



## Weekly Strategy

Market View, News In Brief: Corporate, Economy, and Share Buybacks

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### Market View *FBM KLCI Could Remain in Consolidation Mode*

Despite profit-taking pressure after an extended three-day holiday the previous weekend following a steep correction on US technology shares, the benchmark FTSE Bursa Malaysia Kuala Lumpur Composite Index (FMB KLCI) managed to test another new two-year high last Friday, after the US Federal Reserve raised interest rates for the second time this year and guided for one more hike in 2017.

For the week, the FBM KLCI added 2.42 points, or 0.14 percent to 1,791.31, with gains on core plantation counters KLK (+50sen) and PPB Group (+26sen), and Hong Leong Bank (+42sen) offsetting losses on Maxis (-31sen) and Petronas Gas (-30sen). Average daily traded volume and value moderated further to 1.99bn shares and RM2.56 billion, compared with the 2.2 billion shares and RM2.4 billion average respectively the previous week, as trading momentum slowed amid the cautious mood following the much-anticipated US interest rate hike.

The benchmark FBM KLCI could remain in a consolidation mode this week in the absence of drivers to propel the index. The Brent crude oil price's strength, which rose above USD55/barrel since late December 2016 and sustained above USD50/barrel throughout most part of this year, and weakness in the USD due to delays in implementation of President Trump's promised economic reforms painted a favourable outlook for the ringgit and contributed in net inflow of foreign funds into Malaysian equities so far.

The recovery in the benchmark index was sustained by favourable economic outlook, especially after a stronger-than-expected first quarter GDP, recovery in corporate earnings and expectations of a general election this year, which normally results in a vibrant market. The benchmark index could hold on to these gains as the anticipated gradual tightening pace in the US monetary policy and internal headwinds faced by President Trump are expected to hold sway over his intended expansionary fiscal policy and limit US dollar's strength.

However, subdued crude oil prices and its weaker outlook could turn out to be a dampener for the ringgit and benchmark index in the immediate term. Brent crude oil price has dipped below USD50/barrel in June and indications of rising crude oil supply will offset supply cuts imposed by OPEC and non-OPEC producers are negative factors that could check the ringgit's strength and affect foreign holdings in equities in the coming weeks, if prices remain weak.

No major economic data are due for announcement this week locally and externally. Malaysia's Consumer Price Index that will be released this week is expected to be within consensus expectations of 4.2% year-on-year (YoY) versus April's 4.4% YoY due to weakness in fuel prices compared to April but overall inflation is likely to remain elevated above 4% YoY due to higher transportation and food and non-alcoholic beverages costs.

Externally, the subdued US economic data could continue to undermine the Federal Reserve's tightening bias and allay concerns about a weaker ringgit against the USD and the subsequent impact on fund outflows. For instance, the US housing starts and building permits data released last Friday continued to show signs of weakness that could affect the US economic growth in the second quarter. The housing starts fell 5.5% to a seasonally adjusted annual rate of 1.09 million units in May, for a third straight month and the lowest level in eight months, versus forecast 1.22 million units as construction activity declined broadly. This is mainly attributed to shortage of construction workers and short supply of land. Consumer sentiment measured by the University of Michigan slipped as well to 94.5 in June, the lowest level since the presidential election in November, versus forecast 97.3 due to concerns about Trump's economic policies and chances of them passing through the Congress.

## News In Brief

### Corporate

**Felda Global Ventures Holdings Bhd** said it has not held any discussion with the Federal Land Development Authority (Felda) on the possibility of a plantation trust. The plantation company denied a report in a local newspaper that its major shareholder, Felda, is exploring the possibility to carve out its upstream business. *(Bernama)*

**Boustead Holdings Bhd's** 51%-owned subsidiary **MHS Aviation Bhd (MHS)** was given a 90-day notice by Petronas Carigali Sdn Bhd's (PCSB) over the latter's intention to terminate a contract originally signed in June 2011. MHS received the letter notifying of PCSB's intention to terminate, without cause, the contract for the provision of rotary wing aircraft, equipment and services for Heavy Type Aircraft EC225. *(Bursa Malaysia)*

**Top Glove Corp Bhd** posted a 24% rise in net profit to RM77.7mn 3QFY17, from RM62.5mn a year earlier on a 29.3% increase in revenue from the year before. For the cumulative nine-month period, however, net profit contracted 20% to RM234.1mn from RM295.4mn in the previous year, despite 16% growth in revenue to RM2.5bn from RM2.2bn. It declared first interim dividend of 6 sen per share. *(Bursa Malaysia)*

**IHH Healthcare Bhd** and Fortis Healthcare Ltd are said to be in the advanced stage of negotiations and due diligence according to news reports in India. IHH is likely to buy a majority controlling stake in Fortis. However, IHH's spokesperson said that it is not appropriate to comment on specific transactions at this juncture when asked about the Indian reports. *(The Edge)*

**Eastern & Oriental Bhd** is divesting one of its subsidiaries, E&O Express Sdn Bhd, which owns and operates the Lone Pine Hotel in Batu Feringghi, Penang, for RM85mn. Following the divestment, it expects to realise an estimated gain on disposal after taxation of approximately RM23.3mn. A share sale agreement has been inked with Langkawi Saga Shopping Centre Sdn Bhd and Lubritrade Trading Pte Ltd to effect the disposal. *(Bursa Malaysia)*

**Fajarbaru Builder Group Bhd** has bagged a RM12.8mn contract from Petronas Dagangan Bhd to build an underground pipeline foundation at klia2. The contract is for the engineering, procurement, construction and commissioning of phase two of Jet-A1 underground pipeline foundation and associated works for PetDag's subsidiary, Kuala Lumpur Aviation Fuelling System Sdn Bhd and will last for 34 weeks. *(Bursa Malaysia)*

**Hengyuan Refining Co Bhd** is investing USD160mn (RM700mn) in two projects at its refining complex in Port Dickson, Negri Sembilan. The first project, estimated at USD135mn would enable the group to economically produce Euro 4M Mogas with the installation of an integrated complex whilst the second project, estimated at USD25mn, involves the replacement of the top dome and catalyst separation system of the regenerator reactor of the Long Residue Catalytic Cracking Unit. *(Bursa Malaysia)*

**Barakah Offshore Petroleum Bhd** said it is not expecting improvement in its bottom line this year compared to FY16, but foresees more jobs secured next year. The upstream oil and gas company has yet to secure any new contract for its transportation and installation division. *(The Edge)*

**Rev Asia Bhd** asserted that its core business will remain in the technology sector following the sale of its 70%-owned digital media subsidiary to **Media Prima Bhd**. The sale is expected to be completed by the third quarter of this year, and will award shareholders with the proposed dividend of 44 sen per share. *(The Edge)*

**NetX Holdings Bhd** has proposed to issue and allot up to 500mn new shares to Australian investment bank Macquarie Bank for about RM25.5mn, which it will use to fund the development of a mobile payment exchange system. Macquarie Bank does not have any intention to change any person in the board or participate in management of the Group. *(Bursa Malaysia)*

## News In Brief

### Economy

#### Asia **Malaysia Jobless Rate Remains Stable**

Malaysia's unemployment rate held steady in April, after falling marginally in the previous month, figures from the Department of Statistics showed. The jobless rate came in at 3.4% in April, the same rate as in March. In the corresponding month last year, the jobless rate was 3.5%. The number of unemployed people rose to 511,900 in April from 510,800 in March. A year ago, the jobless figure totaled 511,500. The labor force participation rate remained unchanged at 67.7% in April. The seasonally adjusted jobless rate was 3.4% in April, up slightly from 3.3% in the prior month. (Department of Statistics)

#### **Malaysia to Raise CPO Export Tax Next Month**

Malaysia will raise its crude palm oil export tax to 6.5% in July from 6% this month. According to the Malaysian Palm Oil Board, effective July 1-31 the calculated palm oil reference price will be RM2,890.04 (US\$676.35) per tonne. "A price above RM2,250 incurs a tax, which starts from 4.5% and can reach a maximum of 8.5%," it said. Malaysia, which is the world's second largest palm oil producer after Indonesia, has lowered the tax for a third consecutive month in June, down from 7% in May. (The Star)

#### **Bank of Japan Keeps Policy on Hold**

The Bank of Japan left interest rates and its commitment to buying government bonds unchanged, maintaining its aggressive monetary stimulus aimed at lifting inflation, which continues to show weakness despite brighter spots elsewhere in the economy. The decision reaffirming the central bank's ultra-easy stance comes less than two days after the Federal Reserve raised interest rates for the third time in six months despite renewed weakness in U.S. inflation. The Fed also gave more details on how it plans to trim its balance sheet, a topic that Japan's central bank is gradually starting to talk about after months of insisting that it was still too early to discuss. The BOJ board voted 7-2 to keep its target for 10-year Japanese government bond yields at around zero and a shorter-term interest rate at minus 0.1%, as widely expected by economists.

The bank also reiterated that it would continue to buy government bonds at an annual pace of about ¥80 trillion (\$720 billion). Controlling short- and long-term interest rates has become the bank's principal policy tool since a revamp of its measures last September, but the passage on its bond purchases is seen by investors as a symbolic gauge of the bank's commitment to its easing policy. The actual rate of purchases has fallen well below the ¥80 trillion annual pace in recent months. Speculation has been growing in markets that the BOJ's next step might be a tightening move, instead of easing, as investors and politicians become increasingly nervous about the bank's ballooning balance sheet and what might happen to the overall value of its assets if the price of bonds suddenly falls. (The Wall Street Journal)

#### **Singapore NODX Falls Less than Expected in May**

Singapore's non-oil domestic exports declined at a slower-than-expected pace in May, data from the International Enterprise Singapore showed. NODX fell 1.2% year-over-year in May, much slower than the 5.6% decrease economists had expected. This was followed by a 0.8% drop in April. Exports of electronic products expanded 23.3% annually in May after a 4.8% rise in the prior month. It was expected to grow by 11.9%. The increase in electronic domestic exports was largely contributed by ICs, PCs and parts of PCs. At the same time, non-electronic NODX declined 9.0% yearly in May, compared to the 2.9% fall in April. On a monthly basis, NODX rose by a seasonally adjusted 8.1% in May, reversing a 9.0% decrease in the preceding month. (RTT News)

#### **China Removes 27 Restrictions for Foreign Investment in Free-Trade Zones**

China has removed 27 restrictions in its newly issued negative list for foreign investment in its free-trade zones, its cabinet said on Friday in a notice. Chinese leaders have pledged to open the world's second-largest economy wider to foreign investors but a negative list is in

place for its eleven free-trade zones - which enjoy looser trade and financial regulations on a trial basis - that specifies the areas that are off limits to foreign capital. Among the beneficiaries of the new negative list across more than 20 industries are foreign manufacturers of rail transportation equipment and civilian satellites, who would no longer be obliged to enter a joint venture with Chinese partners or let the Chinese side take the majority share. Previously restricted sectors such as precious metals and lithium mining, as well as internet access services, credit rating services, and large-scale theme park construction are now open to foreign capital. Rules on banking services, which in the past forbade foreign banks from underwriting Chinese government bonds, have also been eased. China opened its first free-trade zone in Shanghai in 2013. Since then, ten major provinces and cities such as Zhejiang and Chongqing have been approved to establish such zones. (The Star)

### *United States* **U.S. Housing Starts Fall for Third Consecutive Month in May**

U.S. housing starts decreased for the third consecutive month in May, a sign home builders are struggling to meet buyer demand. Housing starts dropped 5.5% in May from the prior month to a seasonally adjusted annual rate of 1.092 million, the Commerce Department said. This figure carries a margin of error of 11.9%. Residential building permits, an indication of how much construction is in the pipeline, fell 4.9% to an annual pace of 1.168 million last month, the agency said. Economists surveyed by The Wall Street Journal had expected a 3.4% increase for starts and a 0.8% rise for permits. Starts fell in May for single-family and multifamily construction. Permits last month were down 10.4% for buildings with multiple units and down 1.9% for single-family homes. Data on housing starts tend to be volatile from month to month and can be subject to sharp revisions. Looking past month-to-month fluctuations, starts in the first five months of the year were up 3.2%. Permits during this period increased 5.5%. (The Wall Street Journal)

### **U.S. Consumer Sentiment Declined in Early June**

A closely watched gauge of U.S. consumer sentiment dropped in early June, a sign that political tensions in Washington may be denting Americans' confidence in the economy. The University of Michigan said its preliminary June reading on consumer sentiment was 94.5, its lowest level since November and down from May's final figure of 97.1. Economists surveyed by The Wall Street Journal had expected a preliminary June reading of 97.0; the index was still up 1.1% in June from a year earlier. The report "suggests softening in consumer enthusiasm, although we expect that sentiment at these levels will still be supportive of consumer spending in the coming months," Barclays economist Blerina Uruci said in a note to clients. (The Wall Street Journal)

### **U.S. Exports to Mexico Fall as Uncertainty Over Nafta Lingers**

Friction between the U.S. and Mexico over trade is starting to cut into sales for U.S. farmers and agricultural companies, adding uncertainty for an industry struggling with low commodity prices and excess supply. Over the first four months of 2017, Mexican imports of U.S. soybean meal—used to feed poultry and livestock—dropped 15%, the first decrease for the period in four years, according to data from the U.S. Department of Agriculture. Shipments of U.S. chicken meat fell 11%, the biggest decline for the period since 2003. U.S. corn exports to Mexico declined 6%. Mexico is the largest U.S. export market for those commodities. The numbers reflect how Mexican companies are now increasingly buying grain on a short-term basis and purchasing more chicken from Brazil, troubling some industry officials and analysts. The trade data, which is the latest available, indicates that Mexico is starting to follow through on aspirations to buy food from a wider range of countries, and reduce reliance on the U.S. (The Wall Street Journal)

### *Europe and United Kingdom* **Eurozone Inflation Falls to 1.4%**

Inflation in the eurozone has fallen back below the European Central Bank's target, easing pressure on doves on its policymaking council to take steps towards ending its quantitative easing programme. Eurostat, the Commission's statistics bureau, reported that annual inflation across the single currency area had eased from 1.9% in April to 1.4% in the year to May. The ECB targets inflation of just under 2%. Its policymakers are set to meet in Tallinn

next Thursday to discuss whether to present a more positive message on economic developments. While the Eurozone's economic recovery is becoming increasingly strong and broad, price pressures remain subdued. The flash estimates showed core inflation – a measure which strips out changes in prices for volatile goods such as energy and food, and is seen as a better indicator of longer term inflation pressures – remained weak, at 0.9%, down from 1.2% in April. The weak core rate eases pressure on the ECB to begin dismantling its quantitative easing programme, under which it is currently buying €60bn-worth of bonds a month. The plan is to carry on buying that amount until at least the end of this year. However, the council is expected to begin discussions at some point in the summer on unwinding the programme in 2018.

Separately, Eurozone labor cost increased at a steady pace in the first quarter. Hourly labor cost grew 1.5% on a yearly basis, the same rate as seen in the fourth quarter of 2016. The annual growth in wages eased to 1.4% from 1.6% in the previous quarter. At the same time, other cost climbed 1.6% versus 1.4% a quarter ago. In the EU28, hourly labor cost increased again by 1.7%. (Financial Times)

#### Share Buy-Back: 16 June 2017

Company	Bought Back	Price (RM)	Hi/Lo (RM)	Total Treasury Shares
AMPPOP	20,000	0.80	0.80/0.795	13,749,100
FIAMMA	500,000	0.55	0.555/0.54	16,110,000
GLBHD	25,000	0.62/0.61	0.62/0.61	6,983,400
TEXCHEM	1,000	1.42	1.42/1.38	2,577,400
UNIMECH	15,200	0.15/0.14	0.15/0.14	5,087,910

## TA RESEARCH – Remisiers' Briefing

**Topic:** Weekly Market Outlook

**Speaker:** Kaladher/ Stephen Soo

**Venue:** Auditorium, 10<sup>th</sup> Floor Menara TA One

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**Time:** 12.40pm

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**SNAPSHOT OF STOCKS UNDER COVERAGE**

Company	Share Price (RM)	Target Price (RM)	BETA	EPS (sen)		PER (X)		Div Yield (%)		52weeks		52weeks		% Chg YTD
				FY17	FY18	FY17	FY18	FY17	FY18	High Price	% Chg	Low Price	% Chg	
<b>PLANTATIONS</b>														
FGV	1.76	1.55	1.76	4.2	8.5	41.7	20.7	2.8	2.8	2.52	-30.2	1.42	23.9	13.5
IUMPLNT	3.06	3.88	0.46	12.3	15.7	24.9	19.4	2.3	2.6	3.70	-17.3	3.00	2.0	-10.0
IOICORP	4.58	4.15	1.09	18.7	21.0	24.5	21.8	2.2	2.6	4.81	-4.8	4.21	8.8	4.1
KLK	25.30	26.19	0.87	111.8	119.1	22.6	21.2	2.2	2.3	25.50	-0.8	22.72	11.4	5.4
SIME	9.62	10.02	1.23	34.0	37.5	28.3	25.6	2.6	3.2	9.67	-0.5	7.30	31.8	18.8
UMCCA	6.07	7.52	0.47	32.7	34.5	18.6	17.6	2.8	2.8	6.51	-6.8	5.53	9.8	1.2
<b>PROPERTY</b>														
GLOMAC	0.67	0.69	0.59	3.4	7.0	19.3	9.5	6.0	6.0	0.83	-19.4	0.67	0.0	-4.3
HUAYANG	1.06	1.07	0.65	17.3	17.4	6.1	6.1	3.8	3.3	1.43	-26.0	1.05	1.0	-6.2
IBRACO	0.86	0.92	0.34	4.9	10.2	17.5	8.4	4.1	4.7	1.05	-18.6	0.79	8.9	-14.5
IOIPG	2.17	2.25	0.89	17.4	17.4	12.5	12.4	3.2	3.5	2.46	-11.8	1.85	17.5	11.3
MAHSING	1.59	1.70	0.72	14.4	14.2	11.0	11.2	4.1	4.1	1.70	-6.5	1.34	18.7	11.2
SNTORIA	0.86	0.98	0.29	6.2	10.3	13.9	8.3	1.2	1.2	1.00	-14.5	0.69	23.9	6.9
SPB	4.84	5.98	0.59	25.6	22.8	14.3	16.0	3.8	3.8	5.19	-6.7	4.32	12.0	9.5
SPSETIA	3.65	4.10	0.66	11.7	12.6	34.2	31.7	1.3	1.3	4.50	-18.9	2.80	30.4	16.6
SUNWAY	4.00	3.95	0.46	15.6	15.9	17.4	17.1	6.7	6.8	4.05	-1.2	2.84	40.8	33.3
<i>Note: SUNWAY proposed bonus issue of shares and warrants. Ex-Target price RM1.69. For more details please refer to 15.06.17 report.</i>														
<b>REIT</b>														
SUNREIT	1.73	1.86	0.51	8.9	10.1	19.5	17.1	5.1	5.8	1.84	-6.0	1.60	8.1	0.6
CMMT	1.54	1.72	0.56	8.1	8.6	19.1	17.9	5.5	5.8	1.72	-10.5	1.45	6.2	0.7
<b>POWER &amp; UTILITIES</b>														
MALAKOF	1.15	1.23	0.72	7.1	6.4	16.2	17.9	6.1	6.1	1.80	-36.1	1.13	1.8	-16.1
PETDAG	24.30	21.47	0.76	98.4	102.3	24.7	23.8	3.0	3.1	25.70	-5.4	22.92	6.0	2.1
PETGAS	18.90	19.60	0.76	88.2	101.3	21.4	18.7	3.3	3.7	22.66	-16.6	18.10	4.4	-11.3
TENAGA	14.44	17.37	1.01	131.9	130.8	10.9	11.0	3.0	3.2	14.90	-3.1	13.00	11.1	3.9
YTLPOWER	1.44	1.90	0.57	8.2	10.7	17.5	13.5	6.9	6.9	1.64	-12.2	1.38	4.3	-3.4
<b>TELECOMMUNICATIONS</b>														
AXIATA	4.99	5.50	1.29	15.0	16.7	33.2	30.0	1.5	1.7	5.99	-16.7	4.11	21.4	5.7
DIGI	4.95	4.95	0.94	20.8	21.1	23.7	23.5	4.2	4.3	5.19	-4.6	4.64	6.7	2.5
MAXIS	5.88	6.10	0.69	25.1	25.4	23.4	23.1	3.4	3.4	6.60	-10.9	5.50	6.9	-1.7
TM	6.65	7.50	0.68	21.4	22.3	31.0	29.8	2.9	3.0	6.90	-3.6	5.81	14.5	11.8
<b>TECHNOLOGY</b>														
<i>Semiconductor &amp; Electronics</i>														
IRIS	0.15	0.28	1.34	-2.6	-0.3	na	na	0.0	0.0	0.24	-37.5	0.10	50.0	36.4
INARI	2.02	2.40	0.80	10.3	12.6	19.6	16.0	4.0	2.5	2.23	-9.4	1.41	43.6	21.7
MPI	13.20	15.90	0.51	94.2	115.7	14.0	11.4	2.0	2.0	13.50	-2.2	7.02	88.0	78.1
UNISEM	3.56	4.10	0.80	26.9	29.1	13.2	12.2	3.4	3.4	3.70	-3.8	2.27	56.8	50.8
<b>TRANSPORTATION</b>														
<i>Airlines</i>														
AIRASIA	3.27	3.23	1.12	37.6	35.9	8.7	9.1	1.2	1.5	3.59	-8.9	2.16	51.4	42.8
AIRPORT	8.79	8.10	1.48	17.2	17.5	51.0	50.3	1.1	1.1	9.45	-7.0	5.76	52.6	45.0
<i>Freight &amp; Tankers</i>														
TNLOGIS	1.79	2.05	0.74	14.3	22.7	12.5	7.9	2.4	3.9	1.87	-4.3	1.33	34.6	12.6
WPRTS	3.75	4.05	0.67	17.1	15.1	21.9	24.8	3.4	3.0	4.59	-18.3	3.62	3.6	-12.8

**SNAPSHOT OF FOREIGN STOCKS UNDER COVERAGE**

Company	Share Price (\$S)	Target Price (\$S)	Beta	EPS (cent)		PER (X)		Div Yield (%)		52week		52week		% Chg YTD
				FY17	FY18	FY17	FY18	FY17	FY18	High Price	% Chg	Low Price	% Chg	
<b>BANKS &amp; FINANCIAL SERVICES</b>														
DBS	20.45	23.30	1.22	173.8	190.2	11.8	10.8	2.9	2.9	21.2	-3.4	14.72	38.9	17.9
OCBC	10.64	12.00	1.13	87.7	92.4	12.1	11.5	5.7	6.7	10.8	-1.1	8.84	29.4	19.3
UOB	22.95	25.40	1.09	195.6	209.3	11.7	11.0	3.1	3.1	24.0	-4.5	17.41	31.8	12.5
<b>PLANTATIONS</b>														
WILMAR	3.52	3.72	0.92	28.9	31.1	12.2	11.3	2.3	2.6	4.0	-12.0	2.96	18.9	-1.9
IFAR	0.49	0.53	1.12	4.9	5.2	10.0	9.3	2.5	2.6	0.6	-18.5	0.44	10.2	-7.6

**BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.

**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.

**SELL** : Total return is lower than the required rate of return.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate** of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium