

MALAYSIA EQUITY RESEARCH | AUG 25, 2014

Week Ended Aug 22, 2014

- Equity markets around the world stayed positive for the second consecutive week, with most of the benchmark indices that we track ended the week in the greenzone.
- Global funds bought more of Asian equity last week reflecting their positive conviction in the region, at least in the foreseeable future.
- Significantly more global money went to the more developed markets of Taiwan and Korea, compared to that that went to the emerging markets of Thailand, Indonesia, Philippines, Malaysia and India. It is not because the attraction of the emerging group is declining, but we believe the pulling power of North Asia is currently stronger.
- The KLCI gained a decent 0.4% last week to lift its year-to-date performance into the plus zone with a 0.2% increase. Trading activity was at a frenzy pace, driven by local liquidity.
- The retail market remained very active as the average daily participation rate hit RM1.50b last week, the highest during a week this year. Institutional investors were also extremely active last week, as their participation rate surged to RM3.0b, the highest since May last year.
- Foreign investors continued to repurchase stocks listed on Bursa after selling in the three weeks during the Hari Raya period. However, the amount mopped up was moderate, as was their participation rate, which had been below RM850m for 3 consecutive weeks now.
- This is the final week for the release of corporate earnings reporting card for the quarter ended June.
- On 31 August Malaysia celebrates its National Day. Happy Merdeka Day Malaysia!

LOCAL TSUNAMI

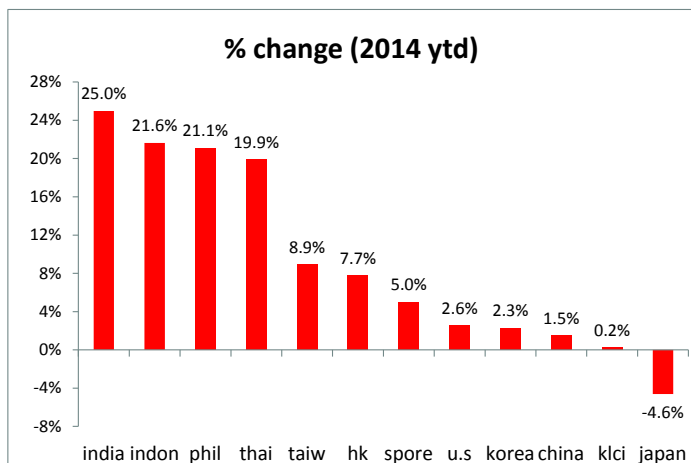
A. MARKET SNAPSHOT

- The world's equity markets stayed positive for the second consecutive week, with most of the benchmark indices that we track ended the week in the greenzone.
- The upward march was, nevertheless, cautiously paced ahead of the annual meeting of central bankers and economists at Jackson Hole over the weekend.
- Wall Street, which was a laggard the week before, was among the frontrunners last week with the Dow Jones and S&P500 gaining 2.0% and 1.7% respectively. On Thursday, the S&P 500 hit an all-time closing high of 1,992.37 points, as evidence indicated that the U.S continues to strengthen. Earlier in the week, minutes from the Fed's July meeting revealed the central bank's commitment to support the recovery by keeping interest rates depressed. At Jackson Hole, Federal Reserve Chair Janet Yellen said that in the U.S, the "underutilization of labor resources still remains significant" even after its recovery from the financial crisis of 2008.
- Stocks retreated slightly on Friday on Wall Street after NATO warned of large transfers of advanced weapons and an "alarming build-up" of Russian forces near Ukraine.
- The European market also had a good week, generally registering its best weekly performance in about six months. Germany's DAX led the pack last week with a gain of 2.7%, the best since March.
- In Asia, investors were circumspect of the implications from Jackson Hole, and the indices registered rather sedate gains. Most of the gain for the week was pared on Thursday, notably in Korea where the KOSPI lost -1.2% that single day. There was a broad Asian revival on Friday, in tandem with the strengthening of the region's currencies. Still the Korean KOSPI ended the week in the redzone, and was the worst performer losing -0.3%.
- The KLCI gained a decent 0.4% last week to lift its year-to-date performance into the plus zone with a 0.2% increase. Trading activity was at a frenzy pace, driven by local liquidity.

Performance of major markets		
Weekly % change	Week before	Last week
DAX	0.92	2.71
Dow Jones	0.66	2.03
Taiwan Taiex	1.33	1.88
CAC	0.64	1.88
Phil Comp	1.86	1.78
S&P500	1.22	1.71
Nikkei 225	3.65	1.44
FTSE	1.85	1.29
India Sensex	3.06	1.21
Jakarta JCI	1.88	0.97
Thai SET	1.73	0.67
Hang Seng	2.56	0.63
KLCI	1.33	0.36
Straits Times	0.79	0.32
China CSI300	1.27	0.20
Korea KOSPI	1.58	-0.32

Source: Bloomberg

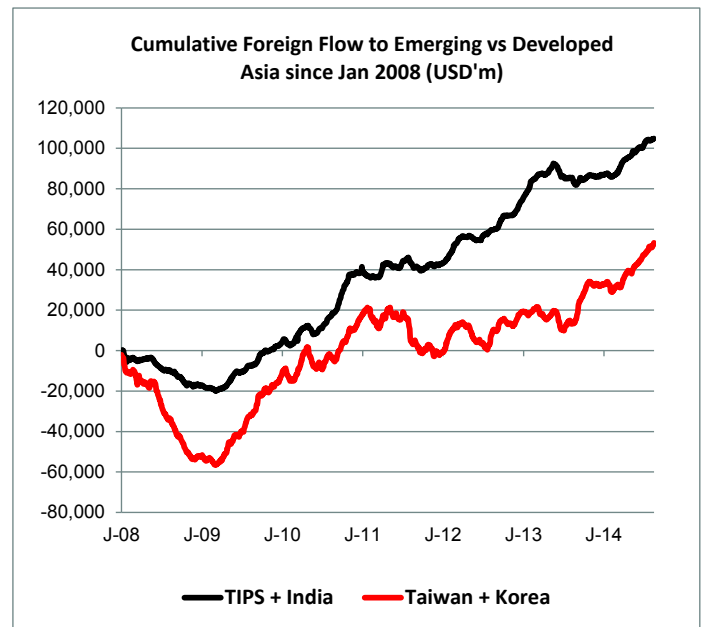
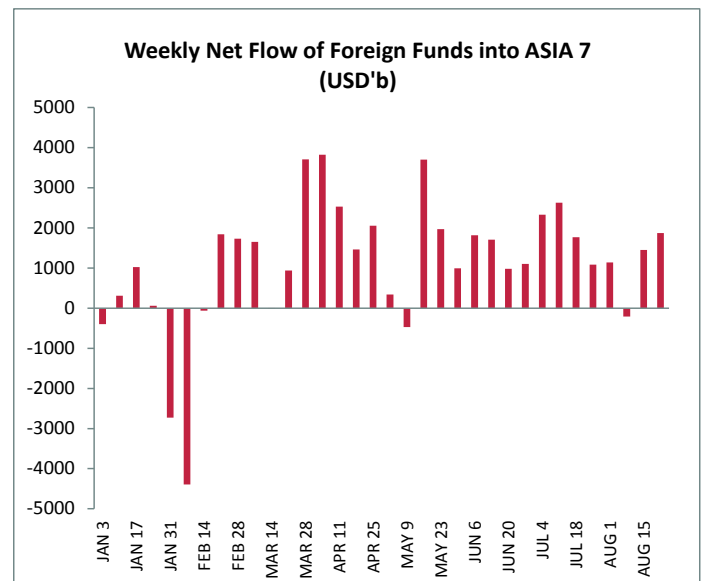
Major Asian indices



Source: Bloomberg

B. TRACKING MONEY FLOW - ASIA

- Global funds bought more of Asian equity last week reflecting their positive conviction in the region, at least in the foreseeable future.
- Data from the seven Asian exchanges that we track (Korea, Taiwan, Thailand, Malaysia, Indonesia, Philippines and India ¹) shows that funds classified as “foreign” bought, in net aggregate, +USD1.87b of stocks in the aforementioned markets, an increase from +USD1.45b the week before (see bar chart).
- Despite uncertainties ahead of Jackson Hole, foreign investors were net buyers in all the seven markets that we track. It was also the sixth week this year that ALL seven markets were net beneficiaries of foreign portfolio money.
- Significantly more global money went to the more “Developed” Asia², as represented by Taiwan and Korea, compared to that flowing to “Emerging Asia”, as represented by the Thailand, Indonesia, Philippines (TIPs), Malaysia and the India markets. It is not because the attraction of the latter is declining, but we believe the pulling power of the former is currently stronger.
- The Korean KOSPI is likely to benefit more from the conclusion of Jackson Hole. Portfolio managers may switch out of Japan, where the Nikkei 225 had rallied for 9 consecutive days until Thursday, the longest in a long time. The consensus appears that the market is overheating and is running ahead of fundamentals. Friday’s loss is an indication of investors’ jittery.
- Global portfolio investors are making a beeline for Taiwan where companies’s earnings forecasts are being upgraded by analysts. Taiwan is home to several Apple suppliers and assemblers, and there is heightened optimism ahead of the release of Apple’s Iphone 6.



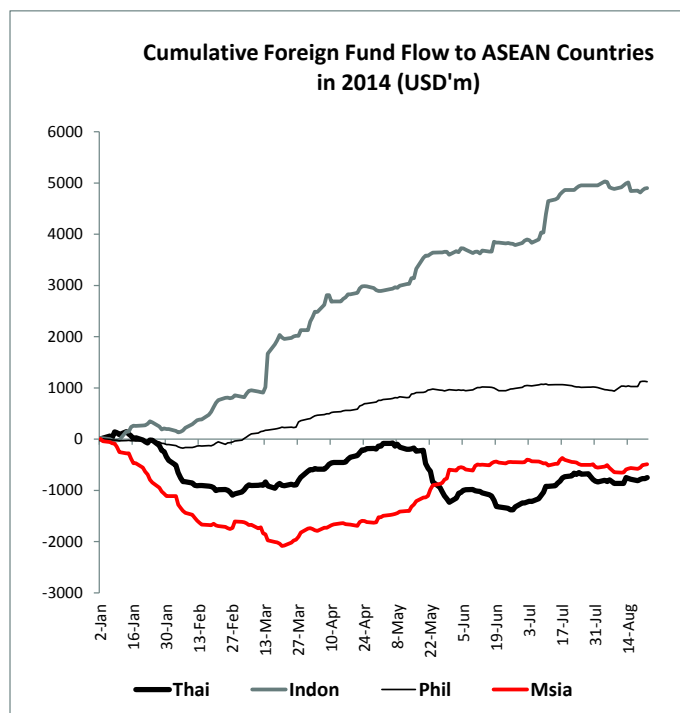
NET FLOW	TIPs + India	Taiwan + Korea	Total (USD'm)
2008	-17,195	-53,106	-70,301
2009	20,580	40,063	60,642
2010	35,690	29,234	64,924
2011	2,748	-17,801	-15,053
2012	31,302	19,976	51,278 (55,663 [^])
2013	12,446	13,500	25,946 (27,170 [^])
2014	18,146	20,235	38,381 (37,890 [^])

TIP = Thailand, Indonesia, Philippines ^ including Malaysia

¹ These ASIA 7 markets, for which fund flow data is publicly available, are our proxy for Asia.

² Technically, the Korea and Taiwan markets have not yet been classified as “developed” under the MSCI. We use the term liberally only for tracking purposes.

- Meanwhile, fund flow to Emerging Asia remained moderate and unexciting.
- In Indonesia, foreign funds bought back stocks after two weeks of selling, but the amount was small. There is plenty of profit taking as the index traded near record highs. Optimism returned after Indonesia's highest court confirmed Joko Widodo's presidency last week, averting a crisis.
- Interesting, more money flowed into the Philippines than that into either Thailand, Indonesia and Malaysia last week. Philippines has attracted global money after the MSCI increased the country's weightage this year. The market will be closed on Monday (Aug. 25) due to the National Heroes Day.
- Like Indonesia, Thailand also attracted a small amount of foreign money last week. But the political situation is getting more stable, and we expect more money flow in the months ahead, especially in view of the slew of IPOs lined up, including Bangkok Airways and Bangkok Land.



Source: Various countries' exchanges, via Bloomberg. These figures are subject to revisions. Aggregated by MIDFR.

WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)

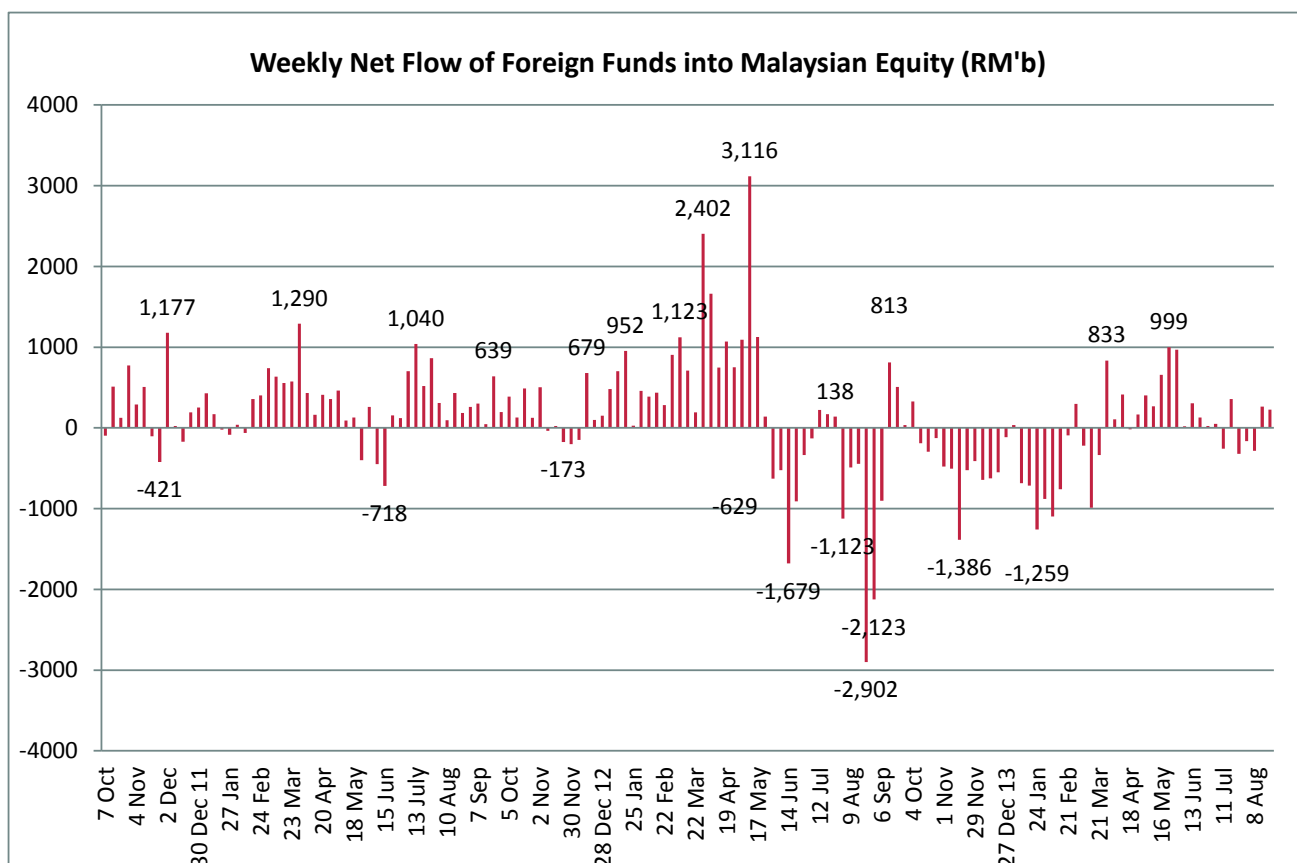
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
FEB 28	636.3	-80.5	96.5	18.7	313.9	655.6	90.4	1730.9
MAR 7	127.4	163.8	96.1	139.3	838.9	355.4	-67.0	1654.0
MAR 14	-1245.6	-7.7	717.1	72.4	119.8	527.0	-301.2	-118.2
MAR 21	-616.2	2.4	284.4	49.7	1213.1	82.2	-101.9	913.6
MAR 28	426.4	164.0	174.4	135.3	1027.1	1041.5	253.1	3221.4
APR 4	1522.7	159.7	353.7	103.2	856.8	1202.3	33.2	4231.7
APR 11	994.1	132.0	205.3	61.9	299.3	701.6	127.6	2521.8
APR 18	410.3	100.8	140.3	32.6	41.9	739.8	-5.8	1459.8
APR 25	524.0	167.0	155.9	136.6	247.4	770.5	50.4	2051.9
MAY 2	-503.3	101.7	-82.7	76.9	322.4	299.1	123.2	337.4
MAY 9	-668.5	-72.8	95.5	52.0	390.2	-348.7	82.0	-470.4
MAY 16	1236.5	-77.9	330.2	82.7	1637.8	285.2	203.6	3697.9
MAY 23	1060.8	-599.5	313.3	68.7	277.4	537.0	311.1	1968.3
MAY 30	256.1	-398.5	-39.7	-10.7	398.3	489.2	300.7	995.5
JUN 6	293.7	246.0	99.0	-18.6	1008.0	181.6	6.0	1815.8
JUN 13	105.6	-62.5	-15.7	70.6	850.9	664.2	95.3	1708.3
JUN 20	69.1	-273.6	154.7	-70.4	-65.7	1125.7	39.9	979.7
JUN 27	359.2	3.4	-51.1	42.0	46.7	694.0	7.8	1102.0
JUL 4	821.8	106.0	45.2	51.3	740.1	547.8	15.5	2327.7
JUL 11	610.5	293.5	816.1	20.4	731.0	239.0	-81.0	2629.5
JUL 18	796.5	186.1	215.3	0.0	422.1	32.9	111.8	1764.6
JUL 25	547.3	52.7	91.5	-49.8	323.1	220.5	-101.1	1084.3
AUG 1	1423.2	-152.3	0.0	-4.1	-460.6	383.3	-51.5	1137.9
AUG 8	148.6	-29.2	-72.2	-67.8	367.6	-466.7	-88.9	-208.6
AUG 15	700.6	82.4	-38.1	86.8	441.8	96.3	82.2	1451.9
AUG 22	499.0	32.7	54.3	96.5	158.8	956.6	71.5	1869.5

Source: Various countries' exchanges. These figures are subject to revisions.

FUND FLOW REPORT

C. TRACKING MONEY FLOW - MALAYSIA

- Foreign investors continued to repurchase stocks listed on Bursa after selling in the three weeks during the Hari Raya period.
- For the second consecutive week, investors classified as “foreign” were net buyers on Bursa’s open market (i.e excluding off-market deals), mopping up +RM226.5m net, compared with +RM261.6m the week before.
- Foreign investors were only selling on Monday. For the remaining four trading days of the week, they turned net buyers. The pattern was similar to that the week before. Foreign investors tend to start the week on a cautious note but change course once regional mood is clearer. The daily net amount purchased last week was moderate, except on Wednesday when it surged to +RM158.9m, the second highest in 25 trading days.
- On cumulative basis, foreign investors remained net sellers of Malaysian stocks in 2014. However, the amount of outflow for the year had subsided to -RM1.74b as of last Friday. In 2013, Malaysia reported a net inflow of +RM3.0b.
- Foreign participation rate, as measured by the average daily foreign gross purchase and sale on Bursa, remained moderate at RM849m. It had been below RM850m for 3 consecutive weeks now.
- The local market is currently clearly being driven by local investors’ trading activity. The retail market remained very active as the average daily participation rate hit RM1.50b last week, the highest during a week this year. It was also the highest since May last year. Retail participation surged to RM2.08b on Wednesday (20 August), the first time it exceeded the mark, coincidentally since 20 August 2013. However, retailers remained cautious, selling -RM130.1m.
- Institutional investors were also extremely active last week, as their participation rate surged to RM3.0b, the highest since May last year. Local institutional players sold a marginal -RM96.4m last week.

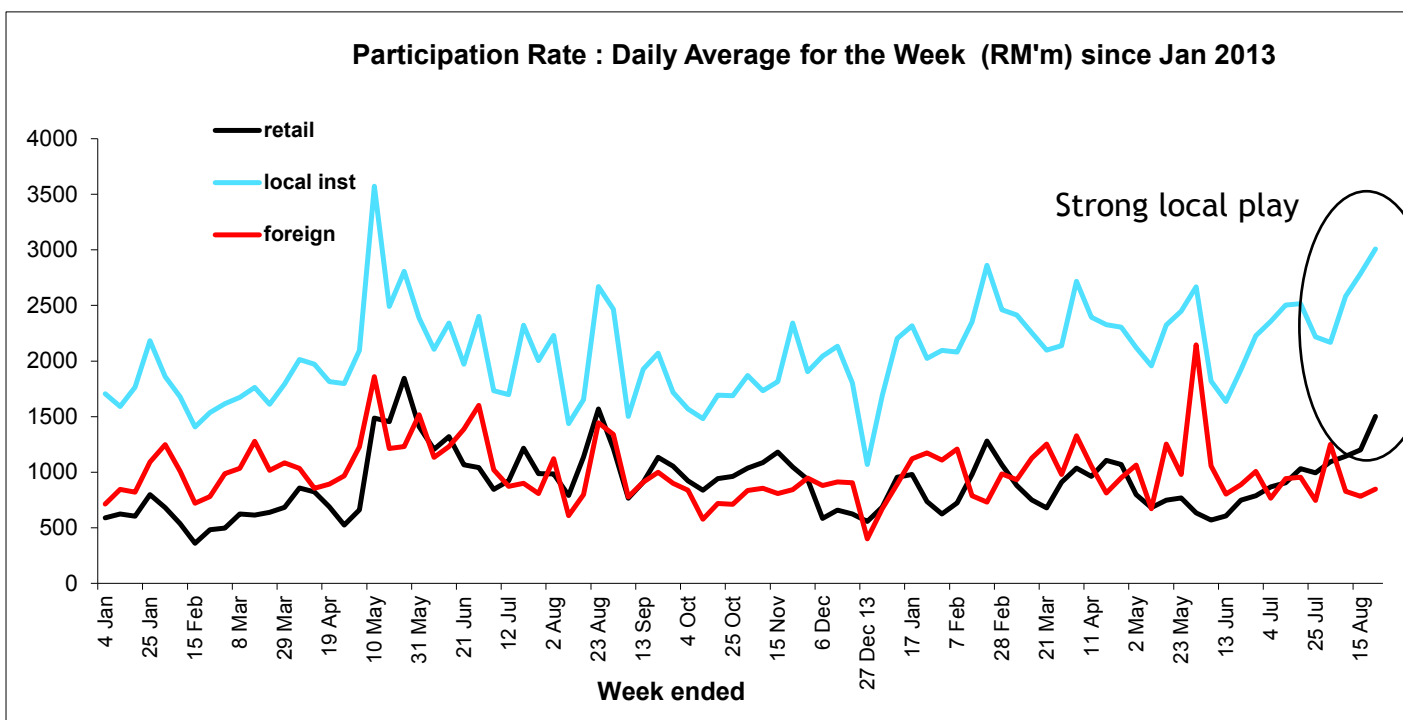


Source: Bursa, excluding off-market trades

BURSA MALAYSIA: WEEKLY MARKET PARTICIPATION (RM'm)

Week ended	LOCAL RETAIL			LOCAL INSTITUTION			FOREIGN			
	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	NET (USD)*
MAR 28	2276.4	2274.1	2.3	4929.7	5764.7	-835.0	2866.3	2033.6	832.7	253.1
APR 4	2555.8	2633.0	-77.2	6775.8	6806.3	-30.5	3374.9	3267.2	107.7	33.2
APR 11	2416.8	2396.6	20.2	5766.2	6200.8	-434.6	2842.9	2428.5	414.4	127.6
APR 18	2762.7	2774.2	-11.5	5831.2	5801.0	30.2	2023.3	2042.0	-18.7	-5.8
APR 25	2653.3	2696.6	-43.3	5702.2	5824.0	-121.8	2459.2	2294.1	165.1	50.4
MAY 2	1540.6	1654.4	-113.8	4097.0	4385.6	-288.6	2329.5	1927.1	402.4	123.2
MAY 9	1688.1	1720.0	-31.9	4775.2	5009.1	-233.9	1812.9	1547.1	265.8	82.0
MAY 16	1473.0	1525.3	-52.3	4346.6	4951.1	-604.5	2837.2	2180.4	656.8	203.6
MAY 23	1899.5	1950.7	-51.2	5649.1	6597.1	-948.0	2950.0	1950.8	999.2	311.1
MAY 30	1521.4	1657.4	-136.0	6252.8	7083.8	-831.0	5848.0	4881.0	967.0	300.7
JUN 6	1377.6	1473.0	-95.4	4586.9	4511.6	75.3	2655.8	2635.7	20.1	6.0
JUN 13	1478.1	1558.3	-80.2	3977.0	4202.6	-225.6	2165.1	1859.3	305.8	95.3
JUN 20	1830.5	1913.3	-82.8	4784.6	4830.5	-45.9	2283.5	2154.8	128.7	39.9
JUN 27	1937.0	2002.5	-65.5	5592.1	5551.6	40.5	2528.4	2503.4	25.0	7.8
JUL 4	2043.4	2292.8	-249.4	5993.8	5794.7	199.1	1942.4	1892.1	50.3	15.5
JUL 11	2193.5	2330.6	-137.1	6459.4	6064.6	394.8	2226.7	2484.4	-257.7	-81.1
JUL 18	2024.6	2101.0	-76.4	4893.9	5173.3	-279.4	2087.2	1731.4	355.8	111.8
JUL 25	2429.3	2550.8	-121.5	5767.0	5324.6	442.4	1705.0	2025.9	-320.9	-101.1
AUG 1	1624.9	1660.7	-35.8	3353.6	3152.8	200.8	1792.4	1957.4	-165.0	-51.5
AUG 8	2843.0	2880.5	-37.5	6617.1	6294.2	322.9	1931.3	2216.7	-285.4	-88.9
AUG 15	2985.5	3016.8	-31.3	6852.4	7082.7	-230.3	2090.5	1828.9	261.6	82.1
AUG 22	3689.5	3819.6	-130.1	7473.0	7569.4	-96.4	2234.7	2008.2	226.5	71.5

* Estimate by MIDF Research based on prevailing exchange rate.
Source: Bursa's preliminary data



FUND FLOW REPORT

D. TOP 100 STOCKS: MONEY FLOW ²

TOP 10 NET MONEY INFLOWS

- Hap Seng Consolidated once again attracted the highest net money inflow of RM12.84m last week. Its share price advanced 3.35% for the week against 1.59% for the FBM KLCI. However, weekly traded volume dropped to around 16m from nearly 80m in previous week. We find no material corporate development to account for the rise in investors' interest during recent weeks.
- Axiata came in second with RM12.59m net inflow. Its share price nonetheless ended the week unchanged. XL, its main Indonesian subsidiary, recently reported a 2%yoy increase in 1H14 EBITDA but with a lower margin of 37% due to higher operating expenses.
- Telekom Malaysia recorded the third highest net money inflow of RM8.26m while its share price declined -0.32% during the review week despite the advancing market. It is noteworthy that money net inflow amidst retreating share price indicates buy on weakness (BOW) stance among investors.

TOP 10 NET MONEY OUTFLOWS

- For the third week in a row, Public Bank registered the largest net money outflow albeit with a lesser amount of -RM20.78m. Its share price inched up 0.94% for the week, underperforming the market benchmark. Intense loan competition and rising funding costs are arguably putting pressure on banks' forward margins.
- UMW Holdings saw the second largest net money outflow of -RM13.20m last week. On the other hand, its share price outperformed the FBM KLCI with a 4.85% weekly gain. The net outflow amidst rising share price may indicate Sell on strength (SOS) stance among some investors.
- Tenaga Nasional (TNB) came in third with -RM11.79m net outflow. Its share price underperformed the broader market with a 1.46% gain last week.

Tables below list the Top 10 Net Money Inflows and Net Money Outflows for the week ended 8 August 2014 among the largest 100 market capitalized stocks on Bursa Malaysia.

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
HAP SENG CONS.	12.84	19.08	3.35	-
AXIATA	12.59	-1.06	0.00	-
TELEKOM M'SIA	8.26	-11.18	-0.32	BOW
PETRONAS CHEM.	5.63	-4.63	-1.21	BOW
SAPURAKENCANA	4.35	4.96	2.89	-
ALLIANCE FIN.	3.95	-0.96	0.60	-
SP SETIA	2.93	1.07	2.91	-
MISC	2.04	-0.73	1.92	-
M'SIA AIRPORTS	2.00	0.17	2.86	-
HONG LEONG FIN.	1.63	-0.03	2.56	-

Source: Bloomberg, MIDFR;

Note: BOW - Buy on weakness, SOS - Sell on strength (Bloomberg defined)

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PUBLIC BANK	-20.78	-52.98	0.94	SOS
UMW HLDGS.	-13.20	-2.77	4.85	SOS
TNB	-11.79	3.59	1.46	SOS
PETRONAS GAS	-4.83	0.92	0.80	SOS
MAYBANK	-4.61	-12.25	0.60	SOS
GAMUDA	-4.11	-7.50	2.49	SOS
BINTULU PORT	-3.13	-0.35	0.00	-
MAXIS	-3.10	-3.38	1.08	SOS
DIGI.COM	-2.96	-8.09	1.06	SOS
KL KEPONG	-2.95	-15.82	-3.26	-

Source: Bloomberg, MIDFR;

Note: BOW - Buy on weakness, SOS - Sell on strength (Bloomberg defined)

² Money flow indicates whether a particular stock is being more heavily purchased or sold. Money flow generally confirms price trend. As price rises, money flow is usually positive, vice versa. A divergence may portend a reversal in price trend. A rising stock price with a negative money flow can indicate a future price correction, vice versa.

How is money flow calculated? When a trade is performed, its price is compared to the price of the previous trade (the first trade of the day is compared to the previous day's close). If the prices differ, either upticks or downticks, the value of the trade (price multiplied by number of shares) is added to or subtracted from the money flow respectively.

Source: Bloomberg, MIDFR

E. THE WEEK AHEAD

LOCAL MONEY RULES; HAPPY BIRTHDAY MALAYSIA!

- The local equity market is clearly being driven by local liquidity as foreign participation remained moderate and unexciting. That makes an interesting case for expecting the market to remain resilient and less volatile. After all, foreign portfolio managers are arguably more “trigger-happy”.
- Most of the action now is unmistakably in the market for second and third liners. The FBM Smallcap index closed at an all-time high of 19,338 points on Tuesday. It was followed by record high trading volume of 7.67b on Wednesday (Chart 1).
- We remain bullish on this segment of the market this week. It is a national day week and we detect a feel-good factor in the equity market after a dignified showing by the country in mourning for the victims of MH17 last Friday.
- This is the final week for the release of corporate earnings reporting card for the quarter ended June. All eyes will be on Malaysia Airlines’ (MAS) numbers due out on August 28 (Thursday).
- MAS 2Q14 operating statistics already manifested the fallout partly associated with MH370. The international load factor for the quarter declined -8.0%-point compared with that in 1Q14. MAS is competing head-on with AirAsiaX in many routes – its 2Q14 yield likely dropped by >5%yoy. Expect 2Q14 core net loss to exceed RM500m.
- Another bellweather statistics will be Maybank’s financials which will also be reported on Thursday. Our banking analyst expects a net profit of RM1.7b in 2QFY14, compared with RM1.60b in 1QFY14 and RM1.57b in 2QFY13. A significantly higher number than RM1.7b is expected to be a market booster.

PRICING IN ANOTHER OPR HIKE

- An important release last week was the inflation rate for July. Inflation stayed stable at 3.2%yoy, but it is still “elevated” (>3%). Interestingly, food price inflation fell below overall inflation for the first time in many years. The question now is when the CPI inflation will drop below 3%. We expect this to happen in September. Once it dipped below 3%, there is less pressure on the central bank to raise the OPR.
- Yet, the interbank market appears aggressively betting for another hike this year (see Chart 3). While we do not expect the OPR to be increased in September, it may be lifted in November, taking the cue from the interbank market and disregarding the trend with regard to inflation.



CHART 1: HEIGHTENED ACTIVITY LEVEL ON BURSA



CHART 2: FOOD PRICE INFLATION IS BELOW OVERALL CPI

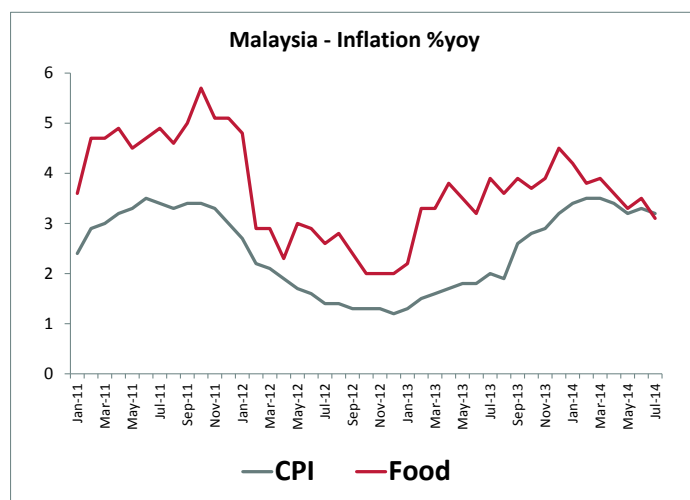
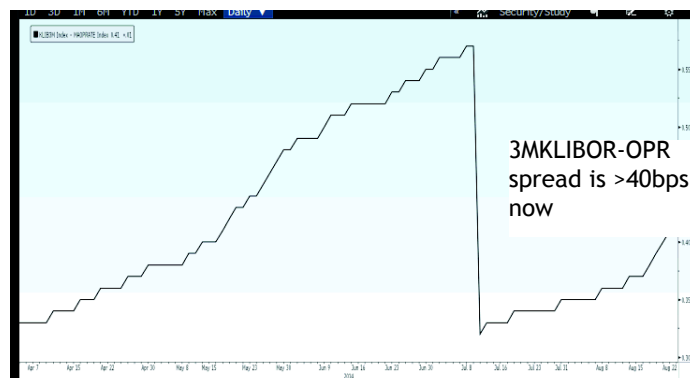


CHART 3: INTERBANK MARKET CONTINUES TO BET ON ANOTHER OPR HIKE



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