Weekly Strategy

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

Kaladher Govindan | Tel: +603-2167 9609 | kaladher@ta.com.my | www.taonline.com.my

Market View — Correction Likely to Continue

Steel-related stocks led falls last week on the US President's proposed heavy tariffs of 25% on steel and 10% on aluminum imports, which raised concerns that it will spark reprisals and fuel a global trade conflict. The resignation of the US President's top economic adviser Gary Cohn, long regarded as a top free trade advocate, reignited worries more protectionist measures will be damaging to global trade. However, fears receded into the weekend after details emerged that the US import tariffs will exclude major trading partners.

For the week, the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) slipped 12.15 points, or 0.65 percent to 1,843.92, as losses on Petronas Dagangan (-RM1.02), Hong Leong Bank (-RM1.00), HLFG (-52sen) and Press Metal (-50sen) offset gains on Nestle (+RM19.10), Maxis (+11sen) and Axiata (+10sen). Average daily traded volume and value moderated to 2.59 billion shares and RM2.51 billion last week, compared to the 2.87 billion shares and RM2.84 billion average respectively the previous week.

In the immediate term, local and regional markets could react positively to last Friday's US nonfarm payroll report that showed average hourly earnings growth narrowed to 2.6% year-on-year (YoY) in February despite jobs increased by 313,000 versus forecast 200,000. December and January numbers also saw some upward adjustments. Unemployment rate sustained at 4.1% despite the strong job figures as labour participation rate improved by 0.3 percentage points to 63% from a month ago. This could temporarily negate worries about rising inflation and tighter monetary policy.

However, these worries will not fade away in 2018 as the US labour participation rate is already hovering around long-term average and President Trump's fiscal measures should sustain continued tightening in the labour market and higher inflation as wages rise. Thus, equity market volatility is here to stay and should continue to exert downside pressure on the local market due to net outflow of foreign funds (foreign ownership in our listed companies is not low at an estimated 23%). Foreigners turned net sellers in February (-RM1.2bn) after a net inflow of RM3.3bn in January. Month-to-date data for March showed they remained net sellers and the exit could intensify as the month progresses due to expectations for the Malaysian parliament to be dissolved soon as the first sitting of the 2018 session of parliament ends on 5th April.

The release of US CPI data and retail sales for February this week along with forward indicators like housing starts and building permits should shed more light on the private consumption and investment trend. If these data continue to surpass expectations, investor sentiment, especially in the emerging markets, may remain jittery. Locally, no major economic data is due this week, except for industrial production index (IPI) and manufacturing sales for January. An outperformance against expectations should not be any surprise given the month's strong trade data. Exports during the month surpassed expectations with a strong growth of 17.9% YoY versus consensus estimate of 12.9% YoY. In fact, the manufactured products grew at a hefty rate 20.4% YoY and this should be reflective in the IPI and manufacturing sales.

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my

UMW Holdings Bhd plans to boost its strategic stake in Perodua from 38% to 70.6%. It had made a conditional offer to buy a 50.1% **MBM Resources Bhd** from Med-Bumikar Mara Sdn Bhd and its unit Central Shore Sdn Bhd for RM501.0mn (RM2.56/share). It also made a conditional offer to PNB Equity Resource Corporation Sdn Bhd for 10% equity interest in Perodua for RM417.5mn. (*Bursa Malaysia/ Bernama*)

Keck Seng (Malaysia) Bhd is buying a stake in hotel investment platform AccorInvest Group SA for RM121mn to gain exposure to a diversified portfolio of hotels in Europe with resilient income stream and opportunities for value creation. AccorInvest, which is owned by European hotel giant Accor SA, is the world leader in hotel real estate, with a current portfolio of 891 hotels. *(Bursa Malaysia/ The Sun)*

Tenaga Nasional Bhd has extended Datuk Seri Ir Azman Mohd's service contract as President/Chief Executive Officer (CEO) for another 2 years. The contract would be effective from July 1, 2018 until June 30, 2020. Azman has been the power utility's President and CEO since July 1, 2012. *(Bursa Malaysia/ Bernama)*

Gamuda Bhd's 80%-owned subsidiary Gamuda Water Sdn Bhd has received 4 writs of summons together with the corresponding statements of claim filed by **Tenaga Nasional Bhd** (TNB) against Gamuda Water for outstanding electricity bill of RM39.5mn. The suits are premised on the failure by Gamuda Water in paying the electricity bills to TNB. *(Bursa Malaysia/ The Sun)*

Comments: *The development is not entirely surprising as we understand that water operators in the Klang Valley which include Gamuda Water and Sungai Harmoni Sdn Bhd have seen building up of their receivables post 12th general election as they have been receiving partial payments for their billing amounts. As water is essential to humans, we do not think TNB would suspend electricity supply to the water operators. We do not expect it to have a major impact on Gamuda's operation and financials as the outstanding electricity bills have been fully provided as and when they are incurred. Maintain **BUY** call on **GAMUDA** with a target price of **RM6.00**/share.*

Muhibbah Engineering Bhd, via its 49% JV, has bagged a contract worth RM57.6mn from Prasarana Malaysia Bhd for the design, supply, delivery, installation, testing and commissioning of noise barrier for package NBE (E) for LRT3. The construction works would commence immediately and were expected to be completed by the third quarter of 2020. *(Bursa Malaysia/ Bernama)*

News In Brief Economy

Asia

IMF Praises Malaysia Economic Growth

The Interna-tional Monetary Fund (IMF) has commended Malaysia for its strong and resilient economic performance, underpinned by accommodative monetary policy and gradual fiscal consolidation. "In recent years, the economy has shown resilience and continued to perform well despite external shocks, while fiscal consolidation proceeded. Progress was made towards achieving high-income status and improving inclusion," it said. After surprising on the upside in 2017, real Gross Domestic Product (GDP) growth is projected to remain above potential at 5.3% in 2018. Last year, the economy expanded 5.9%. "Growth will likely remain above potential in 2018, inflationary pressures appear to be contained and risks to the outlook are balanced," it said in a statement released in Washington on Wednesday. "The executive directors agreed with the planned pace of fiscal consolidation in 2018, noting that it will help build buffers while maintaining financial market confidence," it said. Last year's federal budget deficit edged lower to 3.0% of GDP against 3.1% in 2016, in line with budget plans, and it is expected to further fall to 2.8% this year. (The Star)

China New Loans Fall More than Expected after Record January

Chinese banks extended 839.3 billion yuan ($132.4 billion) in net new yuan loans in February, the central bank said on Friday, below analysts' expectations and down sharply from a monthly record in January. Analysts polled by Reuters had predicted new yuan loans of 900 billion yuan. Banks doled out a record 2.9 trillion yuan in new yuan loans in January, and came under pressure from regulators to rein in lending growth in February, financial magazine Caixin reported last month, citing banking sources. Chinese lenders tend to front-load loans early in the year to get higher-quality customers and a full year of interest payments, and to win market share. China is in its second year of a regulatory push to clamp down on riskier financial activity that has been fueled by a rapid build-up in debt. Banks extended a record 13.53 trillion yuan in new loans last year. In February, outstanding yuan loans grew 12.8 percent from a year earlier, marginally slower than an expected 12.9 percent rise and compared with a gain of 13.2 percent in January. Broad M2 money supply grew 8.8 percent from a year earlier, marginally beating forecasts for an expansion of 8.7 percent and the 8.6 percent pace in January. China's total social financing (TSF), a broad measure of credit and liquidity in the economy, fell to 1.17 trillion yuan in February from 3.06 trillion yuan in January. Some analysts had expected a reading around 1 trillion yuan. (Reuters)

China Consumer Inflation Jumps to 2.9% in February

Consumer inflation in China unexpectedly accelerated to the fastest pace in more than four years in February, hitting a recently set official target as producer price growth weakened to the slowest pace in more than a year thanks to lower input prices. China's official consumer price index rose 2.9 per cent year on year last month, according to the National Bureau of Statistics. That was up from just 1.5 per cent in January and reflected a rapid alignment with the official target of "around 3 per cent" set by Premier Li Keqiang in his annual work report last week. The statistics bureau attributed the jump in part to a base effect from the timing of the lunar new year holiday, which this year fell in February but occurred in January of 2017. While the bureau attributed 1.1 percentage points of the move to a base effect from last year, the latest reading still came in well above a median forecast of 2.5 per cent from economists surveyed by Reuters. Much of the rise came courtesy food prices, which rose 3.6 per cent year on year after a climb of just 0.2 per cent in January. That was despite a fall of 7.3 per cent in pork prices - which are heavily weighted in the CPI basket - as fresh vegetable prices climbed 17.7 per cent, adding almost half a percentage point to the headline growth figure. Meanwhile the official producer price index slowed half a percentage point to notch a year-on-year rise of 3.7 per cent, the slowest pace since November 2016 as growth in the price of raw materials slowed 0.9

percentage points to 4.8 per cent year on year. (Financial Times)

BoJ Holds Rates at March Meeting

The Bank of Japan kept interest rates on hold on Friday as expected. The central bank kept overnight interest rates at minus 0.1 per cent and 10-year bond yields capped at about zero per cent. In-line with previous outlooks the bank also said consumer inflation, ex-fresh food, would continue to rise, reaching its target 2 per cent level by 2019. Marcel Thielant, senior Japan economist with Capital Economics said, however, the BoJ will continue to struggle to reach its 2 per cent inflation target. "Most analysts, ourselves included, expect inflation to remain well below the Bank's 2% target both this year and next as the Bank hasn't been able to lift inflation expectations among households and firms," he said. "If the Bank decides to tighten policy it will because of concerns about financial stability rather than because of stronger price pressures." (Financial Times)

Japan Real Wages Slump, Overshadow Rebound in Household Spending

Japan's household spending rebounded in January but workers' wages fell at the fastest pace in six months, in a worrying sign that consumption will lose momentum this year and weigh on an economy now enjoying its longest run of growth in 28 years. A spate of data issued on Friday cast doubt on the Bank of Japan's optimistic projection that a strengthening recovery will prompt firms to hike wages and boost consumption, helping accelerate inflation to its elusive 2 percent target. The weakness in wage growth could also reinforce market expectations the BOJ will lag far behind major peers in dialing back its massive stimulus programme, analysts say. "The slowdown in base pay in January suggests that the Bank of Japan won't be able to tighten monetary policy anytime soon," said Marcel Thieliant, senior Japan economist at Capital Economics. "Wages would have to rise at a much faster pace to create major cost pressures for firms." Household spending rose 1.9 percent in January from a year earlier, government data showed on Friday, rebounding from a 0.1 percent drop in December.

But the gain was driven mostly by higher costs for necessities, as unusually cold weather forced households to spend more on fuel and medical treatment, the data showed. Separate data showed workers' wages after adjustments for inflation fell 0.9 percent in January from a year ago, marking the biggest decline since a 1.1 percent drop in July 2017. The decline suggests the government will struggle to convince large companies to raise wages by 3 percent or more this year at annual negotiations with labour unions, which are expected to conclude next week. Consumption has been a soft spot in an otherwise robust recovery, hampering the BOJ's efforts to achieve its inflation target as firms remain wary of raising prices for fear of scaring away cost-sensitive households. (Reuters)

Japan-led Pacific Rim Countries Desperate to Embrace Trump

The grandiose sounding Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will be signed in Santiago de Chile on 8 March. Instead of doing something to advance the condition of women on International Women's Day, trade representatives from 11 Pacific rim countries will sign the CPTPP, which some critics argue will further set back the progress of humanity, including women who hold up 'half the sky'. The Trans-Pacific Partnership (TPP) originally involved twelve countries, including the USA, namely Japan, Brunei, Australia, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, now often referred to as the TPP11. Although originally a minor initiative not involving the US, the Obama administration led the negotiations which claimed to have created a model 'free trade agreement for the 21st century'. In fact, the resulting 6500 page agreement has, so far, only been used by Obama's United States Trade Representative (USTR) to derail the already protracted Doha 'Development' Round negotiations under the auspices of the World Trade Organization (WTO), e.g., by 'lame-duck' USTR Michael Froman at the WTO ministerial in Nairobi in December 2016. In January last year, newly elected US President Donald Trump withdrew from TPP, effectively killing the agreement. Since then, Japan has worked hard to keep it alive, with discreet help from Australia and others. Apparently, they hope to draw the US back in order to check China's growing influence in the region while delaying other regional trade negotiations such as the Regional Comprehensive Economic Partnership (RCEP). (The Star)

United States

U.S. Employers Added 313,000 Jobs in February

Companies ramped up hiring last month and people flooded back into the workforce, a potent mix suggesting the U.S. economy can run strong without overheating and forcing the Federal Reserve to slam its brakes on the expansion with aggressive interest-rate increases. Investors, applauding the combination of robust economic growth and a restrained central bank, sent the Dow Jones Industrial Average up 440.53 points, or 1.77%, to 25335.74. Nonfarm payrolls rose a seasonally adjusted 313,000 in February, the largest monthly gain since July 2016 and well above the average monthly gain in the expansion, the Labor Department said Friday. More than 800,000 Americans joined the labor force for the month, according to the report, many bypassing unemployment and jumping straight into jobs. It was the largest one-month labor-pool increase since 1983, outside months that included temporary Census hiring. The jobless rate held at 4.1% in February, its lowest level since December 2000, for the fifth straight month.

Low unemployment, in theory, creates wage and inflation pressure as firms compete for scarcer labor. But with people rejoining the labor force and expanding the pool of workers and job seekers, that bidding process was restrained and wage growth muted last month. Average hourly earnings for all private sector workers rose 2.6% from a year earlier in February, a smaller increase than the prior month. The average workweek rose—meaning firms were looking for ways to get more output from the workers they had—and weekly paychecks rose. (The Wall Street Journal)

U.S. Wholesale Inventories Climb 0.8%, but Wholesales Sales Slump 1.1%

Wholesale inventories in the U.S. increased by slightly more than expected in the month of January, a report from the Commerce Department revealed on Friday. The Commerce Department said wholesale inventories climbed by 0.8 percent in January after rising by an upwardly revised 0.7 percent in December. Economists had expected inventories to rise by 0.7 percent compared to the 0.4 percent increase originally reported for the previous month. The bigger than expected increase in wholesale inventories was partly due to a continued jump in inventories of non-durable goods, which soared by 1.8 percent in January after surging up by 1.1 percent in December. Sharp increases in inventories of drugs, petroleum and farm products more than offset notable decreases in inventories of chemicals and paper. The report said inventories of durable goods edged up by 0.2 percent in January after rising by 0.4 percent in the previous month. (RTT)

EU, Japan Press for Waivers on Trump's Tariffs as U.S. Weighs Criteria

The European Union and Japan pressed the U.S. to exempt them from President Donald Trump's steel and aluminum tariffs on Saturday, as officials seek to avoid a trade war with the world's biggest economy. U.S. Trade Representative Robert Lighthizer met with EU Trade Commissioner Cecilia Malmstrom and their Japanese counterpart, Hiroshige Seko, in Brussels as part of a trilateral effort to combat unfair trade practices. In the wake of Mr. Trump's tariffs declaration Thursday, however, focus shifted to U.S. moves rattling two of its biggest economic partners—accounting for about a quarter of America's annual trade in goods—from countering China's state-sponsored capitalism. Both Brussels and Tokyo stressed their serious concern over the U.S. measures, the EU said. Japan and the EU have been calling publicly and privately on U.S. officials that they must be excluded from the measures as close security and trade allies. "I had a frank discussion with the U.S. side about the serious pending issue of steel and aluminum tariffs," Ms. Malmstrom said after a bilateral meeting with Mr. Lighthizer. There was "no immediate clarity on the exact U.S. procedure for exemption however, so discussions will continue next week," she added. While EU officials stressed the positive tone of Ms. Malmstrom's meeting with Mr. Lighthizer and hailed concrete steps in the trilateral push to curb Chinese practices, Mr.

Trump highlighted persistent tensions in the U.S. relationship with Europe just hours after the trade summit. (The Wall Street Journal)

Europe and United Kingdom

UK Construction Posts Dire Performance in January

UK construction output fell at the fastest annual pace in January since March 2013, data from the Office for National Statistics showed on Friday. Output was far below analysts' expectations, falling 3.4 per cent between December and January and 3.9 per cent year-on year compared to expectations for a 0.3 per cent monthly contraction and a 0.5 per cent annual figure, according to data compiled by Thomson Reuters. "Construction continues to be a weak spot in the UK economy with a big drop in commercial developments, along with a slowdown in house building after its very strong end to last year," ONS senior statistician Ole Black added. While on a three-monthly basis, construction output has now been falling for nine straight periods, output grew month-on-month in the final two months of 2017. The fall in the three-month series was mainly due to a continued slump in private commercial work, the ONS said. (Financial Times)

U.K. Consumers Put Inflation Rate at Highest Since 2014

U.K. consumers are feeling the impact of faster inflation. In the Bank of England's quarterly inflation survey, the median answer for the current rate of inflation among respondents was 3.1 percent -- the highest in the poll since August 2014 and up from 2.9 percent in November. More than a quarter of those surveyed put the rate above 4 percent, while the median expectation for inflation over the next year was 2.9 percent. The results show how the higher prices caused by the pound's decline since the Brexit vote are filtering through to consumers' thinking. The U.K.'s official inflation rate was at 3 percent in January, after reaching a more-than five-year high of 3.1 percent in November, while, in a speech this week, the BOE's chief economist Andy Haldane said that the personal inflation rate of some U.K. citizens is running closer to 10 percent. With wage growth still relatively low, that's creating a squeeze on consumers, and crimping their spending. It also has implications for BOE policy makers, who are trying to bring price growth back to their target of 2 percent. Officials, who hiked interest rates for the first time in a decade last year, have said more increases will be necessary, with investors betting the next move could come as soon as May. In the BOE's survey, carried out between Feb. 7 and Feb. 18, 58 percent of the 4,254 respondents expected rates to rise over the next 12 months, down from 63 percent in November. (Bloomberg)

UK Manufacturing Forges Record Run of Growth

The UK's manufacturing sector registered its ninth consecutive month of growth during January, the longest period of expansion since records began in 1968, boosted by surging global economic growth and a drop in the pound. However the pace of growth slowed in January. The rate of expansion over the whole of the previous three months slowed to the weakest since July 2017, suggesting the sector may be running out of steam. Manufacturing grew by 0.1 per cent in January compared to December, the ONS said. Overall industrial production, which includes the output from the UK's north sea oil and gas fields as well as utilities such as water and gas, grew by 1.3 per cent. Analysts expected growth of 1.5 per cent, according to a poll from Thomson Reuters conducted before the release of the data. The monthly growth figure was flattered as the Forties Pipeline in the north sea was switched back on during January after a shutdown due to a hairline crack in December. This led to a 23.5 per cent increase in the output of the "mining and quarrying" sector in January after a 19.1 per cent fall in December. (Bloomberg)

UK Economy to Grow at Slower Pace: NIESR

The UK economy is likely to grow at a slower pace in three months to February, the National Institute of Economic and Social Research said Friday. The monthly estimates suggested the output grew at a pace of 0.3 percent in three months to February compared to 0.4 percent in three months to January. "Activity has eased slightly and is likely to slow further in March when the full impact of the recent extreme weather conditions will be realised," Amit Kara, Head of UK Macroeconomic Forecasting at NIESR, said.

Separately, the UK visible trade deficit increased as the pace of growth in imports exceeded exports growth in January, the Office for National Statistics showed Friday. The visible trade gap widened to GBP 12.32 billion in January from GBP 11.77 billion in the previous month. The shortfall was seen at GBP 11.9 billion. Exports rose 3.1 percent month-on-month and imports climbed 3.5 percent in January. The trade in goods and services showed a shortfall of GBP 3.07 billion compared to a deficit of GBP 2.49 billion in December. (RTT)

Share Buy-Back: 09 March 2018

Company	Bought Back	Price (RM)	Hi/Lo (RM)	Total Treasury Shares
AMPROP	28,500	0.72	0.735/0.72	16,290,600
BAUTO	180,000	2.00/1.99	2.00/1.99	2,205,000
E&O	40,000	1.43	1.43/1.41	26,120,747
FIAMMA	130,000	0.50/0.49	0.50/0.49	23,730,000
GLOMAC	90,000	0.515/0.51	0.515/0.50	6,036,700
HAIO	28,100	5.02/4.99	5.05/4.99	8,852,088
IJM	300,000	2.58/2.56	2.60/2.55	797,700
KFIMA	20,000	1.50	1.51/1.50	80,100
KOMARK	26,700	0.185/0.18	0.185/0.175	5,875,400
KPJ	50,000	0.93	0.945/0.925	67,633,900
KSL	102,700	1.01	1.02/1.01	14,548,800
MALAKOF	3,000,000	0.875/0.865	0.88/0.855	30,918,500
PANTECH	122,300	0.565/0.555	0.575/0.555	1,885,124
PRESTAR	28,000	0.94	0.96/0.94	7,167,100
SUNWAY	1,200,000	1.60/1.57	1.61/1.56	31,739,262
TEXCYCL	27,000	0.755/0.75	0.755/0.75	1,533,550
TITIJYA	50,000	0.60/0.575	0.60/0.575	205,000
UNIMECH	1,000	1.03/1.00	1.03/1.00	7,177,410

Source: Bursa Malaysia

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Kaladher Govindan – Head of Research

TA Securities Holdings Berhad (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my