Economic Update

Malaysia – Manufacturing PMI

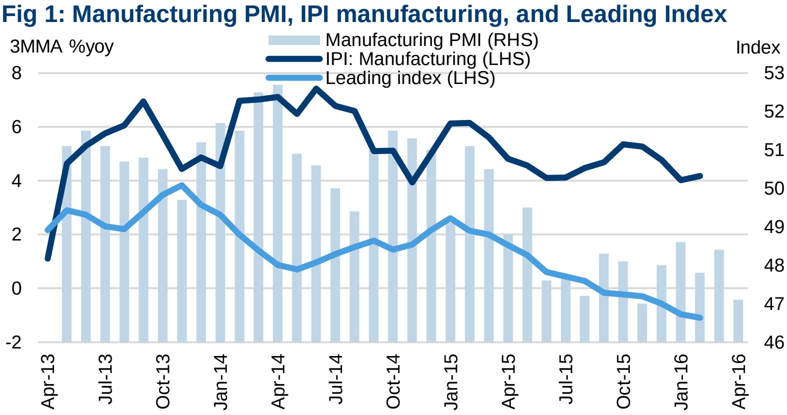
Malaysia's manufacturing PMI fell to 47.1 in April

Deterioration in all five components within the overall PMI

Malaysia's manufacturing Purchasing Managers' Index (PMI) slowed down by 1.3 points to 47.1 in April (48.4 in March), due to the deterioration in all five components within the overall PMI, namely new orders, output, employment, suppliers' delivery times and stocks of purchases. The country's PMI reading has remained below 50-benchmark for 13 months, and April's 47.1 was the lowest level since November 2015. In particular, new orders fell at the fastest pace in 2016 as growth in the new export orders eased for second month and domestic demand remained subdued.

Both production and employment declined during the month, while ringgit weakness continued to contribute to some cost inflationary pressure. The April's PMI was consistent with other leading indicators for subdued real GDP growth in 1H16. Malaysia's leading index, a composite indicator designed to monitor economic performance in the next three to six months, declined further from -0.9% yoy in January to -1.2% in February, for the fourth consecutive month. This was also reflected in the capacity utilisation rate, which fell from 78 in 4Q15 to 76.6 in 1Q16, even though MIER's business conditions index rose to 92.9 in 1Q16 (87.1 in 4Q15), reflecting that the growth momentum in the PMI is likely to remain subdued in the coming months.

Fig 1: Manufacturing PMI, IPI manufacturing, and Leading Index



Source: Markit, Department of Statistics Malaysia (DOS)

Malaysia's consumer confidence, as reflected in the MIER's consumer sentiment index (CSI), recovered from a historic-low of 63.8 in 4Q15 to 72.9 in 1Q16, the strongest reading since 4Q14, but we believe this is unlikely to translate into a strong growth in domestic demand in 1H16. The MIER's retail trade and auto industry index, moderated further to 65.9 and 83.3 respectively in 1Q16 (77.9 and 87.4 in 4Q15). However, there are some early indications that households are slowly adjusting to the implementation of Goods and Services Tax (GST) and subsidy removal. Despite concern of rising cost of living, we believe growth in private consumption will likely hold up, supported by continued income growth and stable labour market conditions. We expect the country's real GDP growth rate to slow from 4.5% yoy in 4Q15 to 4.2% estimated for 1Q16, before recovering to 4.3% in 2Q16 and 4.7% in 2H16. This would bring full-year GDP growth of about 4.5% for 2016, lower than 5% in 2015.

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Focus Charts

Chart 1: Global PMI and ASEAN PMI

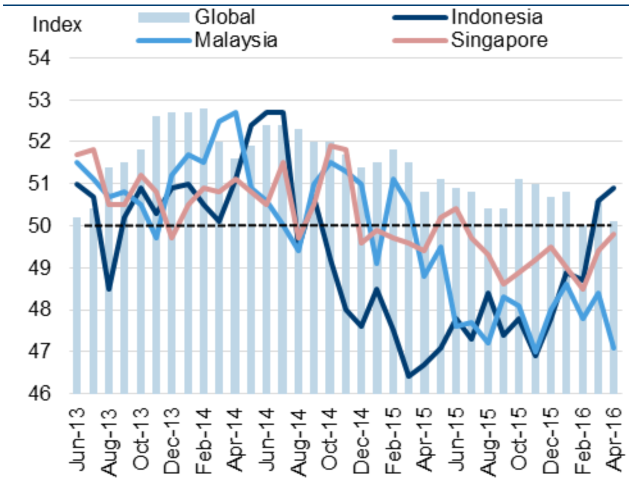


Chart 2: Manufacturing production and sales

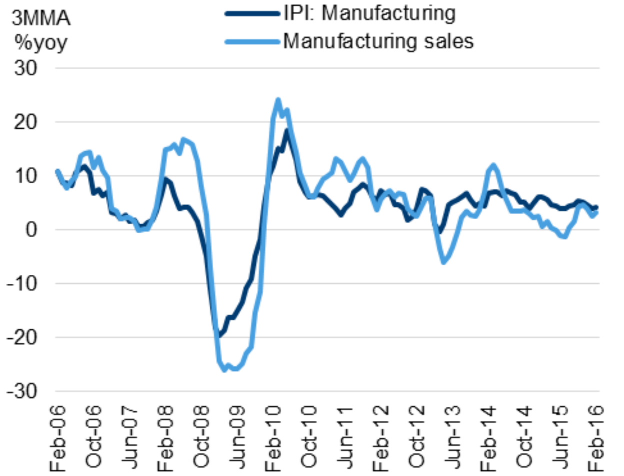


Chart 3: Malaysia exports vs IPI

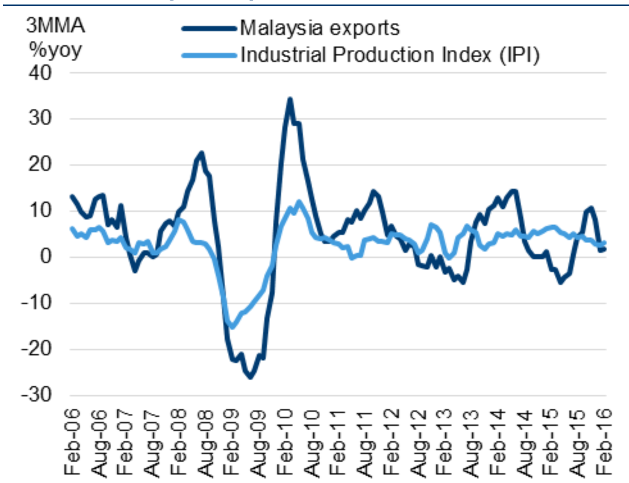


Chart 4: Business condition and capacity utilisation

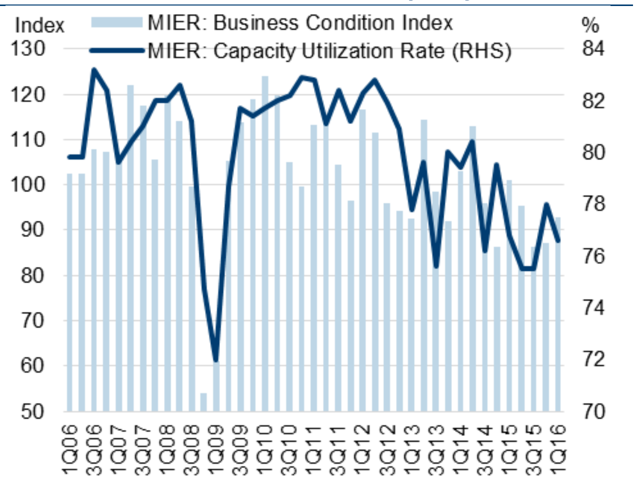


Chart 5: Payroll and employment in manufacturing

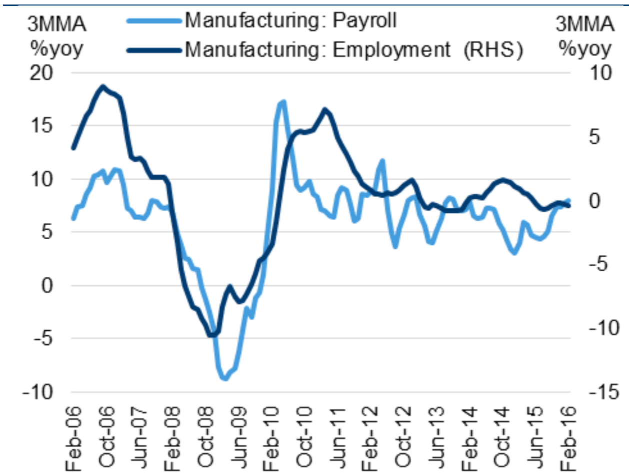
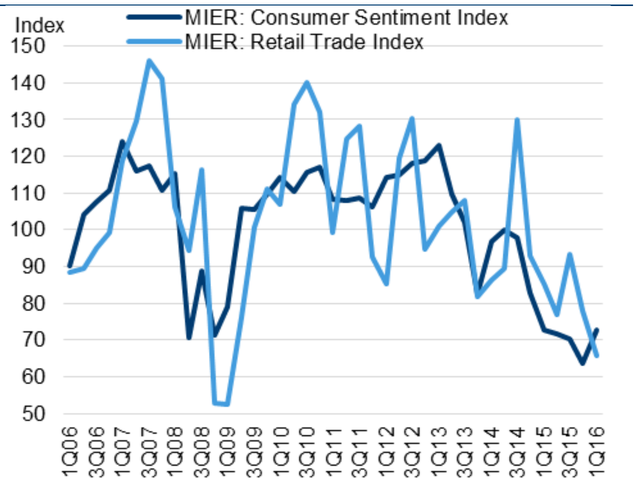


Chart 6: Consumer sentiment and retail trade index



Source: All data for charts sourced from CEIC and Bloomberg

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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