63.8 in 4Q2015, indicating potential recovery in consumer spending due to better sentiment.

- **Stable MGS yield despite lower ringgit.** Malaysia Government Securities (MGS) yield was fairly stable by hovering at 3.87% despite the depreciating ringgit, indicating resilient demand for MGS as investors flocked to safe-haven assets. The stable MGS yield has kept the attractiveness of REITs intact whereby the positive spread between dividend yield of REITs and MGS yield is sustained. Meanwhile, we maintain our MGS yield assumption of 4% as we expect MGS yield to be less volatile going forward as frequency of rate hike by U.S. Federal Reserve may be lower than expected.

- **Maintain Neutral with positive bias on the sector.** We are keeping our Neutral rating but with positive bias on REITs sector. We are of the view that REITs should benefit from the flight to safety during market uncertainties as REITs are perceived as safe-haven assets and less sensitive to the market volatility.

Meanwhile, we reckon that outlook for retail segment is improving due to improved consumer sentiment which should keep rental reversion in positive territory. However, we think that outlook for office segment of Malaysian property market would remain challenging due to oversupply issue which would cause a compression in rental rates.

- **We maintain our BUY call for CMMT (TP: RM1.69)** for its decent dividend yield of >5% while full year rental contribution from Tropicana City asset is expected to more than sufficient to offset the lower contribution from Sungei Wang Plaza. Similarly, we also maintain our BUY call for IGB REIT (TP: RM1.63) for its stable rental income from Mid Valley Megamall and The Gardens Mall which translate into minimal earnings risk to unit holders. Meanwhile, we maintain our Neutral call for Axis REIT (TP: RM1.71), KLCCP Stapled Group (TP: RM7.10), Pavilion REIT (TP: RM1.73), and Sunway REIT (TP: RM1.62).

III. AUTOMOTIVE

Bottoming out? .... Maintain NEUTRAL

- **Volumes are bottoming out.** TIV hit its lowest point (since the 2009 financial crisis) in February 2016 but sales volumes had since rebounded, though this does not necessarily signal a full blown recovery. For the first five months of 2016, TIV is still down 18%yoy, reflecting weak underlying demand post price hikes since January 2016. This weakness is a repercussion of consumers bringing forward purchases into 4Q15 ahead of the price hikes, which resulted in the drying up of the market in 1Q16. However, a recovery is very gradually taking shape following new launches by major players since April 2016.

- **Banking on new launches from 2Q16.** With the exception of the CX5 facelift, most new models or facelifts by the major players were/will be launched from April onwards. The new Hilux and Fortuner kickstarted this with its early May 2016 launch (Hilux is one of Toyota's major launches accounting for ~30% of Toyota TIV) while the new Perdana and the new Civic were launched in June 2016. Other major new models in the pipeline this year include the new Innova, the Mazda 6 CKD, the CX3 CKD and the facelift Accord. In the national car segment, Proton's new launches will be the key focus this year as besides the Perdana (production capped at 7.000/annum), its volume models such as the new Saga and Persona as well as a rebadged Suzuki compact MPV is due to be introduced by year end.

- **Currency is still a drag.** The comparatively weaker Ringgit will have a more pronounced impact on sector earnings in FY16F. After a 49% earnings contraction in FY15, sector aggregate earnings is expected to decline further by 7% in FY16F. To give a perspective, USD/MYR averaged at 3.90 in 2015 but the mean figure thus far this year stands at 4.18. Second, the key listed players, i.e. UMW and Tan Chong, hedges on a 3-month rolling basis, which merely delays the impact of currency volatility by a 3-month period, while BAuto had since May, stopped hedging its JPY exposure given excessive JPY levels now. While there was strength in the Ringgit back in April-May 2016, this had since reversed, especially post-Brexit. The Ringgit is now back above USD1:RM4.00 while the JPY has also skyrocketed to above RM4.00 now. Currency trends in the near-term will have a significant bearing on sector earnings in the near-term.

- **We remain NEUTRAL on the auto sector given a muted demand outlook and volatile currency trends.** Our top sector pick is Berjaya Auto (BUY, TP: RM2.50/share). Key share price catalysts over the next 12 months: (1) Attractive dividend yields of 7% – net cash accounts for 14% of market cap, FCF yield of 10% (FY17F) on the back of normalizing capex and earnings growth, (2) Further market share wins driven by new launches i.e. the CKD CX3 and CKD Mazda 6, on top of possible diesel variants of the CX5 and Mazda 2, (3) Recovery in manufacturing earnings (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) after the launch of the facelift CX5 – manufacturing earnings were hit last year by run-out of the previous CX5 model, (4) While the group does not hedge its JPY exposure anymore

since May 2016, BAuto's forex exposure is limited to just CBUs while CKD contribution is likely to increase significantly following the CX5 facelift launch a few months back. Ex-cash, BAuto trades at an undemanding 10x CY16F earnings.

IV. CONSUMER

Expecting slight growth in 2016 .... Maintain NEUTRAL

- **Improved consumer sentiment…** Consumer sentiment for 1Q16 has improved slightly as opposed to declining six quarters previously. We expect the 3% reduction in EPF contribution as announced in 2016 budget recalibration is expected to benefit the consumer sector somewhat as readily available cash-in-hand will help to encourage consumer spending especially in the retail and food & beverage segment.

- **…expected to be offset by higher household liquidity.** Furthermore, we also believe that with higher household liquidity, consumers would be encouraged to spend more on discretionary items such as clothing. On this score, according to the Malaysia Retail Chain Association (MRCA), the retail industry is set to rebound from a battered 2015 to a 10% growth in 2016 as consumers have factored in the impact of the Goods and Services Tax (GST).

- **Main catalysts.** Going forward, we expect the main catalysts for the consumer sector to be: (i) favourable raw material costs; (ii) expected increase in tourists from China; and (iii) boost of sales volume by promotional strategies during the festive season. We expect the favourable raw material costs attributable to the generally lower commodity prices will be able to reduce input cost (e.g. milk powder), thus, leading to improved margin for companies in the food and beverage sector. As for the increase in Chinese tourist, we believe that the increase is expected to be boosted by the removal of visa requirements for Chinese tourists. Meanwhile, the main threats going forward would be the high household debt and the relatively weaker Ringgit.

- **Maintain NEUTRAL.** We are NEUTRAL on the sector as we expect the retail and the food & beverage sector to remain challenging in 2016. However, we are agreeable to the view of MRCA which expects a 10% retail growth in 2016. Although margins could be impacted due to the increase in promotion and discounting measures, we expect consumer sentiment to improve slightly this year following the aforementioned government initiatives.

V. MEDIA

CSI to remain depressed... Maintain NEUTRAL

- **Slight improvement in 1Q16 Consumer Sentiment Index (CSI).** For 1Q16, the CSI recorded an increase of 9.1 points to 72.9 points from 63.8 points recorded in 4Q15. This improvement is seen after six consecutive quarters of decline since 3Q14. According to the Malaysian Institute of Economic Research (MIER), the rise was seen as the population adapt to the new norm. However, the index is still below the threshold level of confidence of 100 points. Note that traditionally, CSI serves as a yardstick to gauge expectations and probable future consumer spending behaviour.

- **Retails sales trended lower in 1Q16.** According to Retail Group Malaysia, the Malaysian retail industry recorded a -4.4%yoy decline in 1Q16 sales as compared to a growth of +4.6%yoy in 1Q15. This was below the industry's expectation of a -4%yoy fall in sales. Recall that the consumer spending in 1Q15 increased sharply prior to the implementation of GST. This was further impacted by the weak 2016 Chinese New Year sales. Moving forward, we view that the consumers will continue to be selective on their spending until the economic outlook improves.

- **Media companies diversify into non-adex revenue.** As growth from traditional advertising-based revenue is expected to be limited, media companies are seen to be tapping into the consumer market by venturing into the home shopping business. At present, both Astro Malaysia Holdings' Bhd and Media Prima Bhd have active participation in home shopping businesses with their respective joint venture partners. We are positive on this news as it would provide better earnings stability. Meanwhile, the Star Media Group has also place reliance on its subsidiary, Cityneon Holdings Ltd to contribute significantly to the group's performance in the future.

- **Maintain NEUTRAL.** Given the lackluster media landscape, we foresee limited earnings growth prospect for media counters under our coverage, with the exception of Astro Malaysia Holdings Bhd. This is mainly due to Astro's resilient Pay-TV business model which has less reliance on advertising income. In spite of this, both Media Prima Bhd and Star Media Group Bhd have sizeable cash holdings. This would reinforce their commitments of rewarding shareholders with attractive dividend payment. All in, we reiterate our NEUTRAL stance on the sector. Astro Malaysia Holdings Bhd (Buy; TP:RM3.78) is our top pick for the media sector.

VI. TELECOMMUNICATION

Lack of rerating catalyst.. Maintain NEUTRAL

- **Overhang on spectrum price yet to recede.** In February 2016, the Malaysian Communications and Multimedia Commission (MCMC) had announced the allocation of 900Mhz and 1800Mhz bands to the 4 telcos, namely Maxis, Celcom, Digi and U Mobile. The reallocation will take place in August 2016 and full implementation by July 2017. These two bands of spectrum will be assigned for a period of 15 years. However, MCMC has yet to announce the spectrum fees and the fees structure. This creates uncertainty among the telcos as exorbitant spectrum fees may negatively impact their respective financial positions. The issue may be made worst with the upcoming reallocation of the 700Mhz, 2300Mhz and 2600Mhz.

- **Celcom's upgrades its network infrastructure.** Axiata Group Bhd's subsidiary, Celcom Axiata Bhd (Celcom) are in the midst upgrading its network equipment at all Klang Valley sites for a four months period staring middle of June 2016. This means that throughout 3Q16 Celcom's customer, including its mobile virtual network operators (MVNOs) may experience intermittent service degradation or temporary loss of connectivity. However, minimal disruption is expected. As such, we do not expect much of its customer will port away to its competitors.

- **webe - the new market entrant.** webe was launched in early April 2016 under a rebranding exercise. However, no mobile plans were announced yet. Telekom Malaysia's management guided that webe would be available commercially in the middle of 2016. According to online sources, part of the new offering would include a RM10/month postpaid plan with 20gb of data. 3Q16 would be the first quarter where we could see some telco users trying out webe's new offering.

- **Maintain NEUTRAL.** Telecommunication companies continue to aggressively rollout new, more competitive mobile package offerings. Apart from this, more efforts have been placed to further improve the quality of the network services as seen in Celcom's latest announcement. On another note, there has not been much clarity on the spectrum fee and fee structure. This creates uncertainty due to possible surge in capital expenditure during the allocation period. Given the lack of rerating catalysts and overhang on the spectrum fee, we reiterate our NEUTRAL stance on the Sector. Telekom Malaysia Bhd (Buy; TP:RM8.18) is our top pick for the telecommunication sector.

VII. TECHNOLOGY

Seasonally stronger quarter .... Maintain NEUTRAL

- **Global sales forecast revised lower.** The World Semiconductor Trade Statistics (WSTS) organization has made a significant revision in its sales forecast. The global semiconductor sales in 2016 is now projected to contract by -2.4%yoy to USD327.2b, compared with a forecast of +1.8%yoy growth made early this year. This was premised on softer demand and a range of macroeconomic headwinds. Following the revision, 2016 sales growths in Optoelectronics, Sensors and Analog are expected to be offset by the decline in Memory and Logic. On a positive note, WSTS expects sales to rebound in 2017 and 2018 by +2.0%yoy and +2.2%yoy respectively.

- **Seasonal ramp up in production.** Traditionally, world renowned smart devices manufacturers introduce their flagship products in the third quarter of each year in anticipation for the upcoming holiday season. This would lead to ramp up of production volume for semiconductor components to meet the rising demand. As such, semiconductor companies would usually report higher third quarter earnings as compared to the second quarter's earnings.

- **Expecting a lackluster demand for smartphone launching in 3Q16.** Based on online sources, the upcoming iPhone 7 is expected to incorporate minimal upgrades. This would be insufficient to entice Apple followers to upgrade their existing smartphone. Much of the excitement could be seen next year where Apple is expected to make a major overhaul of the iPhone which may include a dual curve display. In addition, the market is speculating that Samsung may be offering two new smartphones with bendable screens early next year. As such, while there could be seasonal ramp up in production, it would be still be lower as compared to the previous corresponding year.

- **Maintain NEUTRAL.** The downward revision in global sales forecast indicated that 2016 would be a subdued year for semiconductor companies in general. However, semiconductor companies should record seasonally stronger earnings in 3Q as compared to 2Q. Nonetheless, the long-term outlook of the industry is still healthy, supported by the Internet of Things (IOT). Anticipating 2016 to be a lackluster year, we maintain our NEUTRAL stance on the sector.

VIII. BUILDING MATERIAL (CEMENT)

Times of sluggish growth .... Maintain NEUTRAL (negative bias)

- **Stagnant era of growth has arrived.** We believe that the stagnant growth era has arrived in the supply of pre-mix cement and ordinary Portland Cement (OPC).The average utilisation capacity of cement manufacturers from 25.5mt/yr in FY15 to 23.5mt/yr in FY16 from a total integrated capacity of 29.8mt/yr will continue to persist as a result of disruption in the demand-supply gap. The unattractive scenario arises due to the slowdown in the property mart which is a proxy for revenue growth for cement manufacturers. We are estimating that the average utilisation rate of the 11 integrated cement manufacturers in Malaysia (inclusive of Aalborg cement plant in Ipoh) to be within the average of range 85% throughout FYE16 and could decrease more to 80% by FYE17.

- **Lower ASP but will not deteriorate further.** Even though we have reasoned earlier that the cost of production is reduced as a result of (i) the declining trend in iron ore (USD57.4/mt,-34.15%YoY in TSI, IMF) and coal (USD55.89/mt,-16.61%YoY, Australia Newcastle Thermal Coal Index), and (ii) increased supply of replacement raw materials in Malaysia such as fly ash from Jimah, Manjung, Tanjung Bin and Kapar power plant. However, we are still not seeing any improvement in sales of cement for the manufacturers. Hence, we reiterate our assumption of average selling price (ASP) of cement to be

within the modest range of RM241/mt to RM250/mt from RM270/mt in FY15 due to declining price of raw materials. Despite that, we surmise the modest range of our assumption will not deteriorate further as the selling price will hit its low base consequently hitting a sector wide oversupply of cement in Peninsular Malaysia.

- **Maintain NEUTRAL.** Thenceforth, we expect the earnings' trend to remain sluggish and uneven in the next quarters. Hence, reiterate our NEUTRAL stance on both sector and Lafarge Malaysia with an unchanged TP of RM9.15 per share.

IX. TOBACCO

Legal volume sales shrink as price hike uncertainty lingers .... Maintain NEUTRAL (negative bias)

- **Total industry volume of cigarettes continues to trend downwards.** The total industry volume (TIV) of cigarettes improved slightly in January to March 2016 from the slump in December pursuant to the fall in legal sales. The slump in December was attributable to the unprecedented price hike announced early November. For January to March 2016, the TIV still remains low compared to 2015 by -29.7%yoy. We believe the significant drop in TIV was mainly attributable to: (i) the emergence of e-cigarettes; (ii) the implementation of the Goods and Services Tax (GST); and (iii) the unprecedented price hike in November 2015.

- **Growing concerns of tobacco companies in Malaysia.** In Malaysia, we believe that there are three main concerns of tobacco companies, namely: (i) the rise in demand for illicit cigarettes; (ii) the emergence of e-cigarettes; and (iii) the talks on implementation of plain packaging for cigarette packs. The illicit cigarettes level to increased by +8.7ppts to 45.6% in December compared to October (before price hike). Although the Royal Malaysian Customs (RMC) has been battling the distribution and usage of illicit cigarettes, the illicit cigarette level still continues to rise. We believe this is due to the pressure from the higher cost of living coupled with the high price of cigarettes which increases the tendency of consumers to purchase illicit cigarettes.

- **Maintain NEUTRAL.** In 3Q16, we believe that the industry will be more challenging for cigarette players due to: (i) the higher cost of living which causes a decline in purchasing power, thus, encouraging consumers to purchase illicit cigarettes that are sold for less than RM7; and (ii) the increased usage of vaping devices where most users were previously regular smokers. The uncertainty among consumers of any future price hike has also contributed towards the higher purchase of illicit cigarettes. Nevertheless, we support the strict enforcement carried out by the RMC to battle illicit cigarettes.

X. PROPERTY

Sales to be at best flattish in 2016 .... Maintain NEUTRAL (negative bias)

- **Property developers' result in 1QCY16 was mixed.** Out of the eight property developers under our coverage, 25% or two of the stocks under our coverage (UEMS and E&O) reported earnings which were below expectations. UEMS experienced slower than expected work progress for Arcoris and Aurora Melbourne Central. PBT margin has also been affected as interest cost increased by 68%yoy to RM21.3m due to higher debts. As for E&O, its weaker results were due to lower-than-expected progress billing of property projects and higher expenses. Only GLOMAC managed to beat our estimate due to higher than expected billings as Reflection Residences project has entered final stages. Overall, the 1QCY16 earnings were mixed with two underperformed expectations and one above expectation.

- **Property transaction value declined in 1QCY16 but afforda**ble properties decline at less severe rate. According to the latest preliminary Property Market Report released by National Property Information Centre (NAPIC), Malaysia property market transaction value declined by 18%yoy to RM32.0b in the 1Q2016. The negative growth in transaction value is consistent with the decline of 14% in transaction volume to 80,029 units in 1Q2016. Further analysis of the data suggests market preference towards affordable house at below RM500k. As it is, transaction value for properties below RM500k declined 11%yoy as compared to 23% decline for properties worth RM500k-RM1.0m and 20% decline for properties worth RM1.0m and above.

- **Lackluster loan demand for property purchase suggests sales to be at best flattish.** The latest Bank Negara statistics show that "Applied Loan for Purchase of Property" has declined 15%yoy and 5%mom in Apr-2016 to RM24.57b. Cumulatively, 4M2016 applied loan for the first 4 months of 2016 (4M2016) declined 8%yoy to RM90.08b. In our view, consumer appetite on big ticket items such as property remains low due to high household debt coupled with elevated cost of living. As a result, we believe that sales for property developers should be flattish at best for 2016 with heightened risk of sales target cut during the next quarterly result announcement.

- **One good news is that Consumer Sentiment Index has improved slightly.** The latest publication from Malaysian Institute of Economic Research (MIER) shows that 1QCY2016 Consumer Sentiment Index (CSI) has recovered to 72.9 from all-time low of 63.8 in 4Q2015. Having said that, MIER mentioned that CSI is still below the threshold level of confidence and job outlook clouds expected incomes among consumers. We believe that the data suggest some return of interest among property buyers but buyers are likely to remain price sensitive.

- **Maintain NEUTRAL with UOADEV (BUY; TP: RM2.54) as our top pick.** We like UOADEV due to three reasons: i) its FY16 sales should grow 88%yoy to RM1.50b supported by launches from United Point Kepong and Desa Sentul II, ii) its superior dividend yield of 6.5% (highest among property developers) and iii) its sturdy balance sheet with net cash position of RM670m or 44sen/share.

D. SECTORS TO BE CAUTIOUS OF

I. STEEL

Steel prices to remain volatile .... Maintain NEGATIVE

- **Crude steel produced by the Asian Region in May'16 rose by 1.3%yoy,** contributed mainly by China which raised its production after Feb'16. Steel prices moved up after Chinese New Year this year with a stronger price surge in March and April 2016. The upward movement was fuelled by a temporary shortage of steel as a result of restocking activities for a more active production. This was after lull period of production due to the earlier weaker selling prices.

- **These have contributed to the rise in world capacity utilization rate** from 66.2% as at end Feb'16 to 71.3% as at end May'16. We believe that the surge was also contributed by speculative activities in futures trading. Hence, the upward price movement is not sustainable. The higher steel prices have eased towards the end of Apr'16 and the price correction has extended into May'16.

- **We continue to see China's production of crude steel to be high** even after its government has announced plans to cut steel production capacities in China by 150 mmt over the next 5 years. Exports of China's steel continue to be high in tonnages.

- **Locally in Malaysia, the Government has commenced two separate investigations** into the possibility of safeguard duties to be imposed on steel bars and wire rods. These investigations are still at the preliminary stage with the assessment of information to be submitted by relevant parties for consideration. All eyes will be on Government's decision on the investigation. We see challenges towards the implementation of safeguard duties due to noises from builders (Malaysian Builders Association) and contractors where margins of these parties will be negatively impacted should there be a rise in steel prices.

- **We expect earnings of local steel players in 3QCY16 to be lower than 2QCY16.** This is due to correction in steel prices from the price rally after Chinese New Year this year towards the middle of April 2016. Steel prices are expected to continue to remain volatile. This will be until improved fundamentals of demand and supply that we see any rally in steel prices as sustainable.

- **Remain NEGATIVE on the sector.** We would advocate selling into strength from the earlier rise in share prices due to recovery in steel price. This is in view that correction from the earlier rally in prices has started and is expected to continue until reaching a stabilisation point where prices are supported by fundamentals of supply and demand.

APPENDIX

Table i: Performance of various markets in Local Currency (% change)

In Local Currency	Index point	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16
Philippines Composite	7,796.25	9.8%	-4.7%	-8.9%	0.8%	-3.9%	4.5%	7.4%
Mumbai Sensex 30	26,999.72	1.7%	-0.6%	-5.9%	-0.1%	-5.0%	-3.0%	6.5%
Jakarta Composite	5,016.65	5.6%	-11.0%	-14.0%	8.7%	-12.1%	5.5%	3.5%
SET Index	1,444.99	0.6%	-0.1%	-10.3%	-4.5%	-14.0%	9.3%	2.6%
Dow Jones	17,929.99	-0.3%	-0.9%	-7.6%	7.0%	-2.2%	1.5%	1.4%
Hang Seng	20,794.37	5.5%	5.4%	-20.6%	5.1%	-7.2%	-5.2%	0.1%
Straits Times	2,840.93	2.4%	-3.8%	-15.9%	3.3%	-14.3%	-1.5%	0.0%
Taiwan Weighted	8,666.58	3.0%	-2.7%	-12.2%	1.9%	-10.4%	4.9%	-0.9%
KOSPI	1,970.35	6.5%	1.6%	-5.4%	-0.1%	2.4%	1.8%	-1.3%
Shanghai Composite	2,929.61	15.9%	14.1%	-28.6%	15.9%	9.4%	-15.1%	-2.5%
FBM KLCI	1,654.08	3.9%	-6.8%	-5.0%	4.4%	-3.9%	1.5%	-3.7%
Nikkei 225	15,575.92	10.1%	5.4%	-14.1%	9.5%	9.1%	-12.0%	-7.1%

Source: Bloomberg

Table ii: Performance of various markets in US dollar (% change)

In US Dollar	Index point	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16
Philippines Composite	7,796.25	9.9%	-5.6%	-12.1%	0.4%	-8.4%	6.7%	4.7%
Mumbai Sensex 30	26,999.72	3.2%	-2.7%	-8.6%	-1.2%	-9.3%	-2.8%	4.4%
Jakarta Composite	5,016.65	0.2%	-12.9%	-21.5%	14.8%	-21.3%	11.5%	3.1%
SET Index	1,444.99	1.5%	-3.7%	-16.7%	-3.7%	-21.6%	12.3%	2.6%
Dow Jones	17,929.99	-0.3%	-0.9%	-7.6%	7.0%	-2.2%	1.5%	1.4%
Nikkei 225	15,575.92	9.6%	3.5%	-12.3%	8.6%	8.0%	-5.6%	1.3%
Hang Seng	20,794.37	5.5%	5.4%	-20.6%	5.1%	-7.1%	-5.3%	0.0%
Straits Times	2,840.93	-1.2%	-1.9%	-20.4%	3.8%	-19.9%	3.7%	-0.2%
Taiwan Weighted	8,666.58	4.2%	-1.6%	-17.9%	2.2%	-13.9%	7.2%	-0.9%
KOSPI	1,970.35	5.4%	0.8%	-10.8%	0.5%	-4.7%	5.0%	-2.1%
Shanghai Composite	2,929.61	16.0%	14.2%	-30.4%	13.6%	4.7%	-14.7%	-5.4%
FBM KLCI	1,654.08	-1.8%	-7.8%	-18.9%	6.4%	-21.8%	12.8%	-6.6%

Source: Bloomberg

Table iii: Performance by sectors (% change)

	Index point	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16
Consumer	596.06	7.5%	-3.1%	-2.7%	4.5%	5.8%	1.1%	0.0%
Construction	282.07	6.6%	-6.4%	-5.9%	5.7%	-0.8%	4.8%	-2.6%
Finance	14,205.21	3.4%	-4.9%	-9.8%	1.8%	-9.8%	4.3%	-3.8%
Services & Trading	223.07	5.2%	-6.8%	-3.6%	5.5%	-0.1%	1.2%	-3.9%
Plantation	7,563.67	-1.1%	-6.8%	-1.5%	6.5%	-3.4%	3.3%	-3.9%
Property	1,132.85	2.3%	-7.8%	-4.7%	2.7%	-7.6%	-0.1%	-4.5%
Industrial	3,107.64	5.5%	-6.6%	1.1%	3.3%	2.9%	0.2%	-5.2%
Technology	21.20	27.7%	2.4%	-2.6%	19.7%	52.4%	-10.9%	-6.5%
FBM Emas	11,530.21	4.1%	-6.3%	-4.8%	5.3%	-2.3%	1.1%	-3.3%
FBM 100	11,238.05	3.8%	-6.5%	-4.7%	5.0%	-2.9%	1.3%	-3.3%
FBM Small Cap	15,090.79	8.3%	-3.3%	-6.9%	8.6%	6.0%	-2.1%	-3.3%
FBM KLCI	1,654.08	3.9%	-6.8%	-5.0%	4.4%	-3.9%	1.5%	-3.7%

Source: Bloomberg

Table iv: Regional earnings and valuations

	EPS Growth (% change)					PER				
	2015	2016 (est as of)		2017 (f'cast as of)		2015	2016 (est as of)		2017 (f'cast as of)	
		Mar-16	Jun-16	Mar-16	Jun-16		Mar-16	Jun-16	Mar-16	Jun-16
Nikkei 225	4.2%	4.6%	11.9%	17.5%	9.0%	17.3	17.8	15.5	15.1	14.2
Taiwan Weighted	-7.6%	8.6%	4.8%	8.0%	8.3%	14.4	13.4	13.7	12.4	12.7
Hang Seng	-18.2%	-8.8%	-10.9%	11.8%	10.0%	10.2	11.2	11.5	10.0	10.4
FBM KLCI	-12.8%	9.7%	7.3%	7.8%	8.0%	17.5	16.6	16.3	15.4	15.1
Jakarta Comp.	-30.8%	92.4%	85.9%	15.7%	15.6%	30.1	15.1	16.2	13.1	14.0
SET Index	-4.2%	26.7%	25.3%	13.3%	14.2%	19.6	15.1	15.6	13.3	13.7
Philippines Comp.	-4.3%	17.0%	15.7%	10.9%	10.6%	23.1	18.4	19.9	16.6	18.0
Shanghai Comp.	-9.5%	21.5%	16.2%	13.3%	13.1%	15.6	13.2	13.4	11.6	11.9
Straits Times	-2.9%	-0.3%	0.4%	5.4%	4.6%	13.0	13.0	12.9	12.4	12.4
Mumbai Sensex 30	-8.4%	7.0%	21.3%	16.0%	21.4%	20.8	18.2	17.1	15.7	14.1
DJIA	-0.6%	-0.4%	-1.5%	12.2%	12.5%	16.4	16.3	16.7	14.5	14.8

Source: Bloomberg

Table v: Performance of MIDFR's stocks under coverage

OUT-PERFORMERS	Share price (RM)		% change	TP	UNDER-PERFORMERS	Share price (RM)		% change	TP
	30-Jun-16	31-Mar-16				30-Jun-16	31-Mar-16		
AirAsia	2.60	1.83	42.1%	2.56	MBSB	0.72	1.33	-45.7%	1.23
Ann Joo Res.	1.14	0.88	29.5%	0.85	Globetronics	3.33	5.41	-38.4%	4.07
AirAsia X	0.37	0.29	27.6%	0.40	Ta Ann	3.30	4.21	-21.6%	3.50
F&N	25.12	20.70	21.4%	28.35	Parkson	0.81	1.03	-21.4%	1.54
Padini	2.37	2.07	14.5%	2.75	SapuraKencana	1.47	1.86	-21.0%	1.71
Kossan	6.85	6.05	13.2%	8.94	Tan Chong	1.92	2.34	-17.9%	2.50
RHB Bank	5.12	4.54	12.8%	6.30	Supermax	2.15	2.58	-16.7%	3.21
LITRAK	5.69	5.10	11.6%	5.60	UMW Holdings	5.73	6.87	-16.6%	5.60
Maybulk	0.86	0.78	11.0%	1.04	MISC	7.46	8.90	-16.2%	9.53
Tune Pro	1.47	1.35	8.9%	2.14	KNM Group	0.41	0.49	-15.5%	0.59
Star	2.61	2.40	8.7%	1.69	MRCB	1.06	1.25	-15.2%	2.08
Unisem	2.40	2.22	8.1%	3.22	Hock Seng Lee	1.70	2.00	-15.0%	2.19
Capitaland	1.55	1.44	7.6%	1.69	Dayang	1.08	1.26	-14.3%	0.95
MMHE	1.13	1.05	7.6%	0.81	TSH Resources	1.85	2.14	-13.6%	2.10
Berjaya Auto	2.32	2.17	6.9%	2.50	Lafarge M'sia	7.83	9.00	-13.0%	7.75
Protasco	1.64	1.54	6.5%	2.45	Vivocom	0.24	0.27	-13.0%	0.59
Axis REIT	1.70	1.61	5.6%	1.71	Eco World	1.27	1.44	-11.8%	1.68
MSM	5.00	4.75	5.3%	5.20	WCT	1.50	1.69	-11.2%	1.79
IGB REIT	1.61	1.53	5.2%	1.63	Hartalega	4.33	4.85	-10.7%	4.56
KLCC Stapled	7.48	7.16	4.5%	7.10	MAHB	6.12	6.80	-10.0%	6.35
Sunreit	1.66	1.60	3.8%	1.62	CIMB	4.37	4.85	-9.9%	5.50
Mah Sing	1.47	1.42	3.5%	1.57	Maybank	8.14	9.02	-9.8%	8.70
UOA Devt	2.19	2.12	3.3%	2.54	UEM Sunrise	1.03	1.14	-9.6%	1.05
Public Bank	19.40	18.78	3.3%	20.40	Affin Hldgs	2.12	2.34	-9.4%	2.30
LPI Capital	15.86	15.36	3.3%	16.04	Muhibbah	2.20	2.42	-9.1%	3.05
Telekom	6.77	6.60	2.6%	8.18	Glomac	0.76	0.84	-9.0%	0.79
YTL Corp	1.67	1.64	1.8%	1.50	MBM Res.	2.01	2.20	-8.6%	2.90
Pavilion	1.73	1.70	1.8%	1.73	Top Glove	4.60	5.02	-8.4%	6.28
Westports	4.20	4.13	1.7%	5.00	Bumi Armada	0.73	0.79	-8.2%	0.71
BIMB	3.90	3.85	1.3%	4.22	MMC Corp	2.01	2.19	-8.2%	3.11
TNB	14.10	13.94	1.1%	16.80	SP Setia	2.90	3.13	-7.3%	3.65
IHH	6.60	6.56	0.6%	7.10	Maxis	5.89	6.35	-7.2%	6.55
E&O	1.66	1.65	0.6%	1.60	Media Prima	1.38	1.46	-5.5%	1.75
Panasonic	29.78	29.68	0.3%	35.26	Hong Leong F'cial	14.68	15.52	-5.4%	17.20
Felda Global	1.51	1.51	0.0%	1.33	Favelle	2.64	2.79	-5.4%	2.87
Petronas Gas	22.00	22.00	0.0%	19.63	Genting Plant	10.62	11.20	-5.2%	9.85
Sykt Takaful	4.05	4.06	-0.2%	4.65	IOI Corp	4.34	4.57	-5.0%	4.82
Gas Malaysia	2.38	2.39	-0.4%	2.92	IJM Plant	3.40	3.58	-5.0%	3.13
Nestle	76.52	76.90	-0.5%	82.82	YTL Power	1.41	1.48	-4.7%	1.45
KPJ	4.23	4.27	-0.9%	4.39	Wah Seong	0.71	0.75	-4.7%	0.68
IJM Corp	3.49	3.53	-1.1%	4.00	Sime Darby	7.59	7.95	-4.5%	7.85
PPB Goup	16.50	16.70	-1.2%	18.60	Lion Industries	0.32	0.34	-4.5%	0.23
Gamuda	4.86	4.92	-1.2%	5.47	Sunway	3.00	3.14	-4.5%	3.25
Sunway Cons	1.60	1.62	-1.2%	1.74	Axiata	5.63	5.89	-4.4%	5.13
UEM Edgenta	3.60	3.65	-1.4%	3.52	AEON Co.	2.61	2.73	-4.4%	2.58
PetChem	6.61	6.71	-1.5%	6.46	Bursa Malaysia	8.56	8.90	-3.8%	8.88
Astro	2.93	2.99	-2.0%	3.78	Dialog Group	1.54	1.60	-3.8%	1.68
Hong Leong Bk	13.18	13.50	-2.4%	14.10					
BAT	52.70	54.04	-2.5%	53.34	Perdana	suspended			1.55
Daibochi	2.11	2.17	-2.8%	2.14					
Alliance F'cial	4.03	4.15	-2.9%	4.00					
PetDag	23.40	24.10	-2.9%	23.57					
KL Kepong	23.26	24.00	-3.1%	27.38					
DiGi	4.78	4.94	-3.2%	5.02					
AMMB	4.44	4.60	-3.5%	5.10					
					FBM KLCI	**1,654.08**	**1,717.58**	**-3.7%**	**1,750.00**

Source: MIDFR, Bloomberg

MIDF RESEARCH STOCK UNIVERSE as at 30 June 2016

	FYE	Rec.	Price (RM)	TP (RM)	Net Profit (RMm)			EPS (sen)			EPS (% chg)			PER			DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
					FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14							High (RM)	Low (RM)
CONSTRUCTION																															
Gamuda	Jul	BUY	4.86	5.47	682.1	669.3	817.8	28.9	27.7	33.8	-7.5	-4.3	22.2	16.8	17.5	14.4	12.0	11.0	14.0	2.5	2.3	2.9	1.75	2.77	27.89	5.02	10.00	2,416.6	11,744.8	5.00	3.77
WCT	Dec	BUY	1.50	1.79	209.4	163.9	194.3	18.4	13.1	15.6	70.4	-28.5	18.5	8.2	11.4	9.6	3.0	2.3	2.2	2.0	1.5	1.5	0.70	2.15	9.86	2.43	6.19	1,248.6	1,872.9	1.76	1.10
Hock Seng Lee	Dec	BUY	1.70	2.19	76.2	82.4	75.9	13.9	15.0	13.8	-0.9	8.1	-7.9	12.3	11.3	12.3	1.4	3.3	3.0	0.8	1.9	1.8	1.39	1.23	12.59	10.12	12.53	549.5	934.2	2.14	1.61
IJM Corp	Mar	BUY	3.49	4.00	480.9	793.6	698.0	16.3	22.2	19.4	-44.7	36.2	-12.7	21.4	15.7	18.0	7.5	7.0	18.0	2.1	2.0	5.2	1.39	2.52	15.47	4.00	7.75	3,599.2	12,561.2	3.61	2.85
Muhibbah	Dec	BUY	2.20	3.05	85.6	109.4	136.3	18.7	23.2	28.8	-2.8	23.8	24.6	11.8	9.5	7.6	5.0	5.0	5.0	2.3	2.3	2.3	1.25	1.77	6.82	3.09	10.09	472.5	1,039.4	2.52	1.53
Protasco	Dec	BUY	1.64	2.45	66.8	81.4	n.a.	19.9	24.1	n.a.	-242.9	21.0	n.a.	8.2	6.8	n.a.	8.0	10.0	n.a.	4.9	6.1	n.a.	1.41	1.16	6.24	6.65	19.89	337.5	553.6	1.92	1.37
Sunway Cons	Dec	BUY	1.60	1.74	127.2	128.6	n.a.	9.8	9.9	n.a.	-22.0	1.1	n.a.	16.3	16.1	n.a.	4.0	1.8	n.a.	2.5	1.1	n.a.	4.59	0.35	6.71	9.20	28.47	1,292.9	2,068.6	1.72	0.98
Vivocom	Dec	BUY	0.24	0.59	8.8	111.0	n.a.	0.7	4.3	n.a.	78.9	530.9	n.a.	34.6	5.5	n.a.	0.0	0.0	n.a.	0.0	0.0	n.a.	1.55	0.15	113.33	26.88	33.69	2,587.3	608.0	0.37	0.08
CONGLOMERATE																															
MMC Corp	Dec	BUY	2.01	3.11	1,664.4	319.2	408.6	54.6	10.5	13.4	237.0	-80.8	28.0	3.7	19.2	15.0	3.8	4.0	4.5	1.9	2.0	2.2	0.68	2.97	10.61	1.47	3.20	3,045.1	6,120.6	2.55	1.49
YTL Corp	Jun	NEUTRAL	1.67	1.50	1,017.6	897.5	1,140.7	9.8	8.6	10.9	-34.7	-12.1	27.1	17.0	19.4	15.3	9.5	8.7	11.0	5.7	5.2	6.6	1.24	1.34	5.42	1.35	4.32	10,418.7	17,399.1	1.71	1.44
TELECOMMUNICATIONS																															
DiGi	Dec	NEUTRAL	4.78	5.02	1,722.6	1,721.5	1,750.2	22.2	22.1	22.5	-14.9	-0.3	1.7	21.5	21.6	21.2	22.0	21.0	21.4	4.6	4.4	4.5	69.15	0.07	24.90	36.92	331.46	7,775.0	37,164.5	5.85	4.31
Axiata	Dec	NEUTRAL	5.63	5.13	2,554.2	2,087.2	2,233.1	29.5	23.7	25.3	6.9	-19.8	7.0	19.1	23.8	22.2	20.0	17.0	18.0	3.6	3.0	3.2	2.15	2.61	10.50	3.72	8.11	8,823.4	49,676.0	6.85	5.18
Maxis	Dec	NEUTRAL	5.89	6.55	1,739.0	1,939.0	1,968.0	23.2	25.8	26.2	1.2	11.5	1.5	25.4	22.8	22.5	20.0	21.0	21.0	3.4	3.6	3.6	10.27	0.57	22.55	10.21	45.94	7,510.3	44,235.4	7.20	5.36
Telekom	Dec	BUY	6.77	8.18	700.3	903.6	953.0	18.7	24.0	25.4	-18.3	28.6	5.5	36.2	28.2	26.7	21.4	21.2	22.3	3.2	3.1	3.3	3.37	2.01	7.71	3.70	11.24	3,757.9	25,441.2	7.10	6.00
MEDIA																															
Astro	Jan	BUY	2.93	3.78	519.4	615.3	681.1	10.0	11.8	13.1	16.3	18.0	10.9	29.3	24.8	22.4	11.0	12.0	13.0	3.8	4.1	4.4	26.98	0.11	11.24	8.92	100.25	5,205.0	15,250.7	3.14	2.41
Media Prima	Dec	BUY	1.38	1.75	138.7	146.1	156.9	12.5	13.2	14.1	83.2	5.3	7.4	11.0	10.5	9.8	10.0	11.0	12.0	7.2	8.0	8.7	0.93	1.48	10.23	6.27	8.94	1,109.2	1,530.7	1.54	1.04
Star	Dec	SELL	2.61	1.69	133.0	105.9	113.8	18.0	14.4	15.4	19.3	-20.4	7.5	14.5	18.2	16.9	18.0	14.0	15.0	6.9	5.4	5.7	1.78	1.47	10.39	6.15	8.78	738.0	1,926.1	2.65	2.27
SEMICONDUCTOR																															
Unisem	Dec	BUY	2.40	3.22	155.5	162.9	169.7	22.0	22.2	23.1	117.1	0.7	4.2	10.9	10.8	10.4	10.0	11.0	12.0	4.2	4.6	5.0	1.34	1.79	12.92	9.63	12.01	733.8	1,761.2	2.52	1.57
Globetronics	Dec	NEUTRAL	3.33	4.07	71.3	47.5	64.2	25.3	16.9	22.8	10.5	-33.5	35.2	13.1	19.8	14.6	20.0	17.0	21.0	6.0	5.1	6.3	3.39	0.98	13.88	13.29	15.85	281.9	938.7	6.76	3.01
PLANTATION																															
Sime Darby	Jun	NEUTRAL	7.59	7.85	2,312.8	1,542.0	1,882.0	37.7	24.4	29.7	-32.2	-35.3	22.0	20.1	31.1	25.5	25.0	21.7	20.4	3.3	2.9	2.7	1.54	4.93	3.53	2.49	4.88	6,327.1	48,022.5	9.10	6.70
Felda Global	Dec	NEUTRAL	1.51	1.33	107.0	135.0	141.0	2.9	3.7	3.9	-67.4	27.6	4.4	52.1	40.8	39.1	4.0	3.7	3.9	2.6	2.5	2.6	0.88	1.73	0.87	0.63	1.50	3,648.2	5,508.7	2.04	1.18
Genting Plant	Dec	NEUTRAL	10.62	9.85	189.7	283.0	285.0	24.5	35.8	36.1	-50.4	46.2	0.7	43.4	29.7	29.5	5.5	9.3	9.3	0.5	0.9	0.9	1.99	5.34	20.58	3.91	6.28	790.4	8,393.9	11.56	8.52
IJM Plant	Mar	NEUTRAL	3.40	3.13	90.4	24.2	142.0	10.7	2.8	16.1	-2.8	-74.4	486.4	31.7	123.6	21.1	6.0	5.0	7.6	1.8	1.5	2.2	1.85	1.84	4.34	0.93	1.51	880.6	2,994.0	3.80	2.99
IOI Corp	Jun	BUY	4.34	4.82	168.1	1,324.0	1,470.0	2.6	21.1	23.4	-95.0	697.5	11.0	164.4	20.6	18.6	9.0	17.7	19.7	2.1	4.1	4.5	5.34	0.81	11.47	9.86	25.23	6,288.2	27,290.8	5.04	3.70
TSH Res.	Dec	NEUTRAL	1.85	2.10	-105.5	99.0	127.0	-7.9	7.3	9.4	-176.1	-193.0	28.3	n.a.	25.3	19.7	2.0	1.8	2.4	1.1	1.0	1.3	1.88	0.98	12.38	3.12	6.59	1,355.7	2,508.1	2.27	1.73
KL Kepong	Sep	BUY	23.26	27.38	869.9	1,087.0	1,145.0	81.7	102.1	107.5	-12.2	24.9	5.3	28.5	22.8	21.6	45.0	60.3	63.5	1.9	2.6	2.7	2.52	9.21	8.04	6.30	10.73	1,065.0	24,771.1	24.78	19.60
PPB Group	Dec	BUY	16.50	18.60	1,051.3	1,021.0	1,041.0	88.7	86.1	87.8	14.7	-2.9	2.0	18.6	19.2	18.8	25.0	25.8	26.3	1.5	1.6	1.6	1.04	15.86	25.27	4.66	4.97	1,185.5	19,560.8	16.98	14.32
TOBACCO																															
BAT	Dec	NEUTRAL	52.70	53.34	910.1	805.2	837.5	318.7	282.0	293.3	0.9	-11.5	4.0	16.5	18.7	18.0	312.0	255.0	263.0	5.9	4.8	5.0	30.31	1.74	17.57	66.71	147.30	285.5	15,047.4	67.50	40.70
GLOVE																															
Kossan	Dec	BUY	6.85	8.94	202.5	220.3	260.0	31.7	34.5	40.7	39.1	8.8	18.0	21.6	19.9	16.8	12.0	9.5	11.6	1.8	1.4	1.7	4.37	1.57	13.44	14.92	22.56	639.5	4,380.4	9.50	5.90
Hartalega	Mar	NEUTRAL	4.33	4.56	209.7	257.6	281.2	13.5	15.7	17.1	-13.9	16.3	9.1	32.1	27.6	25.3	6.5	6.0	6.5	1.5	1.4	1.5	4.73	0.92	17.19	13.14	17.12	1,641.1	7,105.9	6.15	3.81
Supermax	Jun	BUY	2.15	3.21	127.0	175.8	156.0	18.7	26.2	23.2	32.5	40.3	-11.3	11.5	8.2	9.3	4.0	6.8	5.5	1.9	3.2	2.6	1.38	1.55	16.69	10.73	16.97	671.3	1,443.2	3.56	1.93
Top Glove	Aug	BUY	4.60	6.28	279.8	402.9	424.5	22.6	32.2	33.9	55.4	42.3	5.4	20.3	14.3	13.6	10.0	17.0	17.0	2.2	3.7	3.7	3.28	1.40	16.05	14.99	24.96	1,252.6	5,761.8	7.03	3.28
HEALTHCARE																															
KPJ	Dec	NEUTRAL	4.23	4.39	135.3	158.7	183.1	13.0	15.2	17.5	-7.3	16.6	15.4	32.4	27.8	24.1	7.0	7.7	8.9	1.7	1.8	2.1	2.94	1.44	5.57	4.05	10.17	1,043.8	4,415.4	4.41	3.96
IHH Healthcare	Dec	NEUTRAL	6.60	7.10	933.9	1,087.0	1,339.0	11.4	13.2	16.3	23.2	16.0	23.2	58.0	50.0	40.6	3.0	5.0	6.0	0.5	0.8	0.9	2.53	2.61	12.87	3.06	4.48	8,231.5	54,327.6	6.79	5.32
UEM Edgenta	Dec	NEUTRAL	3.60	3.52	191.2	209.2	247.5	23.5	25.2	29.8	-5.6	7.0	18.3	15.3	14.3	12.1	15.0	17.6	20.8	4.2	4.9	5.8	2.41	1.49	6.70	7.99	13.69	831.6	2,993.8	3.98	2.84
CONSUMER (F&B, Retail)																															
Padini	Jun	BUY	2.37	2.75	80.2	132.6	164.6	12.2	20.2	25.0	-11.8	65.3	24.1	19.4	11.8	9.5	10.0	11.5	11.5	4.2	4.9	4.9	3.41	0.70	13.56	22.00	32.69	657.9	1,559.2	2.48	1.27
Daibochi	Dec	NEUTRAL	2.11	2.14	26.7	26.7	27.1	4.1	9.8	10.0	12.4	140.4	1.5	51.7	21.5	21.2	5.1	6.3	6.6	2.4	3.0	3.1	1.57	1.35	7.74	9.05	14.71	272.3	574.5	2.44	1.67
Panasonic	Mar	BUY	29.78	35.26	99.5	146.9	164.8	164.0	242.0	271.3	23.3	47.6	12.1	18.2	12.3	11.0	50.0	50.0	162.7	1.7	1.7	5.5	2.32	12.83	13.52	14.90	18.86	60.7	1,809.0	30.20	20.30
Nestle	Dec	NEUTRAL	76.52	82.82	590.7	680.1	743.0	252.0	290.0	316.8	7.2	15.1	9.2	30.4	26.4	24.2	240.0	265.0	285.0	3.1	3.5	3.7	21.28	3.60	14.06	27.33	95.98	234.5	17,943.9	77.00	70.81
MSM	Dec	NEUTRAL	5.00	5.20	275.3	265.6	281.0	39.2	37.8	40.0	7.1	-3.5	5.8	12.8	13.2	12.5	26.0	24.8	26.3	5.2	5.0	5.3	3.36	1.49	11.51	9.76	13.04	703.0	3,514.9	5.26	4.55
Parkson	Jun	NEUTRAL	0.81	1.54	46.6	149.1	158.2	4.4	14.3	15.2	-59.9	223.0	6.1	18.3	5.7	5.3	0.0	5.0	5.5	0.0	6.2	6.8	0.32	2.54	3.99	1.52	3.59	1,044.2	845.8	1.58	0.80
F&N	Sep	BUY	25.12	28.35	280.1	428.7	495.9	76.5	117.0	135.3	7.7	52.9	15.7	32.8	21.5	18.6	57.5	63.7	59.4	2.3	2.5	2.4	4.82	5.21	10.56	14.19	22.84	366.5	9,207.5	25.60	17.08
AEON Co.	Dec	NEUTRAL	2.61	2.58	133.4	142.4	172.8	9.5	10.1	12.3	-37.3	6.8	21.3	27.5	25.7	21.2	4.0	4.0	4.0	1.5	1.5	1.5	1.96	1.33	3.71	3.52	7.72	1,404.0	3,664.4	3.11	2.47
BANKING																															
Hong Leong Bk	Jun	NEUTRAL	13.18	14.10	2,233.2	2,059.0	2,298.0	122.2	100.3	112.0	5.9	-17.9	11.6	10.8	13.1	11.8	39.6	31.0	35.0	3.0	2.4	2.7	1.32	9.99	27.92	1.12	12.26	2,052.2	27,047.5	13.86	11.89
HLeong F'cial	Jun	BUY	14.68	17.20	1,620.7	1,563.0	1,640.0	151.6	136.5	143.2	-5.3	-10.0	4.9	9.7	10.8	10.3	37.3	38.0	38.0	2.5	2.6	2.6	1.11	13.21	19.52	0.77	8.03	1,145.2	16,812.2	15.80	12.28
RHB Bank	Dec	NEUTRAL	5.12	6.30	1,511.4	1,924.0	2,177.0	44.7	48.0	54.3	-24.4	7.4	13.1	11.5	10.7	9.4	9.2	14.0	16.0	1.8	2.7	3.1	0.89	5.78	17.79	0.83	8.33	4,010.0	20,531.4	5.69	3.85
Affin Hldgs	Dec	NEUTRAL	2.12	2.30	369.3	437.0	486.0	19.0	22.5	25.0	-46.1	18.3	11.2	11.2	9.4	8.5	8.0	11.0	12.0	3.8	5.2	5.7	0.48	4.38	12.94	0.65	5.25	1,942.9	4,119.1	2.75	2.09
Maybank	Dec	NEUTRAL	8.14	8.70	6,835.9	6,403.0	7,379.0	72.0	64.0	73.7	-3.0	-11.1	15.2	11.3	12.7	11.0	54.0	49.0	57.0	6.6	6.0	7.0	1.28	6.36	21.66	0.90	10.08	10,008.8	81,471.3	9.31	7.98
Alliance F'cial	Mar	NEUTRAL	4.03	4.00	530.8	522.0	553.0	34.8	34.2	36.3	-6.5	-1.7	6.0	11.6	11.8	11.1	15.4	14.5	16.0	3.8	3.6	4.0	1.27	3.17	20.05	0.94	10.78	1,524.9	6,145.2	4.47	3.07
CIMB	Dec	BUY	4.37	5.50	2,849.5	3,955.0	4,536.0	33.6	45.3	52.0	-10.4	34.8	14.7	13.0	9.6	8.4	14.0	19.0	21.0	3.2	4.3	4.8	0.91	4.80	16.55	0.86	9.36	8,728.9	38,145.1	5.63	3.93
AMMB	Mar	BUY	4.44	5.10	1,918.6	1,302.2	1,350.0	63.8	43.3	44.8	7.7	-32.1	3.4	7.0	10.2	9.9	27.3	5.0	16.0	6.1	1.1	3.6	0.88	5.03	21.14	0.97	8.08	3,014.2	13,383.0	6.16	4.17
Public Bank	Dec	NEUTRAL	19.40	20.40	5,062.2	5,116.6	5,407.8	131.1	132.5	140.0	6.0	1.1	5.7	14.8	14.6	13.9	56.0	56.0	59.0	2.9	2.9	3.0	2.41	8.06	29.61	1.41	15.84	3,861.5	74,913.0	19.42	17.04
BIMB	Dec	NEUTRAL	3.90	4.22	547.3	594.1	636.2	35.5	37.4	40.0	-0.3	5.3	7.1	11.0	10.4	9.7	12.2	12.5	13.4	3.1	3.2	3.4	1.63	2.40	17.95	1.04	16.08	1,588.7	6,195.8	4.29	3.17

Source: Company, MIDF Research

MIDF RESEARCH STOCK UNIVERSE as at 30 June 2016 (cont'd)

	FYE	Rec.	Price (RM)	TP (RM)	Net Profit (RMm)			EPS (sen)			EPS (% chg)			PER			DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
					FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14							High (RM)	Low (RM)
FINANCE																															
MBSB	Dec	NEUTRAL	0.72	1.23	257.6	147.2	160.3	8.9	2.5	2.8	-76.4	-71.6	8.9	8.1	28.4	26.0	2.9	1.7	1.8	4.0	2.4	2.5	0.43	1.67	8.98	0.36	3.03	5,798.8	4,175.1	1.87	0.70
Bursa Malaysia	Dec	NEUTRAL	8.56	8.88	198.6	207.1	221.2	37.2	38.7	41.3	0.0	4.0	6.8	23.0	22.1	20.7	34.5	34.9	37.3	4.0	4.1	4.4	6.06	1.41	42.47	9.93	25.27	535.3	4,582.0	9.00	7.48
INSURANCE																															
LPI Capital	Dec	NEUTRAL	15.86	16.04	321.0	259.4	289.0	96.7	78.1	87.1	13.0	-19.2	11.4	16.4	20.3	18.2	70.0	70.0	70.0	4.4	4.4	4.4	3.19	4.96	26.76	7.16	14.92	332.0	5,265.3	16.32	12.62
Sykt Takaful	Dec	BUY	4.05	4.65	156.0	174.6	194.7	19.1	21.3	23.7	10.9	11.3	11.5	21.2	19.0	17.1	7.4	9.0	12.0	1.8	2.2	3.0	4.88	0.83	10.94	2.32	24.63	820.2	3,321.7	4.44	3.45
Tune Protect	Dec	BUY	1.47	2.14	69.0	84.0	102.0	9.2	11.2	13.6	-4.7	21.9	21.4	16.0	13.2	10.8	5.0	4.2	4.4	3.4	2.9	3.0	2.34	0.63	23.05	6.94	17.09	751.8	1,105.1	1.68	1.10
OIL & GAS																															
SapuraKencana	Jan	TRADING BUY	1.47	1.71	1,432.8	-791.6	195.5	23.9	-13.3	3.3	26.5	-155.4	-124.6	6.1	n.a.	45.1	3.4	1.4	1.4	2.3	0.9	1.0	0.74	1.98	-7.77	-2.17	-6.48	5,992.2	8,808.5	2.49	1.29
PetChem	Dec	NEUTRAL	6.61	6.46	2,782.0	2,771.0	2,948.0	35.0	34.6	36.9	12.9	-1.0	6.4	18.9	19.1	17.9	18.0	22.0	22.0	2.7	3.3	3.3	2.19	3.02	20.47	8.99	10.42	8,000.0	52,880.0	7.62	5.17
Wah Seong	Dec	NEUTRAL	0.71	0.68	9.5	38.3	65.8	1.2	5.0	8.5	-92.5	306.2	71.8	58.2	14.3	8.3	3.0	1.5	2.5	4.2	2.1	3.5	0.51	1.40	2.08	1.28	3.13	772.8	548.7	1.45	0.64
Bumi Armada	Dec	NEUTRAL	0.73	0.71	-234.6	171.4	275.1	-4.0	2.9	4.7	-192.6	-173.0	60.5	n.a.	24.8	15.5	0.8	1.6	1.6	1.1	2.2	2.2	0.64	1.13	7.86	0.95	2.35	5,866.3	4,253.0	1.20	0.65
KNM Group	Dec	BUY	0.41	0.59	49.5	75.7	82.7	2.7	3.5	3.9	0.8	33.9	9.2	15.5	11.6	10.6	0.0	0.4	0.4	0.0	1.0	1.0	0.32	1.27	4.61	1.76	2.79	2,132.8	874.5	0.64	0.39
Petronas Gas	Dec	NEUTRAL	22.00	19.63	1,987.5	1,798.1	1,832.0	100.4	90.9	92.6	7.8	-9.5	1.9	21.9	24.2	23.8	60.0	55.0	55.0	2.7	2.5	2.5	3.75	5.86	40.35	12.50	15.51	1,978.7	43,532.1	23.64	20.20
Dialog Group	Jun	NEUTRAL	1.54	1.68	275.1	258.3	270.3	5.5	4.9	5.1	153.0	-11.4	4.6	27.8	31.4	30.0	2.2	2.3	2.4	1.4	1.5	1.6	3.46	0.45	10.95	7.11	12.62	5,263.7	8,106.1	1.70	1.30
Gas Malaysia	Dec	BUY	2.38	2.92	106.2	131.1	148.3	8.0	10.2	11.5	-38.5	27.6	13.1	29.8	23.3	20.6	8.3	10.2	10.4	3.5	4.3	4.4	3.07	0.78	3.62	6.27	13.49	1,284.0	3,055.9	2.63	1.93
Dayang Ent	Dec	NEUTRAL	1.08	0.95	172.2	68.5	69.0	19.6	7.8	7.9	-8.7	-60.2	0.7	5.5	13.8	13.7	3.5	5.0	5.0	3.2	4.6	4.6	0.86	1.26	8.80	2.08	5.72	876.8	946.9	2.30	0.99
MMHE	Dec	SELL	1.13	0.81	43.9	91.1	93.2	2.7	5.7	5.8	-66.3	107.8	2.3	41.2	19.8	19.4	0.0	0.0	0.0	0.0	0.0	0.0	0.68	1.67	3.70	2.11	3.40	1,600.0	1,808.0	1.34	0.88
PetDag	Dec	NEUTRAL	23.40	23.57	790.0	782.1	836.8	79.5	78.7	84.2	57.4	-1.0	7.0	29.4	29.7	27.8	60.0	65.0	65.0	2.6	2.8	2.8	4.69	4.99	3.11	9.69	15.69	993.5	23,246.8	26.30	18.86
Perdana	Dec	NEUTRAL	SUSP	1.55	-118.9	30.4	6.5	-15.8	3.9	0.8	-227.9	-124.8	-78.6	n.a.	n.a.	n.a.	0.0	2.0	0.0	n.a.	n.a.	n.a.	n.a.	0.87	13.32	1.70	4.08	778.5	n.a.	n.a.	n.a.
PROPERTY & REITS																															
MRCB	Dec	BUY	1.06	2.08	330.4	116.1	137.5	18.5	6.2	7.3	107.2	-66.7	18.4	5.7	17.2	14.5	2.5	3.7	4.3	2.4	3.5	4.1	0.84	1.27	6.84	1.64	5.02	1,886.6	1,999.8	1.52	0.80
SP Setia	Dec	BUY	2.90	3.65	710.0	714.0	788.0	27.7	27.2	30.0	69.7	-1.8	10.4	10.5	10.7	9.7	4.0	18.3	20.2	1.4	6.3	7.0	1.04	2.79	12.74	4.61	8.97	2,628.5	7,622.7	3.40	2.80
UEM Sunrise	Dec	NEUTRAL	1.03	1.05	257.2	203.0	216.0	5.7	4.5	4.8	-46.2	-21.5	6.4	18.1	23.0	21.6	1.6	1.3	1.3	1.6	1.2	1.3	0.69	1.49	11.60	1.71	2.83	4,537.4	4,673.6	1.37	0.76
Sunway	Dec	NEUTRAL	3.00	3.25	732.4	589.0	623.0	41.8	29.3	31.0	-1.8	-29.8	5.8	7.2	10.2	9.7	11.0	12.0	12.0	3.7	4.0	4.0	0.85	3.55	13.24	3.68	8.17	2,008.8	6,026.5	3.36	2.89
UOA Dev't	Dec	BUY	2.19	2.54	417.0	347.7	420.4	28.0	22.9	27.7	21.7	-18.3	20.9	7.8	9.6	7.9	15.0	14.0	15.0	6.8	6.4	6.8	1.02	2.14	21.16	7.93	10.55	1,519.7	3,328.1	2.35	1.68
E&O	Mar	NEUTRAL	1.66	1.60	152.1	36.8	96.0	12.2	3.0	7.7	47.3	-75.7	157.6	13.6	55.9	21.7	0.0	0.0	3.1	0.0	0.0	1.9	1.28	1.30	8.74	0.98	2.18	1,254.9	2,083.1	1.84	1.38
Mah Sing	Dec	NEUTRAL	1.47	1.57	386.7	391.0	415.0	15.7	16.2	17.2	17.1	3.2	6.1	9.3	9.1	8.5	6.5	6.0	6.4	4.4	4.1	4.4	1.10	1.33	12.69	5.91	10.61	2,409.4	3,541.8	1.64	1.24
Axis REIT	Dec	NEUTRAL	1.70	1.71	96.6	101.0	105.0	8.8	9.1	9.5	-12.7	3.7	4.0	19.3	18.6	17.9	12.6	8.1	8.4	7.4	4.8	5.0	1.38	1.23	60.69	4.72	7.47	1,105.2	1,878.8	1.79	1.49
IGB REIT	Dec	BUY	1.61	1.63	254.0	268.0	288.0	7.3	7.7	8.3	-20.6	5.0	7.5	22.0	20.9	19.5	8.2	8.0	8.5	5.1	4.9	5.3	1.49	1.08	54.78	5.18	7.31	3,483.3	5,608.2	1.63	1.24
Sunreit	Jun	NEUTRAL	1.66	1.62	541.4	252.0	265.0	18.5	8.6	9.0	31.3	-53.6	5.2	9.0	19.4	18.4	8.7	8.0	8.4	5.3	4.8	5.1	1.22	1.36	55.15	3.92	6.33	2,942.4	4,884.4	1.69	1.43
Pavilion	Dec	NEUTRAL	1.73	1.73	282.3	264.0	295.0	9.4	8.7	9.8	-44.7	-6.6	11.7	18.5	19.8	17.7	8.2	8.1	9.0	4.8	4.7	5.2	1.38	1.26	63.78	5.56	6.85	3,019.8	5,224.3	1.82	1.39
Capitaland	Dec	BUY	1.55	1.69	226.0	175.2	179.2	11.9	8.6	8.8	-10.4	-27.5	2.3	13.0	17.9	17.5	8.6	8.3	8.4	5.5	5.3	5.4	1.19	1.30	50.81	4.28	6.55	2,028.3	3,143.9	1.59	1.24
Glomac	Apr	NEUTRAL	0.76	0.79	87.0	80.2	76.0	12.0	11.2	10.5	-19.8	-7.0	-6.0	6.3	6.8	7.2	4.3	4.0	3.6	5.6	5.3	4.7	0.56	1.37	13.39	4.03	7.61	723.5	549.8	0.94	0.70
KLCC Stapled	Dec	NEUTRAL	7.48	7.10	542.8	719.0	724.0	30.1	39.8	40.1	18.5	32.3	0.7	24.9	18.8	18.7	34.7	34.9	35.9	4.6	4.7	4.8	1.08	6.96	53.65	4.10	4.95	1,805.3	13,503.9	7.65	6.80
Eco World	Oct	BUY	1.27	1.88	44.0	125.0	n.a.	5.3	5.3	n.a.	461.7	0.1	n.a.	24.1	24.0	n.a.	0.0	0.0	n.a.	0.0	0.0	n.a.	0.93	1.36	7.30	1.80	3.96	2,364.3	3,002.6	1.67	1.17
TRANSPORT																															
- Aviation																															
AirAsia	Dec	BUY	2.60	2.56	541.2	1,073.9	1,079.5	19.4	38.6	38.8	546.7	98.9	0.5	13.4	6.7	6.7	4.0	4.0	5.0	1.5	1.5	1.9	1.44	1.80	17.05	5.04	24.13	2,782.9	7,235.5	2.73	0.77
AirAsia X	Dec	NEUTRAL	0.37	0.40	-349.6	165.8	326.7	-10.4	4.0	7.9	-40.9	-138.4	97.0	n.a.	9.3	4.7	0.0	0.0	0.0	0.0	0.0	0.0	1.83	0.20	5.41	3.96	26.24	4,148.1	1,534.8	0.42	0.15
MAHB	Dec	NEUTRAL	6.12	6.35	-16.6	116.7	279.5	-1.1	7.0	16.8	-102.3	-745.3	139.5	n.a.	87.0	36.3	8.5	10.0	13.0	1.4	1.6	2.1	1.33	4.62	3.02	0.53	1.32	1,659.2	10,154.3	6.97	4.22
- Ports & Logistics																															
Westports	Dec	BUY	4.20	5.00	504.9	603.2	639.0	14.8	17.7	18.7	-1.4	19.4	5.9	28.4	23.7	22.4	11.1	13.3	14.1	2.6	3.2	3.4	7.73	0.54	35.88	14.97	31.78	3,410.0	14,322.0	4.44	3.62
- Shipping																															
Maybulk	Dec	BUY	0.86	1.04	-1,177.2	-27.5	19.6	-117.7	-2.8	2.0	-9,749.2	-97.7	-171.3	n.a.	n.a.	43.9	0.0	0.0	1.0	0.0	0.0	1.2	0.78	1.10	-11.39	-1.31	-2.23	1,000.0	860.0	1.05	0.51
MISC	Dec	BUY	7.46	9.53	2,467.8	2,626.5	2,800.1	55.3	58.8	62.7	11.9	6.4	6.6	13.5	12.7	11.9	30.0	18.0	18.0	4.0	2.4	2.4	1.02	7.30	24.08	5.52	7.20	4,463.8	33,299.9	9.41	6.88
TOLL																															
LITRAK	Mar	NEUTRAL	5.69	5.60	137.9	174.1	200.3	26.8	33.5	38.3	2.6	25.0	14.3	21.3	17.0	14.9	20.0	25.0	30.0	3.5	4.4	5.3	4.90	1.16	41.83	7.78	28.67	523.5	2,979.0	5.88	4.00
UTILITIES																															
TNB	Aug	BUY	14.10	16.80	6,118.4	7,022.5	7,152.5	108.4	124.4	126.7	-5.4	14.8	1.9	13.0	11.3	11.1	29.0	56.0	57.0	2.1	4.0	4.0	1.61	8.75	16.22	6.00	14.79	5,643.6	79,574.9	14.60	10.26
YTL Power	Jun	NEUTRAL	1.41	1.45	918.8	660.1	865.3	13.2	8.6	11.2	-27.9	-35.2	31.1	10.7	16.5	12.6	10.0	7.2	9.4	7.1	5.1	6.7	0.92	1.53	5.62	1.51	5.68	7,717.3	10,881.4	1.62	1.38
AUTO																															
Berjaya Auto	Apr	BUY	2.32	2.50	212.4	198.0	229.0	18.7	17.4	20.0	52.5	-7.4	15.3	12.4	13.4	11.6	8.6	9.4	16.8	3.7	4.1	7.2	4.99	0.46	9.37	20.80	35.15	1,145.2	2,656.8	2.82	1.79
UMW Hldgs	Dec	NEUTRAL	5.73	5.60	-37.2	154.2	185.3	-3.2	13.2	15.9	-105.7	-512.5	20.2	n.a.	43.4	36.1	20.0	4.0	4.8	3.5	0.7	0.8	1.06	5.43	1.07	0.85	1.64	1,168.3	6,694.3	10.72	4.88
Tan Chong	Dec	NEUTRAL	1.92	2.50	74.9	35.0	54.3	11.5	5.4	8.3	-29.3	-53.2	55.1	16.7	35.8	23.1	3.0	2.0	3.0	1.6	1.0	1.6	0.46	4.20	0.61	0.68	1.25	652.7	1,253.1	3.11	1.86
MBM Res.	Dec	UNDER REVIEW	2.01	2.90	84.0	118.1	128.8	21.5	30.2	33.0	-25.1	40.6	9.1	9.3	6.6	6.1	7.0	9.5	10.3	3.5	4.7	5.1	0.50	4.02	6.51	5.05	6.46	390.7	785.3	3.46	1.94
GENERAL INDUSTRIES																															
Favelle Favco	Dec	NEUTRAL	2.64	2.87	94.7	77.4	85.3	43.4	35.1	38.7	7.0	-19.1	10.2	6.1	7.5	6.8	15.0	11.5	11.6	5.7	4.4	4.4	1.05	2.51	9.77	6.35	14.13	220.5	582.2	3.21	2.28
BUILDING MATERIAL																															
- Steel																															
Ann Joo Res.	Dec	SELL	1.14	0.85	-135.5	-135.5	14.1	-27.1	-27.1	2.8	-679.4	0.0	-110.4	n.a.	n.a.	40.5	0.0	0.0	0.0	0.0	0.0	0.0	0.61	1.86	-7.69	-5.54	-14.62	500.6	570.6	1.26	0.62
Lion Industries	Jun	SELL	0.32	0.23	-254.8	-123.7	n.a.	-35.6	-17.8	n.a.	-49.5	-49.9	n.a.	n.a.	n.a.	n.a.	0.0	0.0	n.a.	0.0	0.0	n.a.	0.10	3.26	-4.45	-2.90	-4.64	694.0	222.1	0.48	0.22
- Cement																															
Lafarge M'sia	Dec	SELL	7.83	7.75	251.0	260.0	280.0	29.5	30.6	33.0	-2.0	3.6	7.7	26.5	25.6	23.8	32.0	29.0	38.0	4.1	3.7	4.9	2.18	3.59	9.45	5.96	8.40	849.7	6,653.1	9.80	7.35
- Timber																															
Ta Ann	Dec	NEUTRAL	3.30	3.50	188.2	94.0	109.0	41.8	21.1	24.5	50.4	-49.4	16.0	7.9	15.6	13.5	16.7	13.0	15.1	5.1	3.9	4.6	1.23	2.67	8.97	4.77	7.72	444.6	1,467.3	4.79	2.67

Source: Company, MIDF Research

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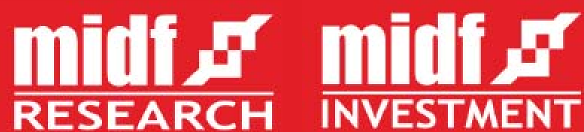
MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* 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.



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