

Weekly Strategy

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

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Market View *Market Volatility Should Rise in the First 100 Days of New Government*

Top consumer and banking names led the FBMKLCI higher last Tuesday, before the market closed for a long three-day GE14 holidays from Wednesday to Friday, as local funds returned on the eve of GE14 to bargain cheaper priced stocks following the recent sell-off. The KLCI climbed 18.31 points to close at 1,846.51, off the opening low of 1,819.28 and high of 1,851.73, as gainers swarmed losers 677 to 281 on robust trade totalling 2.35bn shares worth RM2.8bn. This was a sharp contrast to a sell-off on the broader market a day earlier, as investors continued to wind down their investments on the local market ahead of the general elections, ignoring the firmer regional markets after U.S. stocks rallied Friday on a solid April jobs report. On last Monday, the KLCI lost 13.63 points to close at 1,828.20.

No doubt, investors out there have one most important question in their mind now. How will the FBMKLCI react to GE14 results when it reopens today? The opposition alliance pulled off a stunning victory against all odds to win the election and has ended Barisan Nasional's (BN) undisputed reign of power for six decades. The transition was smooth despite the apparent wrangling to consolidate power base in the states of Kedah, Perak and Sabah. Pakatan Harapan (PH) now controls eight states while BN and Parti Islam SeMalaysia (PAS) control three and two states respectively. With the victory and the architect of modern Malaysia back at the helm, we can look forward to a transformation process that they promised will put back the nation on the right path to relive the glory days in the medium-to-long run.

In the immediate-to-short term, the FBMKLCI is expected to correct until the new government can convince investors that measures highlighted in its election manifesto, especially abolishment of Goods and Services Tax (GST), will not be detrimental to economic growth and increase fiscal deficit. With many factors hanging in the balance, the FBMKLCI is expected to lose its valuation premium over its closest developing peers until clarity on policy matters emerges within the first 100 days of this new government. So far, Prime Minister Tun Mahathir has started off on a good footing by naming ten key ministries, setting up a council of elders and handpicking three senior ministers for finance, home and defence ministries. Nonetheless, as his prerogative power to appoint ministers has been questioned by a key member of a coalition party hardly two days after taking power, it is yet to be seen whether this coalition of four parties can work cohesively towards achieving the common objectives as stipulated in their election manifesto.

At 15.3x consensus CY19 PER, the FBMKLCI is already trading at about 7.5% premium to comparable developing peers' valuation. As such, expect index to correct towards 1,715 in the immediate-term to match regional valuation before trending lower in 3Q18 as foreigners exit on policy concerns. This will be a good period to buy on weakness as Tun Mahathir is an excellent strategist and an outstanding politician. With an experienced and competent team, he is expected to disclose effective measures in the first 100 days in office to drive economic growth and narrow the budget gap. In the meantime, we maintain our i) worst-case index target of 1,470 based on -1.5 standard deviation from historical forward mean PER of 15.2x and ii) year-end target of 1,835 based on CY19 PER of 15.4x.

The removal of GST is a prime concern as the fiscal deficit can shoot up to 4.1% from projected 2.8% in 2018 if GST is replaced by Sales and Services Tax, presuming RM44bn in foregone GST revenue while receiving RM20bn sales tax revenue and an additional of RM6bn in crude oil revenue at an average crude oil price of USD72 per barrel versus

budgeted USD52. To narrow the budget gap in the immediate-term operating or/and development expenditures need to be cut while revenue can be increased through efficient tax collections, asset disposal like divestment of stakes in listed companies held by GLCs and land sale. Private sector can play its role by filling the void in development projects as well. Potential delays in project execution as contracts renegotiated, possible cancellation of some big ticket items, especially rail projects, and review of concession agreements are short-term negatives for the financial markets but long-term positive for the nation. These measures have the potential to disrupt GDP and corporate earnings growth in the short-term and contribute to some volatility in the capital market. Construction and Building Materials sectors should feel the heat. The Kuala Lumpur-Singapore High Speed Rail (HSR) and the RM55bn East Coast Rail Link (ECRL) projects are likely to be reviewed and can be shelved due to unfavourable risk-return profile. Nonetheless, the ongoing MRT 2, MRT 3 and LRT 3 projects should proceed due to their relevance in easing traffic congestions in Klang Valley but the costing for some of these projects can be reviewed. Construction players such as **Gamuda (Hold, TP: RM5.35)** and **IJM (Sell, TP: RM2.65)** should feel the negative impact and will be a double whammy, if the government renegotiates their toll concessions as well. Higher minimum wage is another downside risk for businesses, especially for plantation, construction and small and medium enterprises.

With election uncertainty over, property sales may recover but developments surrounding HSR and ECRL could be delayed or reviewed. **Sime Darby Property (Hold, TP: RM1.51)** may emerge as the biggest loser, given its huge undeveloped landbank along the HSR route. Until further information is made available, the prospects for the industry remain largely unchanged. Media sector should be one of the biggest losers as well. Breaking up of monopolies in the sector and free broadcast of all major sports league in RTM will affect **Astro Astro (Sell, TP: RM1.20)**. BN losing power at the federal level implies heightened political risk for media players like **Star Media Group (Under Review, TP: RM1.20)** and **Media Prima Bhd (Under Review, TP: RM0.45)**.

Losers aside, some sectors will benefit from the implementation of PH's election manifesto, especially removal of GST. Consumer sector will benefit from higher disposable income and it should lead to top-line growth for all consumer companies under our coverage. For instance, companies like **Amway (Buy, TP: RM8.59)**, **Hup Seng (Buy, TP: RM1.25)**, **Johore Tin (Buy, TP: RM1.48)** and **BAT (Buy TP: RM34.72)** should be undervalued and could attract some buying interest. Besides, the removal of GST will benefit the gaming sector. Note that gaming revenue has been subjected to 6% GST in Malaysia, which has been absorbed by Genting Malaysia and BJToto. The abolishment will lead to tax savings as much as RM327mn to **Genting Malaysia (Buy, TP: RM6.68)** and RM240mn to **BJToto (Buy, TP: RM3.22)** in FY19. This is significant and would lead to positive earnings adjustments of 13.6% and 41.3% respectively for Genting Malaysia and BJToto. The likely weakening of ringgit in the short-term will lead to greater earnings as well for these players as most of them have significant business exposure overseas. For the same reason, it is worth considering exporters like **Kossan (Buy, TP: RM9.73)**, **Top Glove (Buy, TP: RM12.20)**, **Inari Amertron (Buy, TP: RM2.40)** and **MPI (Buy, TP: RM10.70)**.

Technically, a sharp correction is likely today due to the unexpected defeat of the ruling BN coalition. It is a negative surprise for the local stock market, as it creates uncertainty. A breakdown of crucial KLCI supports from the 4/4/18 pivot low of 1,811 and the 200-day ma (1,795) will mean a test of better supports at 1,780 and 1,750 can be expected, with 1,700 also possibly tested for support resilience. Immediate resistance will be from the mid-Bollinger band presently at 1,865, with stronger resistance at 1,880.

Externally, the lower than expected US inflation data and positive outlook for the crude oil price can act as pacifiers to check the downside risk. While the lower inflation may influence the timing of Federal Reserve's future rate hike decisions, the US President Donald Trump's move to pull the United States out of the Iran nuclear deal is positive for upticks in crude oil prices. Back in 2015, the Obama administration and Iran signed a deal to defer sanctions on Iranian oil exports, while Iran curbed its nuclear program. On last Tuesday, Trump said the U.S. was pulling out of that deal and restoring sanctions.

(Please refer to our full 14th GE report released on Saturday 12 May 2018 for more details).

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News In Brief *Corporate*

The **Employees Provident Fund (EPF)** remains optimistic of the long-term outlook of the Malaysian economy and anticipates that any potential short-term market dips would provide opportunities for further investments into the domestic markets. EPF said on Sunday its optimism on the economy followed the formation of the new government under Prime Minister Tun Dr Mahathir Mohamad after Pakatan Harapan's victory in the General Election 2018. *(StarBiz)*

The listing of **Edra Power Holdings Sdn Bhd**, the electricity generator owned by China General Nuclear Power Corp, is not likely to be a smooth exercise. It had been reported that Edra, formerly owned by **IMalaysia Development Bhd**, was aiming for a listing this year to raise USD1.0bn. Bankers say Edra may not get the valuation it seeks considering the change in the political landscape in Malaysia. *(StarBiz)*

IHH Healthcare Bhd, largest healthcare group in Asia, has expressed its disappointment over Fortis Healthcare Ltd's decision to pass over its bid to gain control of the second-largest hospital chain in India. In a statement to Bloomberg, IHH said it believes its bid for control of Fortis "was the most compelling for the benefit of all stakeholders". *(StarBiz)*

Gas Malaysia Bhd is allocating up to RM190mn for capital expenditure (capex) this year, says its chief executive officer Ahmad Hashimi Abdul Manap. He said the capex, which is higher than the RM170mn allocated last year, would be utilised to expand infrastructure and pipeline into new areas as well as expanding facilities in the existing areas. *(StarBiz)*

Damansara Realty Bhd (DRealty) is teaming up with China State Construction Engineering (M) Sdn Bhd (CSCEM) to tender for the 4km Johor Baru-Singapore rapid transit system (RTS) railway project. DRealty said that it had signed a memorandum of understanding with China State Construction Engineering Corp's subsidiary CSCEM, agreeing to jointly bid for the RTS project, a 4km railway link connecting Bukit Chagar station in Johor Baru to Woodlands in Singapore. The RTS is slated to be completed by the end of 2024. *(StarBiz)*

Bonia Corp Bhd is disposing of its wholly-owned subsidiary Maha Asia Capital Sdn Bhd to its group executive chairman and chief executive officer Chiang Sang Sem for about RM15.0mn. Bonia is divesting the property investment unit at a premium to the market value, earning a net gain on disposal of RM4.8mn. *(Bursa Malaysia / The Edge)*

Eduspec Holdings Bhd said it will no longer distribute any Robomatter or iCarnegie product or licensed material, as the group stated its intention to terminate the collaboration agreements effective May 17. Taking into consideration the financial impact arising from the termination, Eduspec noted that the directors are negotiating with Robomatter to resolve the differences and the board of directors is in consultation with their legal advisors on the remedies available to the group. *(Bursa Malaysia / The Edge)*

Benalec Holdings Bhd's wholly-owned subsidiary Strategic Land Sdn Bhd (SLSB) has decided to abort plans to dispose of the remaining four of nine parcels of leasehold land in Melaka after the purchaser failed to pay the deposit. SLSB had terminated the disposal of the remaining four parcels after Arena Progresif Sdn Bhd failed to pay the deposit amounting to RM5.2mn or 10% of the disposal consideration despite several reminders and final notice issued to the purchaser's solicitors. *(Bursa Malaysia / The Edge)*

K-Star Sports Ltd has proposed to undertake a reduction of its issued share capital, which will give rise to a credit of RMB204.8mn (SGD42.9mn) to set-off the sports footwear maker's accumulated losses. The proposed capital reduction will result in the reduction of its issued share capital to SGD19.8mn. *(Bursa Malaysia / The Edge)*

UEM Edgenta Bhd has revised its policy to declare dividends of between 50% and 80% payout ratio based on the reported consolidated net profit attributable to shareholders after non-controlling interest, compared with the previous dividend policy payout ratio of up to 70%. *(Bursa Malaysia / The Edge)*

PPB Group Bhd (PPB) is proposing to undertake a one-for-five bonus issue to better reflect the current scale of operations and assets and enhance the trading liquidity of its shares. The exercise entails the issuance of up to 237.1mn new shares at an entitlement date to be determined later. As at April 30, 2018, the issued share capital of PPB stood at RM1.19bn comprising 1.19bn shares. *(Bursa Malaysia / The Edge)*

Practice Note 17 (PN17) company **Asia Knight Bhd** said its rights shares with warrants issue was undersubscribed with 98.1% taken up. When applications closed on May 3, the company received offers for 342.2mn rights shares, when it offered 348.8mn shares. *(Bursa Malaysia / The Edge)*

Heineken Malaysia Bhd has reported a double digit top-line growth for its first quarter ended March 31, 2018 (Q1 FY18), on the back of a successful festive season campaign which resulted in higher market share. The brewer said in a statement that revenue for the quarter increased by 11% to RM434mn from RM393mn in the same quarter in 2017, whilst its net profit was maintained at RM49mn compared with the similar period last year. *(Bursa Malaysia / StarBiz)*

MCT Bhd's earnings jumped 490% to RM30.8mn in the third quarter ended March 31 from RM5.2mn a year ago, boosted by the sale of its investment. The company announced its revenue was down 5.8% to RM126.3mn compared with RM134.1mn a year ago. *(Bursa Malaysia / StarBiz)*

Malaysia Smelting Corp Bhd's (MSC) earnings tumbled by nearly 64% year-on-year (y-o-y) in its first quarter ended March 31, mainly due to the stronger ringgit. It said in a filing with Bursa Malaysia that its net profit in the first quarter had fallen to RM4.6mn compared to RM12.6mn a year earlier. Although MSC has benefited from the increase in average tin prices in the first quarter and the improvement in the group's production and sales volume, the benefits were offset by the ringgit's appreciation against the US dollar. *(Bursa Malaysia / StarBiz)*

News In Brief *Economy*

Malaysia **Pakatan Harapan Wins 14th General Election**

Pakatan Harapan has achieved a simple majority in Parliament to form the next federal government, Election Commission chairman Tan Sri Mohd Hashim Abdullah announced. He said, the coalition, comprising Parti Pribumi Bersatu Malaysia, PKR, DAP and Parti Amanah Negara, won 113 seats, followed by Barisan Nasional with 79 seats. He said Pas won 18 seats, followed by Parti Warisan Sabah with eight seats and Parti Solidariti Tanah Airku with one seat. Hashim also said three independent candidates won seats in Parliament. There are a total of 222 seats in August House. This is the first time Barisan Nasional has been defeated since 1955. Meanwhile, the pact also slashed BN's 60 year hold on Johor, Melaka and Negeri Sembilan by winning over their state assemblies. The pact retained Penang and Selangor. In Perak's 59-seat state assembly, PKR won 29 seats while BN won 27 and Pas won 3. The official results for Kedah, was that PKR had won 18 seats while Pas wrested 15 while BN managed to get 3. The Sabah state assembly was caught in a deadlock with BN winning 29 seats, PKR (2) and its allies DAP (6) and Warisan (21). (New Straits Times)

Malaysia May Renegotiate Some Deals with China: Mahathir

Malaysia may renegotiate some deals with China, former prime minister Tun Dr Mahathir Mohamad said, just hours after his coalition secured a stunning election win against the government of Datuk Seri Najib Razak. Dr. Mahathir said that his government would likely reverse some policies implemented by the long-ruling Barisan Nasional coalition, including a highly unpopular goods and services tax. The 92-year-old told a news conference he supported China's Belt and Road initiative (BRI) but said Malaysia reserved the right to renegotiate terms of some agreements with Beijing, if necessary. "We have no problem with that (BRI), except of course we would not like to see too many warships in this area because (a) warship attracts other warships," he said. Malaysia is one of the largest beneficiaries of Chinese investment commitments in Asia, securing \$34.2 billion of BRI-related infrastructure projects, which have prompted critics to accuse Najib of "selling" Malaysia to the Asian powerhouse. (The Star)

Malaysia March Factory Output Up 3.1%, Below Forecast

Malaysia's industrial production index rose 3.1% in March from a year earlier, supported by gains in the manufacturing and electricity generation sectors, government data showed. Output growth in March was below the 3.5% annual rise forecast in a Reuters poll, and up slightly from the 3% recorded in February. The index measures factory output from the manufacturing, electricity and mining sectors. Manufacturing output rose 4.1% from a year earlier in March, while the electricity generation sector grew 4.4%, according to data from the Statistics Department. The mining sector, however, recorded zero growth in March, the data showed. Malaysia's exports rebounded in March after a slowdown in the previous month, underpinned by higher shipment of manufactured goods. A private manufacturing purchasing managers' index showed Malaysian factory activity shrank for the third consecutive month in April, as output and new orders declined. (The Edge Market)

Bank Negara Retains OPR at 3.25%, Financial Markets Resilient

The Monetary Policy Committee (MPC) of Bank Negara Malaysia has maintained the Overnight Policy Rate (OPR) at 3.25% at its meeting. It said despite the financial market volatility due to external developments, the country's financial markets had remained resilient. "Malaysia's economic fundamentals are strongly anchored," it said in a statement. Bank Negara pointed out country's economic outlook remained positive while the financial sector was strong and monetary and financial conditions were supportive of economic growth in the post-election environment. At the current level of the OPR, the degree of monetary accommodativeness was consistent with the policy stance to ensure that the

domestic economy continues on a steady growth path amid lower inflation, it added. "The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation. The global economy continues to gain strength with growth being broader based and synchronised across regions, it said. Bank Negara pointed out that global trade sustained its strong momentum. In the advanced economies, higher wages and diminishing labour market slack remain supportive of growth. (The Star)

Moody's Cautions Over Policy Pledges on GST, Fuel Subsidies

Moody's Investors Service has cautioned that some of the opposition's campaign promises if implemented without any other adjustments, would be credit negative for Malaysia's sovereign. In its statement issued after Pakatan Harapan won enough seats to form the federal government with a simple majority, it raised concerns if the Goods and Services Tax (GST) was removed and the reintroduction of fuel subsidies. Moody's said the opposition's win "marks uncharted territory for Malaysia" because the country has never witnessed a transition of power away from the Barisan Nasional since its independence in 1957. It pointed out that little is known about the opposition's full range of economic policies, and its electoral pledges have lacked details that would allow for a full assessment of their budgetary and macroeconomic impact. Moody's said if the GST was abolished, without offsetting measures, would increase Malaysia's reliance on oil-related revenues and, in the near term at least, narrow the government's revenue base. "Another policy pledge, the reintroduction of fuel subsidies, would also distort market-determined price mechanisms, with effects on both the fiscal position and balance of payments," it said. (The Star)

Average Wages of Malaysians on the Rise

Malaysians on average took back RM2,880 a month last year, an increase of 8.1% as compared to 2016. According to data from the Statistics Department, the average monthly salary was RM2,657 in 2016, which was higher by 6.6% compared to 2015. In 2017, the median monthly salaries and wages received by employees rose 7.7% per annum to RM2,160 last year from RM2,000 in 2016. The department's chief statistician Datuk Seri Dr Mohd Uzir Mahidin said the increase of mean monthly salaries and wages in 2017 was in line with Malaysia's economic performance. "During the same period, exports registered a strong growth of 20.3% to RM935.5bil," he said at a briefing on the results of the Salaries and Wages Survey 2017. On a sectoral basis, the mining and quarrying sector recorded the highest monthly salaries and wages for employees, with a mean of RM5,709 and a median of RM3,700. Uzir explained that capital-intensive industries like the mining and quarrying sector, particularly oil and gas, employed more high-skilled employees. Meanwhile, median monthly salaries and wages for both male and female employees in 2017 posted a high growth of 8.2% and 7% to RM2,170 and RM2,145, respectively. In terms of mean monthly salaries and wages, female employees recorded a higher growth of 9.1% to RM2,772 while male employees recorded 7.5% growth to RM2,954. (The Star)

Asia China's Exports Climb, Imports Jump on Solid Global Demand

China's overseas shipments exceeded estimates while imports surged, as the global economy continued to support demand. Exports rose 12.9% in April in dollar terms, the customs administration said. Imports surged 21.5%, leaving a \$28.8 billion trade surplus. The data show continued strong growth of domestic demand and a rebound, albeit not too vigorous, of external demand. The swing back to a trade surplus is welcome for the Yuan. In Yuan terms, shipments gained 3.7% and imports logged a faster growth of 11.6% in April. The world's largest exporter continues to benefit from robust global demand even as trade tensions with the U.S. persist. The U.S. last week asked China to cut the trade deficit and Beijing urged Washington to end its investigation of Chinese intellectual property practices. The talks will continue as President Xi Jinping's top economic adviser plans to visit Washington, the White House said.

China's trade surplus with the U.S. increased to \$22.2 billion in April, the first time that the gap has widened since November, data compiled by Bloomberg show. President Donald Trump's threats of tariffs on some \$150 billion of imports from China still loom, and duties could be imposed after a public comment period ends May 22. That would escalate tensions as Beijing vowed to follow suit with levies aimed at U.S. goods including soybeans and aircraft, and economists say the threats are spurring businesses to accelerate trading activity to avoid potential duties. (Bloomberg)

China's Bank Lending Rises Marginally

China's bank lending increased marginally in April, data from the People's Bank of China showed Friday. Bank extended CNY 1.18 trillion loans in April compared to CNY 1.12 trillion in March. The expected level was CNY 1.1 trillion. Aggregate financing totaled CNY 1.56 trillion, which was above the forecast of CNY 1.35 billion. The broad money supply M2 grew at a slower than expected pace of 8.3 percent. M2 was forecast to climb 8.5 percent. (RTT)

BOJ's Kuroda Calls on Government to Step Up Structural Reform

Bank of Japan Governor Haruhiko Kuroda said more work needs to be done to boost the country's growth potential, making a rare call for the government to deliver on its growth strategy - the third arrow of premier Shinzo Abe's reflationist policies. Kuroda said the government had made "significant" progress on reforms to fix Japan's worsening fiscal state, albeit with some delay. The BOJ also agreed with the government on the need to maintain its ultra-loose monetary policy to lift Japan sustainably out of deflation, he said. Still, Kuroda said there was more work to be done on deregulation and structural reforms, the third arrow of the premier's "Abenomics" policies to reflate the economy. Critics say the Japanese labour market and heavily-protected industries, such as healthcare and the agriculture sectors, are in urgent need of reform. "It's true there is some lag before the steps already taken begin to affect the economy. We need to take that into account," Kuroda told parliament on Friday. "Having said that, there are still some steps remaining that the government needs to take on structural reform and growth strategy," he said, when asked by an opposition lawmaker on how he felt about the government's fiscal and structural policies. (The Star)

Singapore Retail Sales Drop 1.5% in March, Driven Down by Slump in Car Sales

Retail sales dropped 1.5% in March from a year ago, reversing the Chinese New Year-fueled 8.6% jump seen in February, as car sales continued to slump. Excluding motor vehicles, takings at the till rose 2.6%, according to Singapore Department of Statistics data released. The total retail sales value in March was estimated at S\$3.8 billion, of which online sales contributed about 4.1%. Auto sales fell 16.1% year-on-year, after a 17.5% dropping in February, with sales of both new and used cars affected. But most other retail sectors enjoyed higher sales in March. Among these, the highest sales growth was registered by department stores at 9.1%. Sales increases were also reported for the food retailers (7.5%), medical goods & toiletries (6.2%), apparel & footwear (5.0%) and watches & jewellery (5.0%). (The Business Times)

Japan Labour Cash Earnings Rise More than Forecast

Total labour cash earnings in Japan increased for the eighth straight month in March, and at a faster-than-expected pace, preliminary report from the Ministry of Health, Labour and Welfare showed. Gross earnings climbed 2.1% year-over-year in March, faster than the revised 1.0% rise in February. Economists had expected a 1.0% increase for the month. Contractual gross earnings rose 1.3%, while special cash earnings surged by 12.8%. Separately, Japan's leading index decreased more-than-expected at the end of the first quarter, preliminary figures from the Cabinet Office showed. The leading index, which measures the future economic activity, dropped to 105.0 in March from 105.9 in February. The index was expected to fall to 105.1. Meanwhile, the coincident index that reflects the

current economic activity improved to 116.4 in March from 116.0 in the preceding month. The figure also matched consensus estimate. (RTT)

Australia's Budget to Return to Surplus in 2019-20

Australia's budget is forecast to return to a surplus a year earlier than previous forecast, Treasurer Scott Morrison said in the budget 2018-19. According to the latest estimate, the budget will log a small surplus of A\$2.2 billion or 0.1% of GDP in 2019-20, following a small estimated shortfall of 0.8% of GDP in 2018-19. The surplus is expected to rise to A\$10.96 billion in 2020-21 and then to A\$16.6 billion in 2021-22. The government has kept a tight rein on spending and is now no longer borrowing to pay for everyday expenses, Morrison said. The treasurer said the return to surplus will enable a reduction in debt. Net debt is expected to peak at 18.6% of GDP in 2017-18 and is projected to fall to 14.7% by 2021-22. The economy is expected to grow by a solid 2.75% in 2017-18 and growth is forecast to rise further to 3.0% in 2018-19 and 2019-20. Morrison announced tax relief to middle and lower income earners, to encourage working Australians and to assist with cost of living pressures.

Separately, Australia's retail sales remained flat in March, defying economists' forecast for an increase, data from the Australian Bureau of Statistics revealed. The seasonally adjusted retail trade turnover showed no variations in March, following a 0.6% rise in February. Meanwhile, it was expected to increase by 0.2%. Sales at department stores dropped 0.5% over the month, while food retailing grew by 0.7%. (RTT)

United States

U.S. Consumer Sentiment Held Steady in Early May

American households remained relatively confident about the economy in early May. The University of Michigan said Friday its index of consumer sentiment was 98.8 in May, unchanged from April. That was a little better than the 98.0 that economists had expected for the month's preliminary reading; a final figure will be announced May 25. The sentiment measure had hit 101.4 in March, its highest level in 14 years before easing in April and stabilizing this month. Gauges of U.S. household, business and investor confidence jumped following the 2016 presidential election and have remained high. More broadly, the economy has continued to expand at a solid pace and the unemployment rate declined in April to 3.9%, its lowest level since 2000. The details of Friday's report were mixed. An index tracking sentiment about current economic conditions declined in May, while an index tracking expectations about the future picked up from April. (WSJ)

As Nafta Deadline Nears, Hopes for Deal Focus on Autos

The U.S., Canada and Mexico are focusing on rewriting the auto rules at the center of the North American Free Trade Agreement as negotiators face hard deadlines in an election year, raising the possibility of less drastic changes to other controversial parts of Nafta, according to people following the talks. A Republican congressional aide spoke of a possibility of negotiators striking a "skinny deal" on Nafta that would include a thorough rewrite of the complicated rules that govern which cars and auto parts can be traded within the bloc without incurring duties. Two industry officials say they expect a deal on new auto rules before the Trump administration's other objectives for the Nafta overhaul are addressed at the negotiating table. Given a rare opportunity to renegotiate the 24-year-old pact, the three countries are still trying to address as many issues as possible. Mexican Economy Minister Ildefonso Guajardo is expected to make concessions to achieve an agreement on the auto rules, but he has repeatedly insisted that certain other key elements be included in any pact. (WSJ)

U.S. Producer Prices Edge Up 0.1% in April

U.S. producer prices edged only slightly higher last month, a possible sign inflation pressures in the economy remain relatively modest. The producer-price index, a measure

of the prices businesses charge for their goods and services, rose a seasonally adjusted 0.1% in April from a month earlier, the Labor Department said. Economists surveyed by The Wall Street Journal had forecast a 0.2% increase. From a year earlier, producer prices advanced 2.6% last month, the smallest annual increase since December. The latest data point to just mildly building inflation pressures. Other gauges broadly show stronger inflation in the U.S. The Commerce Department said last week its price index for personal-consumption expenditures was up 2% from a year earlier in March. That was the fastest gain in a year. Excluding the volatile food and energy categories, producer prices advanced 0.2% in April, matching economists' expectations. When also excluding trade services, prices advanced just 0.1%. Economists had projected a 0.4% gain when removing all three volatile categories. Producer energy prices rose 0.1% in April from March. Food prices fell 1.1%. Transportation and warehousing costs were up 0.6% on the month. (WSJ)

Powell Warns Against Overstating Impact of Fed Policy on Global Financial Conditions

Federal Reserve Chairman Jerome Powell said the central bank would communicate its interest-rate policy strategy "as clearly and transparently as possible" to avoid market turmoil that could ripple through foreign economies. Mr. Powell, in remarks prepared for delivery in Zurich, Switzerland, pushed back, however, on complaints that the Fed's efforts to spur U.S. economic growth over the past decade were primarily responsible for a surge of capital into emerging markets, and that Fed moves to remove stimulus would spark upheaval in emerging markets. "While global factors play an important role in influencing domestic financial conditions, the role of U.S. monetary policy is often exaggerated," he planned to say at a conference sponsored by the International Monetary Fund and Swiss National Bank. Mr. Powell said financial globalization poses some challenges for monetary policy and that building "stronger and more transparent policy frameworks and a more resilient financial system" could reduce the prospect of policy whiplash. It is also true, he said, that the Fed's actions spill over to other countries given its role in setting policy for the world's largest economy and as the issuer of the most widely used reserve currency. (WSJ)

Employment Trends Index Rose in April

The Conference Board Employment Trends Index continued to rise in April. Last month's reading was 108.08 compared with March's downward-revised reading of 107.37. The index rose 4.9% compared with a year ago. Gad Levanon, North America chief economist at the Conference Board, said in prepared remarks that the upward trend indicates that job growth should be strong throughout the summer. "With the economy growing well above trend, and the working-age population barely growing at all, we expect the labor market to significantly tighten in the coming year," he said. To recap, the Labor Department reported that the U.S. added 164,000 jobs last month, below expectations of 195,000. The unemployment rate fell to 3.9%, its lowest reading since 2000. Of the components measured, 7 of the 8 had positive contributions for the month. The Conference Board said industrial production contributed most positively to the index. (WSJ)

***U.K. & Euro Area* Subdued UK Industrial Output Data Caps Glum First Quarter for Economy**

British industrial output barely rose in March, confirming a glum first quarter for the economy that looks likely to scupper a Bank of England interest rate hike later on Thursday. The data, released along with figures for the construction industry and overseas trade, did nothing to alter the picture of an economy that has struggled for momentum in recent months. While heavy snow storms swept through Britain in early March, the Office for National Statistics (ONS) stuck with its earlier judgment that this had little overall impact on the economy's performance in the first three months of 2018. The ONS said industrial output inched up by 0.1% month-on-month in March, the same pace as in February and slightly below the consensus for growth of 0.2% in a Reuters poll of

economists. British data have mostly soured over the past month, forcing investors to ax widespread bets that the BoE will raise interest rates this month. (Reuters)

In the meantime, UK construction output decreased for the third straight month in March, in line with expectations, data from the Office for National Statistics showed. Production in construction dropped 2.3% month-over-month in March, following a 1.0% fall in February. Separately, UK visible trade deficit widened notably in March. The trade in goods showed a deficit of GBP 12.28 billion compared to a shortfall of GBP 10.4 billion seen in February. This was the biggest deficit since November and larger than the expected GBP 11.3 billion shortfall.

UK GDP Growth Remains Modest: NIESR

The UK economy expanded 0.1% in the three months to April, the same pace as in the quarter to March, the National Institute of Economic and Social Research said. "Whilst an obvious reason for this weakness was the severe weather in March that caused disruption, particularly to the construction sector, there are indications of a broader slowdown in activity as, for example, manufacturing growth has remained weak so far this year," NIESR Senior Economist Rebecca Piggott said. "As we would expect, the unseasonably cold weather provided a small offset in the form of an increase in energy supply." The latest estimate, as well as official national accounts data, should be treated with caution if previous severe weather episodes serve as a guide, Piggott warned. (RTT)

Bank of England Lowers Growth Outlook

The Bank of England decided to maintain its key interest rate and quantitative easing on Thursday as it forecast slower economic growth and inflation than its previous projections. Seven members of the Monetary Policy Committee voted to maintain the benchmark rate at 0.50 percent, while two sought a hike. Policymakers unanimously decided to maintain the quantitative easing at GBP 435 billion. The decisions were in line with economists' expectations. The bank had previously raised its key rate in November 2017, which was the first hike in a decade. Ian McCafferty and Michael Saunders again preferred a quarter point increase in rates as they judged the weakness in the first quarter GDP data to be temporary or erratic, heavily affected by adverse weather. Both policymakers continued to judge that a modest tightening of monetary policy at this meeting could mitigate the risks of a more sustained period of above-target inflation.

The economy is projected to grow 1.4% by the second quarter of 2018 instead of 1.8% estimated in February. The bank expects the first quarter growth to be revised up to 0.3% from the initial estimate of 0.1%. GDP growth is seen at 1.7% each in the next three years. The projections for 2019 and 2020 were left unchanged. At the press conference, BoE Governor Mark Carney said the outlook for the UK remains clouded by Brexit uncertainties. (RTT)

Share Buy-Back: 08 May 2018

Company	Bought Back	Price (RM)	Hi/Lo (RM)	Total Treasury Shares
ANALABS	232,700	2.12/2.09	2.12/2.09	4,152,100
CBIP	25,000	1.45/1.44	1.55/1.42	15,492,927
GBGAQRS	350,000	1.64/1.60	1.64/1.59	1,411,302
GRANFLO	30,000	0.21/0.205	0.21/0.20	9,679,000
HAIO	4,700	4.92/4.84	4.94/4.83	9,342,388
INCKEN	15,900	0.69/0.68	0.69/0.68	17,915,800
KFIMA	20,000	1.49/1.48	1.49/1.48	513,500
KOMARK	10,000	0.18	0.18/0.175	8,396,200
MALAKOF	160,100	0.89	0.90/0.88	62,298,800
N2N	542,900	1.02	1.03/1.00	25,422,100
P&O	5,000	1.07	1.07/1.06	11,791,093
PANTECH	130,000	0.57	0.58/0.565	3,709,924
SIGN	50,000	0.54/0.53	0.55/0.53	14,117,100
SNTORIA	10,000	0.56	0.56/0.53	8,470,800
SYSCORP	231,000	0.27/0.265	0.27/0.26	10,707,600
TEXCYCL	30,000	0.67	0.67	2,000,550
WTHORSE	8,000	1.86/1.84	1.86/1.81	11,120,200
YILAI	35,000	0.73	0.73/0.725	12,043,608

Source: Bursa Malaysia

TA RESEARCH – Remisiers’ Briefing

Topic: Weekly Market Outlook
Speaker: Mr.Kaladher/ Mr.Stephen Soo
Venue: Multi-Purpose Hall III,
10th Floor Menara TA One
Date: 14 May 2018 (Monday)
Time: 12.40pm

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