Battling perceptions

Strategy

Malaysia Strategy

KLCI 1,626
@ 31 May 2016

POSITIVE (maintain)

KLCI Target: 1,746

Previous target: 1,774

Global growth, crude oil prices, China, Brexit and a federal-funds rate hike in the US have been sources of global market volatility. Of these, the rate hike will likely come into focus again. We find that Malaysia has been lumped into the same generic emerging markets basket. In reality, Malaysia faces little risks associated with a funds-rate hike. In addition, tepid global growth and weak domestic sentiment are weighing on GDP growth, but private consumption has been resilient despite this. We expect economic growth to pick up in 2H16 and fuel better corporate earnings, which have been lacklustre. Economic fundamentals remain strong, and we look for a gradual appreciation of the Ringgit; hence, we believe the recent sell-down on specific domestic issues presents another buying opportunity.

Federal-funds rate hike (FFR) typically negative for emerging markets

Investors are attracted to emerging markets (EM) for fast economic growth. Typically, EMs have high investment requirements and thus run a negative savings-investment gap. As such, EMs rely on foreign portfolios and capital flows for financing. Their banking systems are usually not as sophisticated and are relatively shallow; hence, they are less able to intermediate between borrowers and lenders. Thus, an FFR hike could make returns for US Dollar-denominated assets more attractive after taking into account its lower risk. This could prompt money outflows from EMs, causing lower liquidity, higher interest rates and starving essential projects of funding.

Malaysia is in a different EM category, in our view

Malaysia runs a positive savings-investment gap. Critical infrastructure and investment projects can be adequately funded domestically and sourced from excess savings. In addition, Malaysia's financial system is well developed and can intermediate effectively. Notably, there is still significant domestic liquidity in the system. Current excess liquidity is ample at 17% of GDP, despite strong portfolio outflows since 3Q14 and low Brent prices. Crucially, we find limited impact from a lower spread between the overnight policy rate (OPR) and the FFR on the current account surplus and excess liquidity. In fact, a narrowing spread has little correlation with Malaysia's savings-investment gap and its excess liquidity.

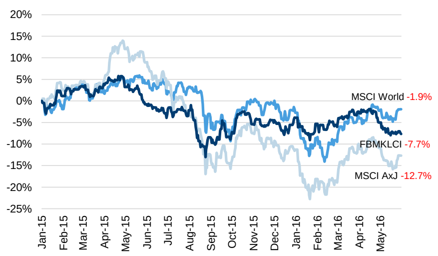
Better economic growth in 2H16; resilient private consumption

Economic activity slowed to 4.2% yoy growth in 1Q16 on drags from the external environment and weak business sentiment. Nonetheless, private consumption growth rose to 5.3% (from 4.9% in 4Q15) despite weak consumer sentiment. We expect overall GDP growth of 4.5% in 2016E. Other economic expectations include inflation of 2.5-3.0%, a current account surplus of 2% of GNI and a 3.1% fiscal deficit. We do not expect changes in the OPR this year and envisage the Ringgit strengthening to RM3.95 by year-end due to a positive savings-investment gap and stronger Brent prices if sustained at current levels.

Market earnings need to recover; maintain Positive view on Malaysia

One blemish is weak market earnings, with 1Q16 falling by 12.5% yoy, representing seven consecutive quarters of decline. We are hopeful of a turnaround in 2016 with a 3% fully-diluted EPS growth forecast on better economic activity translating into corporate earnings. Although growth is tepid, the stock market has corrected by 5.2% and Ringgit has fallen 5.4% since 25 April, on a country-specific event not linked to fundamentals. Recent weakness is an opportunity to pick up good-quality stocks, in our view. Our universe implies the stock market trading at a 17.1x 2016E fully-diluted EPS, still below the 17.9x long-term average. We set a new end-2016 index target of 1,746 based on an unchanged valuation methodology.

KLCI vs MSCI World vs MSCI AxJ (since 2015)



Source: Bloomberg

Key market statistics

	2015	2016E
GDP growth (%)	+5.0	+4.5
KLCI EPS growth (%)	-4.4	+3.0

Source: BNM, Affin Hwang estimates and forecasts

Top calls for 2016

Stock	Rating	Price (RM)	TP (RM)	Upside (%)	Mkt Cap (RMm)
Top Buys					
AEON CREDIT	BUY	13.58	14.80	9.0	1,955.5
AFG	BUY	4.05	4.50	11.1	6,268.5
CARLSBERG *	BUY	13.16	14.40	9.4	4,079.0
CIMB	BUY	4.39	5.00	13.9	38,319.7
GAMUDA	BUY	4.80	5.70	18.8	11,586.8
GENTING MALAYSIA *	BUY	4.41	5.00	13.4	26,184.6
INARI	BUY	3.10	3.54	14.2	2,964.9
JAKS RESOURCES	BUY	0.86	1.60	86.0	377.0
KPJ	BUY	4.28	4.87	13.8	4,528.0
PUBLIC BANK	BUY	19.12	21.80	14.0	74,226.5
PETRA ENERGY	BUY	1.14	1.48	29.8	366.8
PAVILION REIT	BUY	1.66	1.90	14.5	5,012.9
SUNWAY CONSTRUCTION	BUY	1.58	1.98	25.3	2,042.8
SCICOM *	BUY	2.34	2.58	10.3	831.8
SUNWAY	BUY	3.01	3.90	29.6	5,988.1
TA ANN	BUY	4.02	5.30	31.8	1,490.4
TENAGA	BUY	13.98	16.50	18.0	78,897.7
TOP GLOVE	BUY	5.07	7.17	41.4	6,367.3
UOA DEVELOPMENT	BUY	2.27	2.57	13.2	3,452.2
WCT	BUY	1.56	2.02	29.5	1,959.9
Top Sells					
MAHB	SELL	6.39	5.50	(13.9)	10,602.2
MCIL	SELL	0.73	0.55	(24.7)	1,231.7
MEDIA PRIMA	SELL	1.41	1.21	(14.2)	1,564.0
STAR	SELL	2.45	1.85	(24.5)	1,809.5
UMW-OG	SELL	0.88	0.73	(16.6)	1,891.8
UNISEM	SELL	2.40	1.76	(26.7)	1,761.2

* new addition

Source: Affin Hwang, pricing as of 31 May 2016

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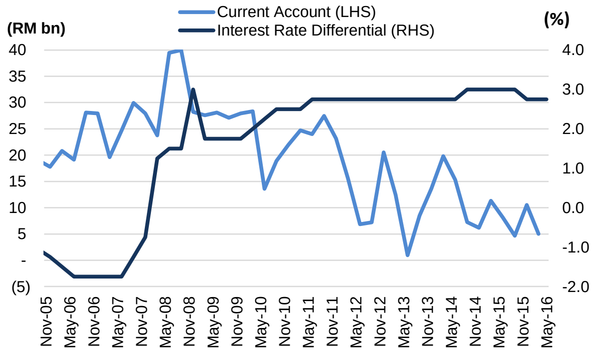
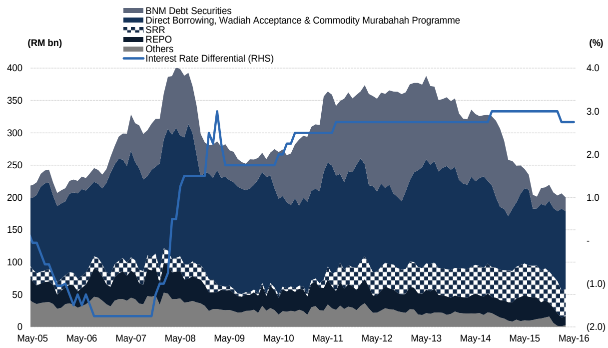
Focus Charts

Fig 1: Interest rate differentials and current account



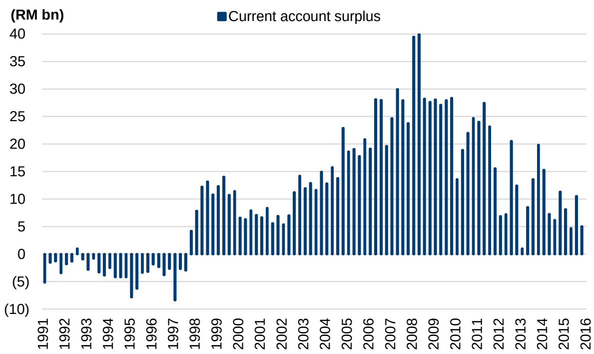
Source: Bloomberg, BNM

Fig 2: Interest rate differentials and excess liquidity



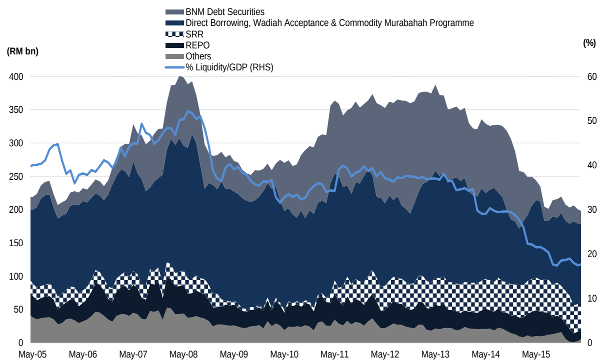
Source: BNM, Bloomberg

Fig 3: Malaysia consistently runs current account surplus



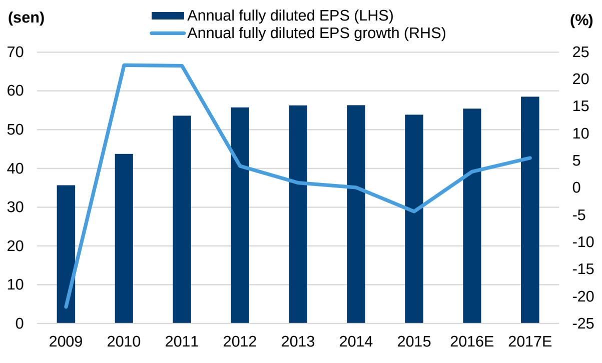
Source: Bloomberg

Fig 4: Significant excess liquidity as a % of GDP



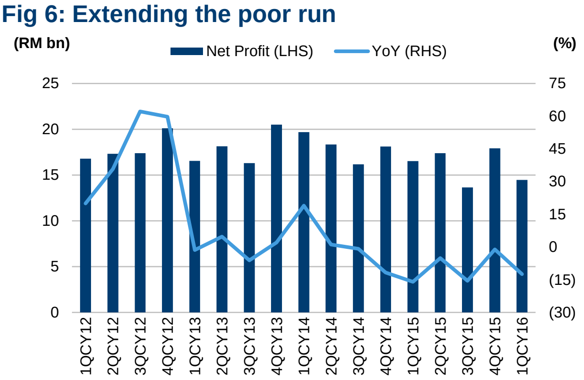
Source: Bloomberg, CEIC

Fig 5: Annual fully-diluted EPS growth



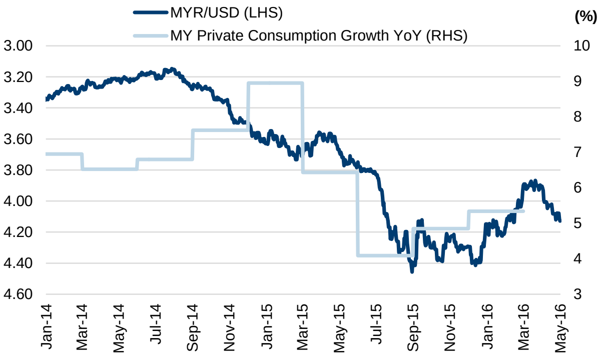
Source: Bloomberg

Fig 6: Extending the poor run



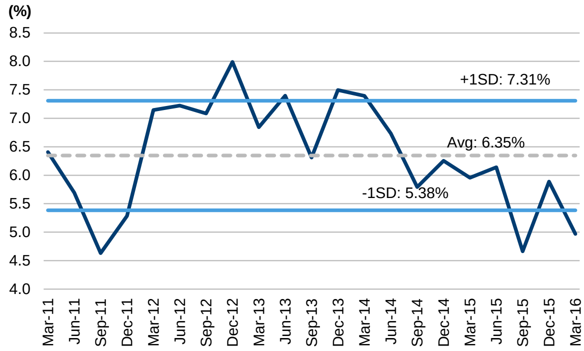
Source: Bloomberg, Affin Hwang

Fig 7: Ringgit strength boosts consumer sentiment



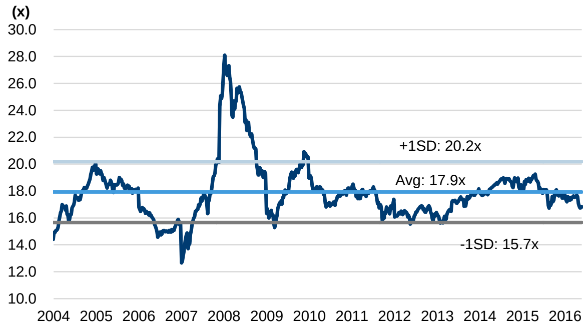
Source: Bloomberg

Fig 8: Net profit as proportion of GDP



Source: Bloomberg, CEIC

Fig 9: Overall market fully-diluted PE trend



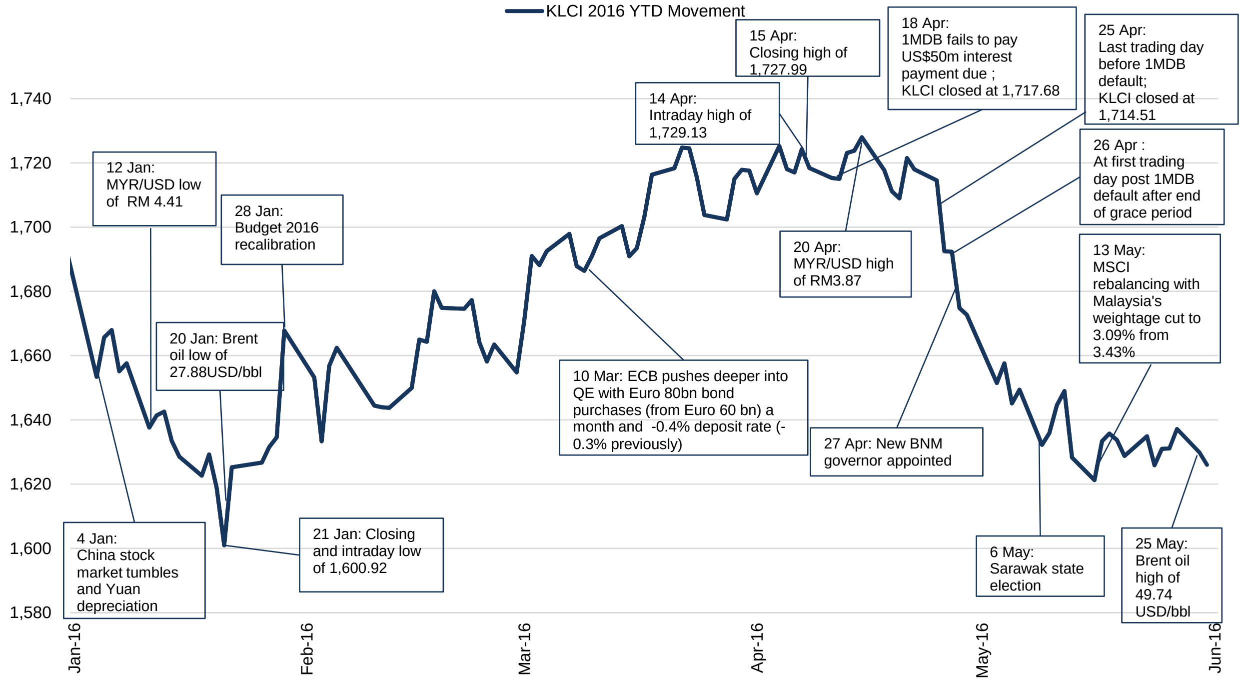
Source: Bloomberg, Affin Hwang

Fig 10: KLCI index target calculation

	Units	2016E	2017E
KLCI (31 May 2016)	pts	1,626.00	1,626.00
Market EPS	pts	94.92	100.15
Fully diluted PE	x	17.1	16.2
Index Target			
Average fully diluted PE	x	17.9	17.9
Current market EPS	pts	94.92	100.15
Average market EPS	pts	97.54	
Average KLCI target	pts	**1,745.95**	
Upside	%	**7.4%**	
Revision			
Old KLCI target	pts	1,773.98	
Change	%	-1.6%	

Source: Affin Hwang forecasts

Fig 11: Cutting short the rally



Source: Bloomberg, Affin Hwang

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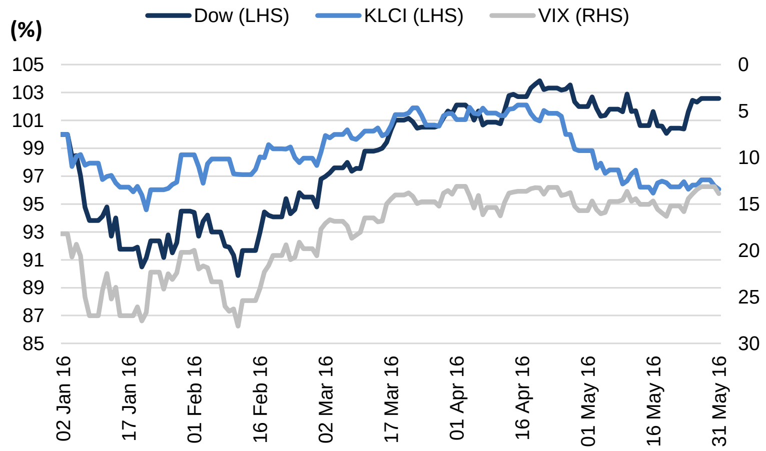
Executive summary

Battling perceptions

In our Malaysia Strategy report, '***Breathing space***', published on 3 March 2016, we pointed out that Malaysia's fundamentals had improved with the rebound in private consumption, expansion in the current account surplus, and good traction towards reducing the fiscal deficit to 3.1% in 2016 despite lower crude oil prices. As a result, the Ringgit strengthened even with a weaker Brent price. We saw foreign funds flowing at first into government securities but subsequently into the stock market as well. The KLCI responded to the renewed interest in Malaysia with rigour, rising from a low of 1,600.92 points on 21 January to 1,727.99 points on 15 April.

All this happened, but not before concerned financial markets on the first day of 2016 caused a large spike in the VIX to 18.2 and to above 27 subsequently. Looking ahead, financial markets continue to face similar challenges. These are the uneven monetary policy direction, the state of China's economy, slower global growth, and low commodity prices.

Fig 12: A year of volatility in 2016



Source: Bloomberg

At some point, we believe that these issues would be featured again and lead to potential pockets of volatility throughout the year but hopefully not as intense as in 1Q 2016. Of these, we believe the US federal-funds rate (FFR) hike will come into sharp focus again if the Federal Open Market Committee (FOMC) stays true to its path of possibly two hikes for the remainder of the year.

Fed monetary tightening and its impact on emerging markets

In general, an FFR increase is negative for emerging markets. It reduces the interest rate differential (OPR in emerging markets minus the FFR), which in turn chips away at the returns for holding emerging market assets relative to US Dollar assets. This may tip some investments below the required return threshold for some foreign investors, especially after taking into account riskier non-US Dollar denominated assets. As a result, this prompts capital outflows from emerging markets.

Foreign investors are attracted to emerging markets because of their high growth phase of economic development. Total investment is high to meet rapid demand growth. In many instances, emerging markets run a negative savings-investment gap because of the high rate of investments, particularly in infrastructure. It funds the savings-investment deficit via inflows from foreign investors. These could be in the form of portfolio flows or capital investments.

Therefore, foreign outflows from emerging markets could weaken their currencies and constrain the amount of capital that is available in emerging markets. This would result in inadequate money to fund available investments. Lower supply of liquidity generally drives up funding costs, rendering some investments uneconomical and thus starving GDP development. Under such a scenario, emerging markets may be forced to increase interest rates to maintain the interest rate differential and retain liquidity in the financial system. However, such a move, especially during times of low commodity prices, could damage domestic economies.

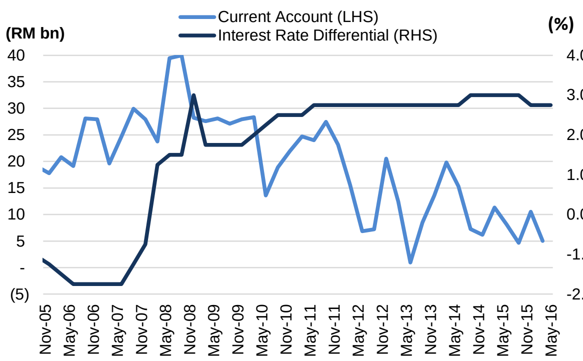
In summary, we believe emerging markets would suffer from a lower interest rate differential against US Dollar assets due to the negative savings-investment gap and tightening domestic liquidity.

Malaysia is not in the same emerging markets basket

There is a misconception in the case of Malaysia, in our view. We believe that it is indiscriminately lumped into the same emerging markets basket that we have described above. We examined the impact on the lower interest rate differential in a few major areas in Malaysia. We find that the most significant impact of a narrowing differential is on deposits. The impact on portfolio flows is not as clear but generally it prompts more instances of inflows at a larger interest rate differential. On the other hand, there is no discernible impact on FDI flows given the different sets of long-term considerations involved versus more short term factors for portfolio flows. Importantly, there is no direct link between a narrowing interest rate differential and KLCI performance.

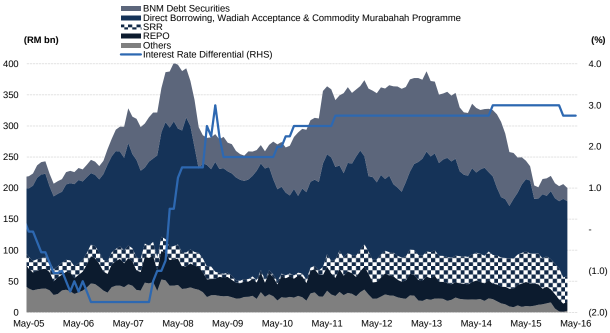
In the case of Malaysia, it runs a positive savings-investment gap. The surplus provides enough savings to fund investment needs in the economy. In fact, Malaysia has not run a current account deficit since 1997. Apart from that, BNM has sterilized significant excess domestic liquidity in the system. As of April 2016, this amounted to 17% of GDP. In particular, there is no clear correlation between the interest rate differential and current account surplus as well as between the interest rate differential and excess liquidity in Malaysia.

Fig 13: Interest rate differential and current account



Source: BNM, Bloomberg

Fig 14: Interest rate differential and excess liquidity



Source: BNM, Bloomberg

Expecting improvement in 2H 2016

The Malaysian economy slowed in 1Q16 to 4.2% yoy growth from 4.5% in 4Q15. This was the slowest growth since the 1.1% yoy contraction in 3Q09. The key drags were total investments and net exports on GDP by expenditure and agriculture sector on GDP by activity.

A key observation is the resilience of private consumption growth. Recall that this decelerated to a low of 4.1% yoy growth in 3Q15 but rebounded to 4.9% in 4Q15. We were pleasantly surprised that private consumption growth strengthened to 5.3% in 1Q16 despite weak consumer sentiment and a sharp 22% yoy decline in total industry vehicle sales. As a result, private consumption gained 1.7ppts in significance from 2015 to constitute 53.9% of the economy.

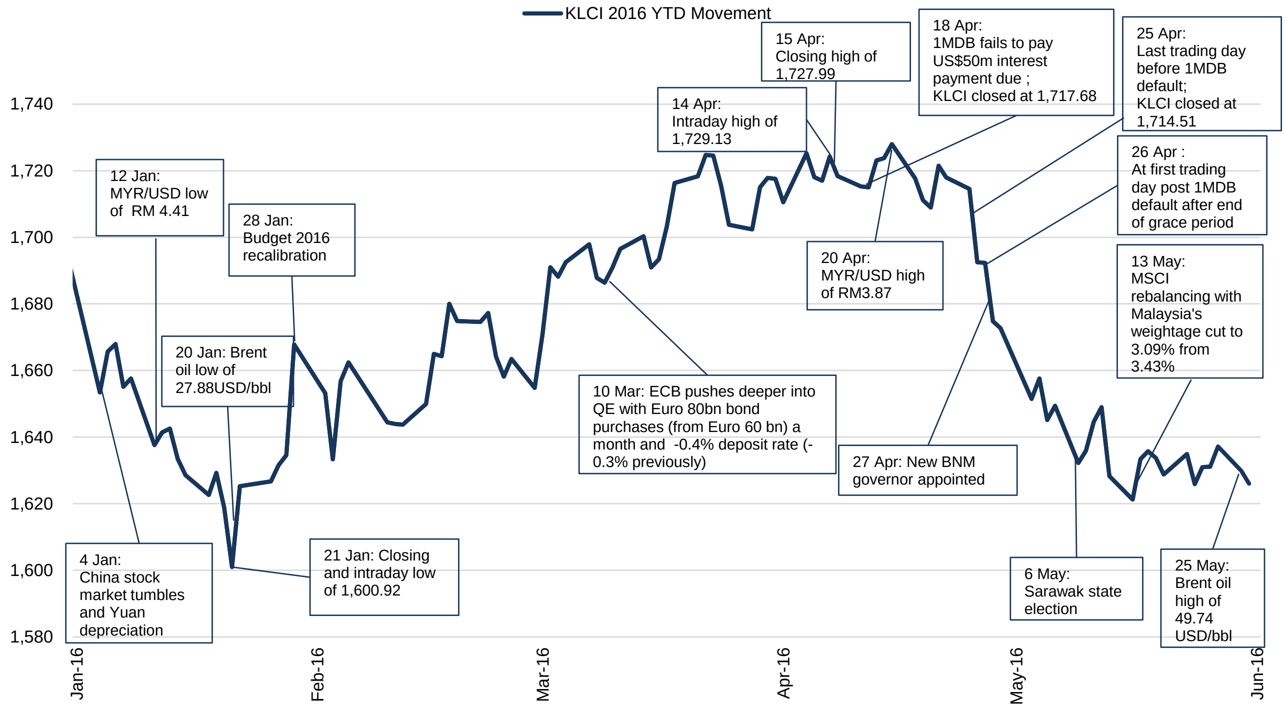
As it stands, we expect 1H16 GDP of 4.3% before improving to 4.7% in 2H16, to average 4.5% growth in 2016 versus 5% in 2015. Under such a growth environment and on weak consumer sentiment, we believe that inflation would be manageable at 2.5-3.0%; it was 2.1% in 2015. As a result, monetary policy is accommodative to growth while inflation remains relatively stable; hence, we expect BNM to stand pat on its OPR of 3.25% for the rest of 2016. The Ringgit has shown weakness to trade at RM4.13 recently (down 5.4% since 25 April), primarily due to portfolio outflows, but we expect the Ringgit to strengthen to around RM3.95 by the end of the year due to a positive savings-investment gap. A sustained Brent crude oil price at the current level of US$49.69/b may also provide support for the Ringgit. Our expectation is for a current account surplus of RM20-25bn or about 2% of GNI this year. The government's fiscal deficit target of 3.1% based on a Brent price of US$30/b also looks attainable.

Recent weakness good opportunity

The KLCI had been performing well, rallying by 7.9% from its trough of 1,600.92 on 21 January to a closing high this year of 1,727.99 on 15 April. However, that was short-lived. The next week, news surfaced that an interest payment amounting to US$50m for one of the 1Malaysia Development Bhd's (1MDB) bonds had not been paid to 1MDB bondholders by the International Petroleum Investment Company (IPIC), which is owned by the Abu Dhabi Government and was due on 18 April. The KLCI reacted the next trading day and fell to 1,711.15. However, 1MDB was still not in default due to a one-week grace period post the due date for payment. In fact, during the grace period, the KLCI actually rose from as low as 1,708.91 to as high as 1,721.47.

On 25 April, the last day of the grace period, the KLCI closed at 1,714.51 points. Then 1MDB issued a statement that it had not made the US$50m interest payment due to disputes regarding the prior arrangement entered into between 1MDB and IPIC. That triggered a default of the 1MDB loan.

Fig 15: Cutting short the rally

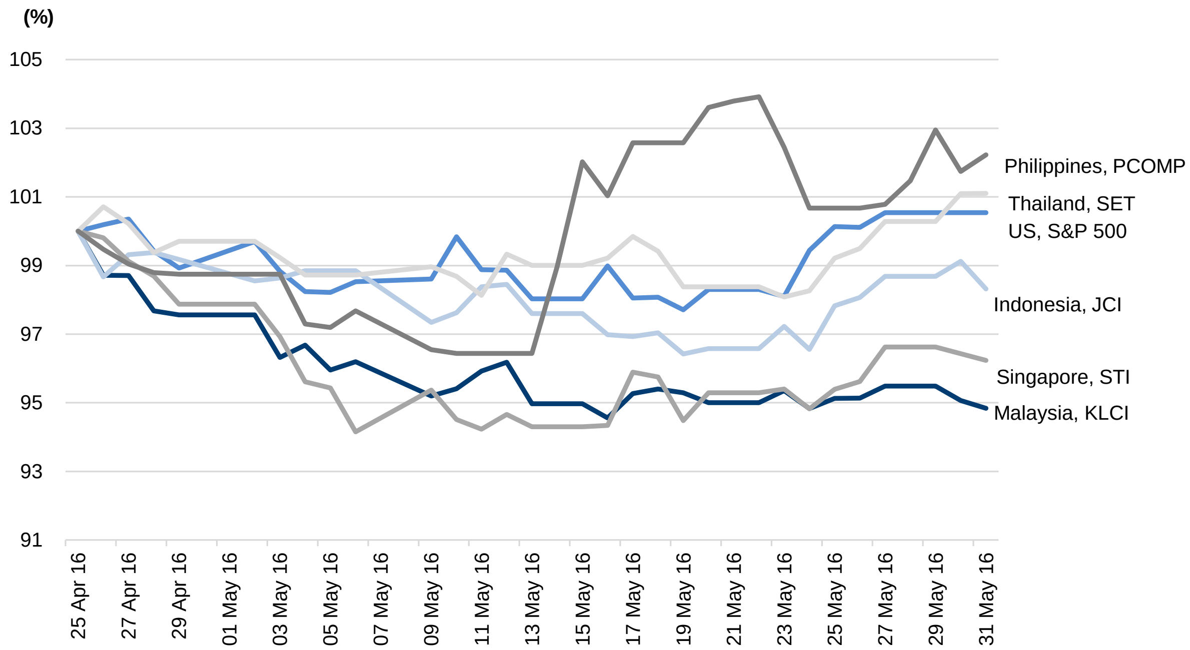


Source: Bloomberg, Affin Hwang

The market reacted negatively to the news, even though 1MDB made it clear that there was limited cross default to certain 1MDB loans and no cross default on Malaysian sovereign debt. This reaction was natural as investors were caught unaware of the technical default and unsure if there would have other developments that could trigger a similar overhang on the market. Essentially the perceived risks increased.

The KLCI fell for five consecutive trading days and lost 63 points, or 3.7%, to 1,651.44. It continued falling until it hit a trough of 1,621.21 on 16 May, or 5.4% measured from 25 April, the trading day prior to the default. Currently, Malaysia is down 5.2% since 25 April 2016. Indonesia (-1.7%) and Singapore (-3.8%) have fallen by less, but Thailand (+1.1%), the Philippines (+2.2%), and the S&P 500 (+0.5%) have risen over the same period. We believe that the difference is due to the 1MDB default and renewed overhang.

Fig 16: Malaysia has performed worse despite resilient macro factors

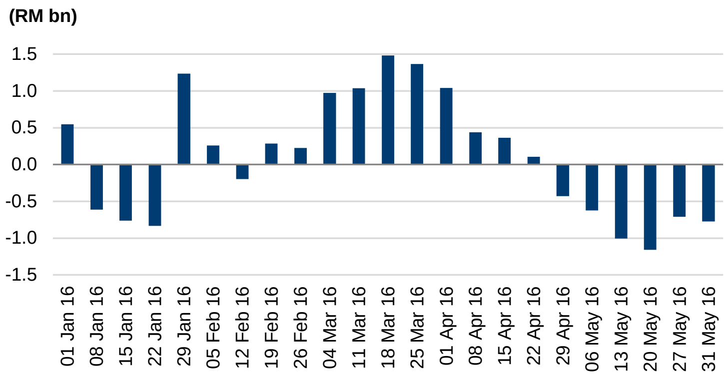


Source: Bloomberg

Fund flows the culprit

The effects from 1MDB could be seen on foreign fund flows for the stock market this year. Since mid-February, the stock market has witnessed ten consecutive weeks of fund flows into the KLCI. Over this period, RM7.3bn of foreign money entered the stock market. However, there was an abrupt reversal coinciding with the week of the 1MDB default. In that week, RM431m exited the stock market and it has picked up momentum since then. It is now five consecutive weeks of outflows and counting. Over this period, total foreign money pulled out of the stock market amounted to RM4.7bn so far (versus RM7.3bn inflow ten consecutive weeks prior to that).

Fig 17: Weekly foreign fund flows to the stock market



Source: Bursa Malaysia

In addition to the 1MDB overhang, some of the foreign funds are also due to general outflows from emerging markets triggered by expectations of an FFR hike in the US. For instance, available data shows foreign funds exiting Thailand, Indonesia and the Philippines. However, none are as sharp and deep as for Malaysia. Also worth noting is that the MSCI announced a weighting change for Malaysia in mid-May, adjusting down to 3.09% from 3.43%. The new weighting is effective 31 May 2016. Hence some of the foreign outflows were also prompted by this adjustment.

Fig 18: Foreign fund flows into Bursa Malaysia

	Indonesia	India	Korea	Taiwan	Thailand	Philippines	Asia-6	Malaysia	Malaysia
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	RMm
2010	2,395.5	29,320.8	19,822.7	9,592.6	2,688.9	1,225.0	65,045.6	4,830.8	15,550.9
2011	2,955.6	(511.8)	(8,583.6)	(9,073.8)	(164.1)	1,330.9	(14,046.8)	558.8	1,709.2
2012	1,712.1	24,547.7	15,068.6	4,907.2	2,503.0	2,558.2	51,296.8	4,450.1	13,744.5
2013	(1,806.4)	19,754.3	4,875.1	9,188.0	(6,210.6)	678.4	26,478.8	1,036.8	3,266.0
2014	3,766.1	16,161.9	5,683.9	13,190.3	(1,091.3)	1,256.1	39,138.1	(1,660.7)	(6,900.0)
2015	(1,579.5)	3,274.1	(3,625.8)	3,344.6	(4,371.8)	(1,194.4)	(4,152.8)	(4,451.9)	(19,490.3)
YTD 2016	**250.3**	**2,123.6**	**2,604.3**	**3,025.0**	**458.6**	**269.3**	**8,731.1**	**655.1**	**2,605.7**
Jan-16	**(165.1)**	**(1,702.0)**	**(2,327.4)**	**(1,703.4)**	**(218.7)**	**(42.7)**	**(6,159.3)**	**(228.4)**	**(1,000.0)**
1-Jan-16	29.0	304.8	(109.5)	(80.9)	66.5	21.4	231.4	125.2	546.2
8-Jan-16	(44.2)	(383.1)	(516.1)	(1,166.1)	(231.7)	(13.5)	(2,354.7)	(139.7)	(613.7)
15-Jan-16	(139.2)	(499.0)	(751.6)	(674.8)	(36.4)	(26.2)	(2,127.2)	(173.9)	(762.9)
22-Jan-16	(96.9)	(911.1)	(1,049.0)	(511.9)	(22.7)	(57.2)	(2,648.8)	(200.6)	(833.6)
29-Jan-16	115.2	48.8	(10.7)	649.4	72.1	54.2	929.0	297.2	1,234.7
Feb-16	**302.7**	**(1,169.5)**	**(42.7)**	**1,562.5**	**13.0**	**(84.9)**	**581.0**	**120.3**	**500.0**
5-Feb-16	200.3	(91.8)	91.2	301.5	(22.7)	11.0	489.5	62.4	259.2
12-Feb-16	81.8	(357.8)	(548.2)	0.0	(163.9)	(34.3)	(1,022.4)	(47.5)	(197.1)
19-Feb-16	23.1	(232.6)	91.3	660.6	173.7	(24.5)	691.6	67.8	283.3
26-Feb-16	(22.3)	(238.7)	177.4	600.4	29.6	(24.3)	522.1	53.5	225.3
Mar-16	**177.8**	**4,085.4**	**3,128.1**	**5,122.0**	**749.4**	**203.9**	**13,466.5**	**1,500.1**	**6,100.0**
4-Mar-16	171.1	742.1	1,118.9	1,060.3	370.8	29.7	3,492.9	233.9	972.2
11-Mar-16	(1.8)	489.0	639.6	993.5	68.7	39.9	2,229.1	252.4	1036.0
18-Mar-16	67.4	711.1	1,212.8	1,834.7	(9.3)	93.4	3,910.0	362.0	1483.2
25-Mar-16	23.2	551.9	257.3	316.0	(8.1)	22.7	1,163.0	339.1	1365.2
31-Mar-16	(62.3)	1,342.6	(81.0)	788.7	437.8	7.1	2,432.9	263.5	1040.2
Apr-16	**22.2**	**584.8**	**1,826.2**	**726.8**	**(159.2)**	**(34.0)**	**2,966.8**	**128.2**	**500.0**
8-Apr-16	97.7	(161.4)	343.5	(369.4)	(207.5)	(35.1)	(332.2)	112.4	439.7
15-Apr-16	(34.8)	199.4	724.3	983.5	(77.9)	(27.4)	1,767.0	93.8	364.4
22-Apr-16	106.8	326.0	625.8	397.6	89.8	(20.4)	1,525.6	27.5	107.0
29-Apr-16	(147.6)	220.8	258.8	(156.2)	(77.8)	47.2	145.2	(110.2)	(430.8)
May-16	**(17.3)**	**382.8**	**85.2**	**(2,075.2)**	**131.5**	**286.6**	**(1,206.4)**	**(1,052.6)**	**(4268.7)**
6-May-16	(114.5)	(85.7)	168.8	(1,558.3)	(26.4)	(16.5)	(1,632.6)	(156.8)	(622.7)
13-May-16	(31.9)	301.0	(132.1)	(1,098.2)	(28.2)	39.0	(950.2)	(249.1)	(1,004.0)
20-May-16	(29.4)	(47.4)	(190.1)	(561.6)	27.0	(5.4)	(806.8)	(285.8)	(1,158.2)
27-May-16	88.6	157.0	173.3	535.1	101.7	210.0	1,265.8	(173.3)	(709.4)
*31-May-16	70.0	57.8	65.2	607.7	57.3	59.4	917.5	(187.5)	(774.4)

*** Indicates the week through 31-May-2016 (2 days)**

NB: 1. Monthly data is an aggregated total of all daily flows for the month.

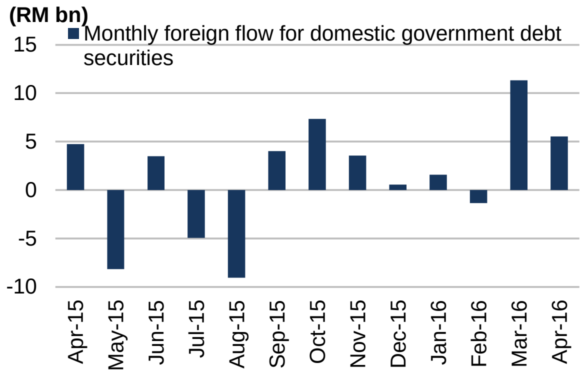
2 .Weekly data is an aggregated total of all daily flows for the week ending Friday.

3. Monthly data may not tally with the aggregated weekly data as it captures the full month flows.

Source: Bloomberg, Bursa Malaysia

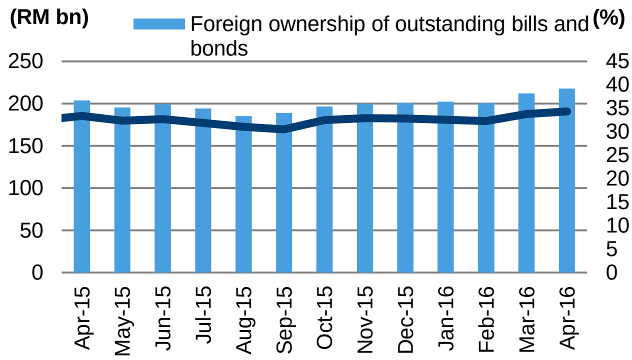
Meanwhile, the latest available data for total domestic debt issuance by the Malaysian government show foreign inflows of RM5.6bn in April 2016. Foreigners held 34.3% of the RM635bn in domestic government-issued debt as of end-April.

Fig 19: Foreign flows for domestic government debt



Source: BPAM, BNM

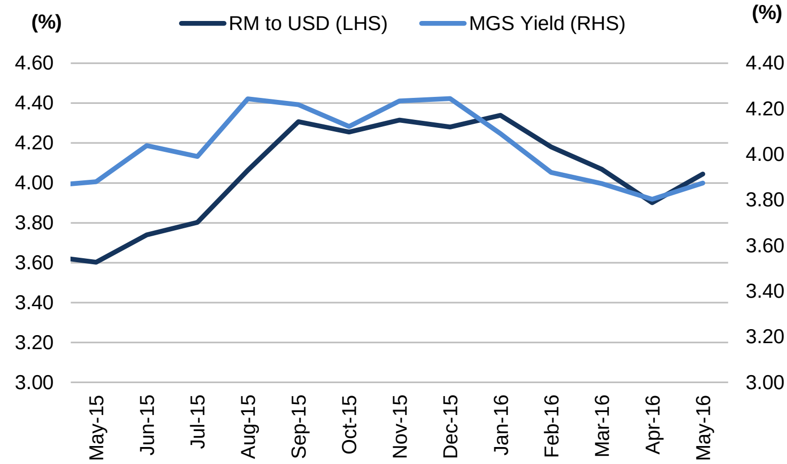
Fig 20: Foreign holding of domestic government debt



Source: BPAM, BNM

However, we observe a close correlation between the Ringgit and the 10-year MGS yield. In the past, Ringgit strength coincided with yield compression and foreign inflows into domestic government debt securities. Likewise, the recent Ringgit weakness also coincided with expanding yields. Hence there is the likelihood that foreign flows have exited the bonds apart from the stock market. We need to wait for May data to confirm if there have been outflows from government securities.

Fig 21: Correlation between Ringgit and 10-year MGS



Source: Bloomberg

The earnings prophesy

The market has developed a habit of starting off the year with high earnings growth expectations, only to end the year lower. This pattern of the past few years has happened again in 2016. We were anticipating 8.5% yoy fully diluted EPS growth in 2016, only to see that drop markedly to 3% currently. Of the 5.5ppts difference in growth, 37% was due to adjusted 2015 EPS up by 1.9%; thus the higher base last year post the finalisation of the 2015 results. If not for the higher base, earnings would have grown by 5% instead. The balance of the difference is due to lower fully diluted EPS for 2016E; we have cut 2016E earnings by 3.2% over the past three months.

We have provided below the 2016E earnings growth contributions by sector. Similar to the global economy, the KLCI earnings growth is uneven. There are 12 sectors that are contributing positively to growth, but the remaining 6, or 33%, of the 18 sectors under coverage are subtracting from market growth. The three largest contributors to growth are plantations, utilities and gaming. Collectively they make up 3.9ppts of growth, or 130% of the 3ppts market average. On the other hand, consumer, banks and property are the three worst sectors that subtract from the market average. They represent minus 2.2ppts of the market average.

Fig 22: Breakdown of contribution to 2016E growth by sector

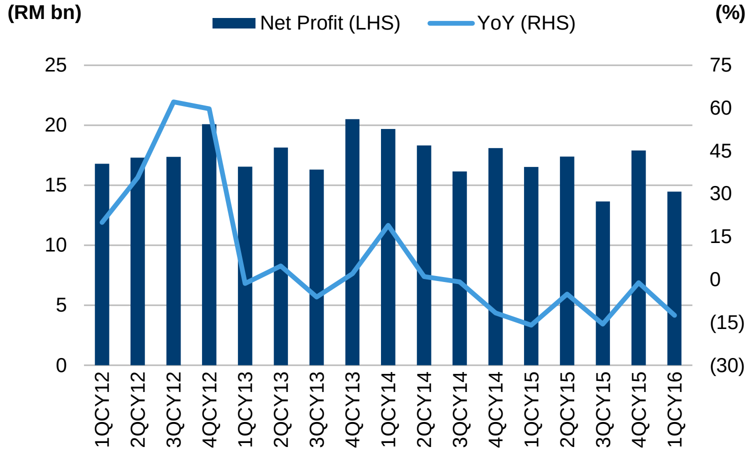
Sector	Rating	Market Cap (RMm)	Weighting	Sector contribution to EPS growth (%)
Auto & Autoparts Sector	N	7,384	0.6	0.3
Banks Sector	OW	269,078	23.2	(1.2)
Building Materials Sector	N	6,903	0.6	0.1
Const & Infra Sector	OW	31,557	2.7	(0.0)
Consumer Sector	N	49,974	4.3	(0.9)
Gaming Sector	OW	61,608	5.3	0.5
Healthcare Sector	OW	57,685	5.0	0.2
Media Sector	N	18,971	1.6	0.0
MREIT Sector	OW	25,760	2.2	0.2
Oil & Gas Sector	UW	78,579	6.8	0.1
Plantation Sector	N	116,294	10.0	2.5
Property Sector	OW	32,519	2.8	(0.1)
Rubber Products Sector	N	21,509	1.9	0.1
Technology Sector	N	8,932	0.8	(0.0)
Telecoms Sector	N	147,487	12.7	0.0
Timber Sector	OW	3,174	0.3	(0.0)
Transport Sector	N	53,019	4.6	0.2
Utilities Sector	OW	168,920	14.6	0.8
TOTAL		**1,159,353**		**3.0**

Source: Affin Hwang

Poor run continues

The stock market entered its seventh consecutive quarter of earnings decline in 1Q16 (note that 4Q15 preliminary growth of 0.2% yoy was revised down to a 1.1% yoy contraction). The 1Q16 net profit was down 12.5% yoy despite a low base in 1Q15. It made up 19.7% of our full-year forecast. In fact, the RM14.5bn net profit in 1Q16 represents the second-lowest quarterly profitability figure since 4Q11. Eleven of the 18 sectors under coverage produced net profit contractions.

Fig 23: Extending the poor run



Source: Bloomberg, Affin Hwang

In our coverage universe, 11 companies were above expectations, 41 companies were in line, but a significant 46 companies came in below our estimates, giving a net 35 companies that were below expectations. There was a net 28 companies with 2016E earnings cuts (1Q15: 18) and a net 27 companies (4Q15: 13) with target price reductions. That said, recommendation downgrades saw a net figure of 2 companies, down from 6 in 4Q15.

Valuation is below long-term average

We estimate that the Malaysian market is currently trading at 17.1x 2016E PE based on our universe of 98 stocks as a proxy for the overall market. This falls to a 16.2x PE in 2017E with our 5.5% yoy EPS growth estimate. It is worth noting that Malaysia has consistently traded at mid- to high-teens PEs. Therefore, we believe that the nature of the market is that it should be able to sustain such a valuation pattern. As such, it is more relevant to compare its current valuation relative to its historical average. Under this scenario, the Malaysian market is still trading below its long-term average of 17.9x.

Fig 24: Overall market forward fully-diluted PER trend

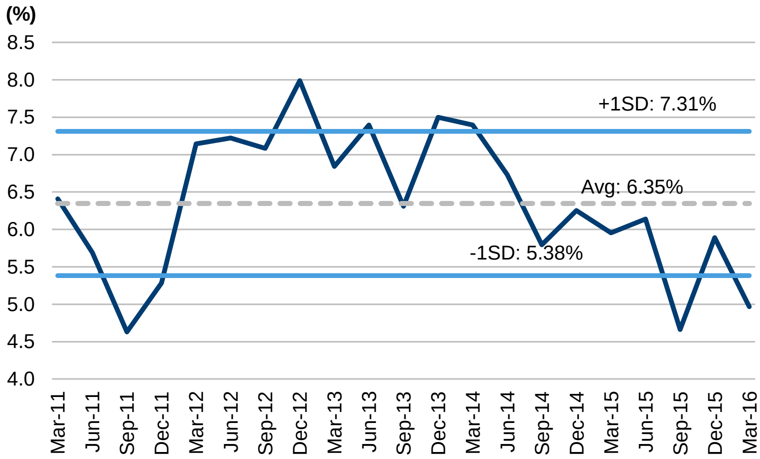
Source: Bloomberg, Affin Hwang forecasts

Market index target of 1,746

In fairness, we believe that the KLCI should trade up to its mean PER. Market earnings growth looks tepid but we think Malaysia's GDP is resilient and is poised for better activities as 2016 progresses. Macro fundamentals seem conducive as well. We are hopeful that better economic activities would translate into improved corporate earnings, especially given that the corporate share of GDP has fallen below its long-term average for seven consecutive quarters now.

The total net profit of companies under our coverage has lost ground as measured against quarterly nominal GDP. It fell from 5.9% of GDP in 4Q15 to 5% in 1Q16, though this is still higher than the trough of 4.7% in 3Q15. We have to go back to 3Q11 to see a lower share of corporate profit as a proportion of GDP. As an observation, corporate profit rose significantly subsequent to the trough in 3Q11.

Fig 25: Net profit has fallen significantly as a proportion of GDP



Source: Bloomberg, Affin Hwang

We revise our KLCI 2016 index target to 1,746 (or down 1.6% from 1,774). This is premised on a PER target at its long-term average of 17.9x and applied to the average of our 2016 and 2017 EPS forecasts. This provides 7.4% upside potential from the current level.

Fig 26: KLCI index target calculation

	Units	2016E	2017E
KLCI (31 May 2016)	pts	1,626.00	1,626.00
Market EPS	pts	94.92	100.15
Fully diluted PE	x	17.1	16.2
Index Target			
Average fully diluted PE	x	17.9	17.9
Current market EPS	pts	94.92	100.15
Average market EPS	pts	97.54	
Average KLCI target	**pts**	**1,745.95**	
Upside	**%**	**7.4%**	
Revision			
Old KLCI target	pts	1,773.98	
Change	%	-1.6%	

Source: Affin Hwang forecast

Sector and stock strategy

We base our sector positioning on secular trends and structural developments in Malaysia. These include young demographics, the journey towards developed nation status by 2020, private consumption growth, and an eventual large middle-income society. The recent market gyrations have not derailed these longer-term trajectories, in our view. Of the 18 sectors under coverage, we are Overweight on 8, Neutral on 9 and Underweight on 1. We have made one change, which is an upgrade of Gaming to Overweight (from Neutral).

Fig 27: Sector positioning

Overweight	Neutral	Underweight
Banks & Financial Services	Auto & Autoparts	Oil & Gas
Construction & Infrastructure	Building Materials	
Gaming (↑)	Consumer	
Healthcare	Media	
MREIT	Plantation	
Property	Rubber Products	
Timber	Technology	
Utilities	Telecoms	
	Transports & Logistics	

Source: Affin Hwang

Our coverage universe consists of 98 stocks. Of these, 39 are rated Buy, 40 are rated Hold and 19 are rated Sell. In doing our sector strategy, we reconcile the top-down industry attractiveness of each sector with the bottom-up availability of stocks to gain exposure to the sector. The breakdown of the sectors by number of companies and market cap follows. Note that there has been no change to our 98-stock universe since three months ago.

Fig 28: Breakdown of our sector coverage by recommendation

Sector	Rating	% of market cap	Total mkt cap (RMbn)	Rating				% of rating				Rating as a % of mkt cap			
				Buy	Hold	Sell	Total	Buy	Hold	Sell	Total	Buy	Hold	Sell	Total
Auto & Autoparts	N	0.6%	7,384	-	-	3	3	-	-	100	100	-	-	100	100
Banks & Financial Services	OW	23.2%	269,078	5	5	-	10	50	50	-	100	52	48	-	100
Building Materials	N	0.6%	6,903	-	1	1	2	-	50	50	100	-	98	2	100
Construction & Infrastructure	OW	2.7%	31,557	7	1	-	8	88	13	-	100	99	1	-	100
Consumer	N	4.3%	49,974	2	3	4	9	22	33	44	100	17	50	32	100
Gaming	OW	5.3%	61,608	1	1	1	3	33	33	33	100	43	51	7	100
Healthcare	OW	5.0%	57,685	1	1	-	2	50	50	-	100	8	92	-	100
Media	N	1.6%	18,971	1	-	3	4	25	-	75	100	76	-	24	100
MREIT	OW	2.2%	25,760	2	2	-	4	50	50	-	100	41	59	-	100
Oil & Gas	UW	6.8%	78,579	1	5	2	8	13	63	25	100	0	30	69	100
Plantation	N	10.0%	116,294	-	5	2	7	-	71	29	100	-	89	11	100
Property	OW	2.8%	32,519	7	-	-	7	100	-	-	100	100	-	-	100
Rubber Products	N	1.9%	21,509	2	3	-	5	40	60	-	100	37	63	-	100
Technology	N	0.8%	8,932	3	2	2	7	43	29	29	100	50	29	21	100
Telecoms	N	12.7%	147,487	-	4	-	4	-	100	-	100	-	100	-	100
Timber	OW	0.3%	3,174	2	1	-	3	67	33	-	100	64	36	-	100
Transports & Logistics	N	4.6%	53,019	2	1	1	4	50	25	25	100	15	65	20	100
Utilities	OW	14.6%	168,920	3	5	-	8	38	63	-	100	51	49	-	100
Total		100.0%	1,159,353	39	40	19	98								

Source: Bloomberg, Affin Hwang; based on pricing as of 31 May 2016

Meanwhile, we retain a list of 20 companies as our top picks (Fig 29). We have made three additions: Genting Malaysia, Carlsberg and Scicom. The three deletions are IGB REIT, Globetronics and E&O. On the other hand, our top sell list has shrunk by two stocks to six companies by removing Petronas Chemical and MMHE.

Fig 29: Top Picks List: Top Buys and Sells

Stock	Rating	Price (RM)	TP (RM)	Upside (%)	Mkt Cap (RMm)
Top Buys					
AEON CREDIT	BUY	13.58	14.80	9.0	1,955.5
AFG	BUY	4.05	4.50	11.1	6,268.5
CARLSBERG *	BUY	13.16	14.40	9.4	4,079.0
CIMB	BUY	4.39	5.00	13.9	38,319.7
GAMUDA	BUY	4.80	5.70	18.8	11,586.8
GENTING MALAYSIA *	BUY	4.41	5.00	13.4	26,184.6
INARI	BUY	3.10	3.54	14.2	2,964.9
JAKS RESOURCES	BUY	0.86	1.60	86.0	377.0
KPJ	BUY	4.28	4.87	13.8	4,528.0
PUBLIC BANK	BUY	19.12	21.80	14.0	74,226.5
PETRA ENERGY	BUY	1.14	1.48	29.8	366.8
PAVILION REIT	BUY	1.66	1.90	14.5	5,012.9
SUNWAY CONSTRUCTION	BUY	1.58	1.98	25.3	2,042.8
SCICOM *	BUY	2.34	2.58	10.3	831.8
SUNWAY	BUY	3.01	3.90	29.6	5,988.1
TA ANN	BUY	4.02	5.30	31.8	1,490.4
TENAGA	BUY	13.98	16.50	18.0	78,897.7
TOP GLOVE	BUY	5.07	7.17	41.4	6,367.3
UOA DEVELOPMENT	BUY	2.27	2.57	13.2	3,452.2
WCT	BUY	1.56	2.02	29.5	1,959.9
Top Sells					
MAHB	SELL	6.39	5.50	(13.9)	10,602.2
MCIL	SELL	0.73	0.55	(24.7)	1,231.7
MEDIA PRIMA	SELL	1.41	1.21	(14.2)	1,564.0
STAR	SELL	2.45	1.85	(24.5)	1,809.5
UMW-OG	SELL	0.88	0.73	(16.6)	1,891.8
UNISEM	SELL	2.40	1.76	(26.7)	1,761.2

* new addition

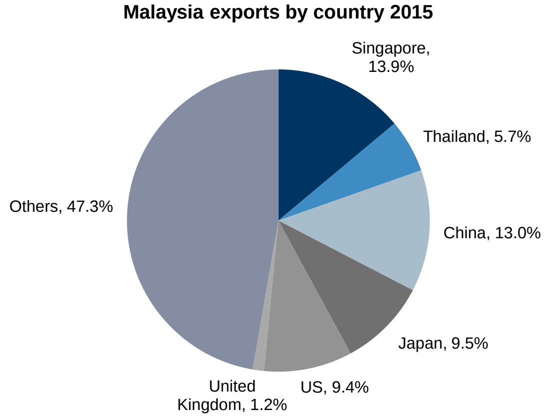
Source: Affin Hwang forecast, Bloomberg; prices as of 31 May 2016

One final thing: Brexit

Besides the expected FFR increase, global crude oil price volatility, China economic stability and tepid global GDP growth, investors would also have to deal with the Brexit referendum that is to be held on 23 June 2016. The uncertainty of the outcome would likely put pressure on global financial markets; Malaysia is no different.

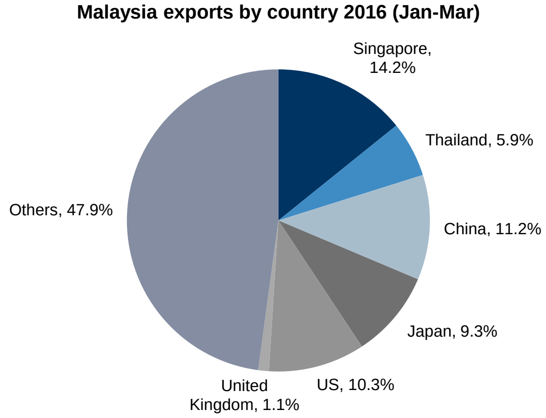
Directly, Britain made up just 1.2% of Malaysia's total exports in 2015. This compares with China, which has been another source of concern for the Malaysian stock market, at 13% of the total last year. The latest figures for the first four months of 2016 are 1.1% and 11.2%, respectively. Based on this, the impact if the referendum is in favour of Brexit should be manageable for Malaysia. The indirect impact that Brexit may bring to Europe could be more severe and also more difficult to ascertain, given that as a block the EU contributes a significantly larger proportion of 10.1% of Malaysia's total trade in 2015 (1Q16: 8%).

Fig 30: Malaysian exports in 2015



Source: CEIC

Fig 31: Malaysian exports 2016 ytd



Source: CEIC

Nonetheless, we have provided a list of companies under our coverage that have exposure to Britain. We have also provided the same for those with exposure to China.

Fig 32: Companies with exposure to Great Britain

Company	Exposure
Amcorp Properties	Property development in Central London
E&O	Property development in London
Sime Darby	Property development at Battersea, NBPOL has oleochemcial plant in Liverpool
SP Setia	Property development at Battersea
YTL Corp	Indirect exposure via its subsidiary YTL Power
YTL Power	Water and sewage business in Southwest England

Source: Company

Fig 33: Companies with exposure to China

Company	Exposure
CIMB Group	20%-owned Bank of Yingkou
Hong Leong Bank	20%-owned Bank of Chengdu
IHH	China currently makes up c.3% of the group's total revenue. However, this is expected to increase with the opening of Gleneagles Hong Kong and ParkwayHealth Chengdu, which would add 850 licensed beds to group's total capacity.
Inari	Factory in Kunshan
IOI Corp	Specialty oils & fats plant under construction in China, which is a major consumer of palm oil
IOI Properties	Property development in Xiamen China
KL Kepong	Two oleochemical complexes and storage facilities in China
Maybank	Branches in Shanghai, Beijing, Kumming and Shenzhen
MCIL	Print publication, online media and travel business in China
MPI	Factory in Suzhou
Parkson	As at 2015,60 stores in China (total stores: 126)
Petronas Chemical	30% of group's petrochemical products are exported to China
Sime Darby	Motors (12 marques including BMW) dealership, heavy equipment (Caterpillar) dealership, ports (seaport in Weifang and 4 river ports in Jining) business, and a manufacturing and bulking facilities for palm oil and related products in China
Sunway Berhad	Development in Tianjin China, c. RM1.4bn GDV. Spun files manufacturing in Zuhai, China
Top Glove	Vinyl gloves manufacturing plant in China
Uchi	Factory in Dongguan
UMWH	UMW-OG's OCTG threading, inspection and repair service facility in Tianjin China. Lubricant - Manufacturing and distribution plant in Guangdong, China
Unisem	Factory in Chengdu

Source: Affin Hwang

Calmer nerves

Dissecting the volatility

Global financial markets began 2016 with extreme volatility, which threatened to become the norm throughout the year. The financial markets were plagued by a confluence of uncertainties at the time.

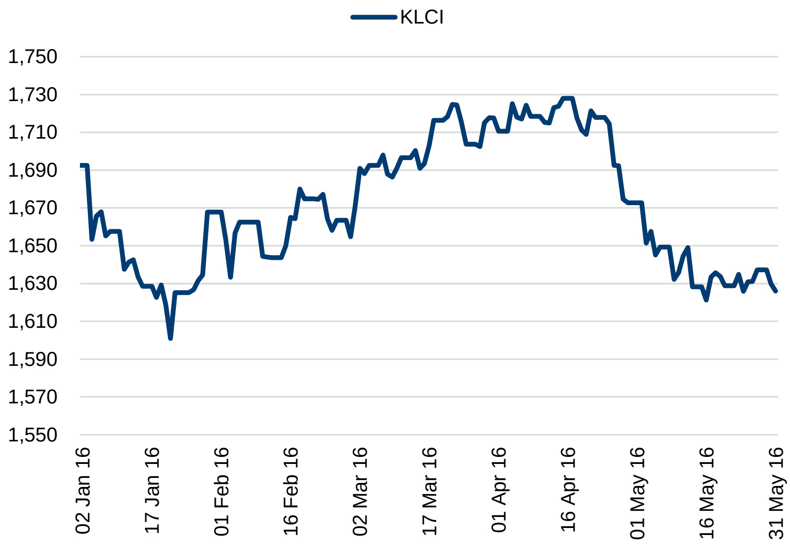
Firstly, the world is experiencing an uneven policy direction with the Federal Reserve fresh from raising rates for the first time in more than 9 years at its December 2015 policy meeting. This comes at a time when the two other major central banks, the European Central Bank (ECB) and the Bank of Japan (BoJ), pushed deeper into monetary easing.

Secondly, the trigger for financial volatility came from concerns about the state of the health of China's economy. This, coupled with a rapid decline in China's foreign reserves and its contagion on world GDP, exacerbated the situation. This brought into focus the third concern – of rapidly slowing global growth.

Fourthly, in tandem with concerns of a global economic slowdown came the sell-down in commodity prices, especially of crude oil, due to the risk of demand destruction and sustained production levels by OPEC. In addition, sanctions being lifted in Iran with its emergence into world supply also played its part in terms of the overhang.

In Malaysia's case, these global factors were applicable too. However, there was the added volatility due to uncertainty surrounding domestic issues, which increased country-specific risk for Malaysia and was transmitted into its financial markets.

Fig 34: KLCI's performance since the start of 2016



Source: Bloomberg

Dissipating concerns

It is remarkable the way global markets have calmed down subsequent to the adrenaline-fuelled gyrations early on. The Dow Jones Industrial Average (DJIA), which had fallen as much as 10% during the early part of the year, has swiftly recovered and is now up 2.1% ytd. In the case of the

KLCI, it rallied in tandem with the DJIA from 1,600.92 to a peak of 1,727.99 on 15 April.

The ability to do so was due to risk-on behaviour with dissipating concerns about China, more comfort on global growth albeit at a weaker rate, somewhat of a rebound and stabilisation of the crude oil price, and better clarity on the Fed's rate hike trajectory.

China slowing, but seeing signs of stabilization

The start-of-the-year concern surrounding China's economy was triggered by the sharp sell-down in its stock market. It manifested concerns about global capital flows due to the economic slowdown in China, causing a rapid depletion of foreign reserves and a fall in the currency.

China's foreign reserves hit a peak of US$4 trillion in June 2014, then saw relatively heavy outflows throughout 2015. The amount hit US$108bn in December 2015 and another US$99.5bn in January 2016, the two largest monthly figures exiting China on record. It was the size and sharp decline that worried investors. By February 2016, China's foreign reserves had dwindled to a low of US$3.2 trillion.

Fig 35: China's foreign exchange reserve

Source: Bloomberg

Previously, China's rapid growth had coincided with monetary easing by the Fed. As such, US Dollar-denominated loans were carrying cheap finance costs. In addition, better growth prospects emanating from China meant that the Yuan was expected to appreciate against the US Dollar. The case was also helped by China's continued trade and current account surpluses that provided further support for the Yuan.

Under such an environment, local Chinese firms began taking US Dollar-denominated loans offshore and repatriating the funds to China to fund its capital expenditure plans. It made a lot of sense because finance costs were lower than onshore Yuan borrowings and the Yuan was expected to appreciate, thus requiring fewer Yuan when making US Dollar repayments in the future.

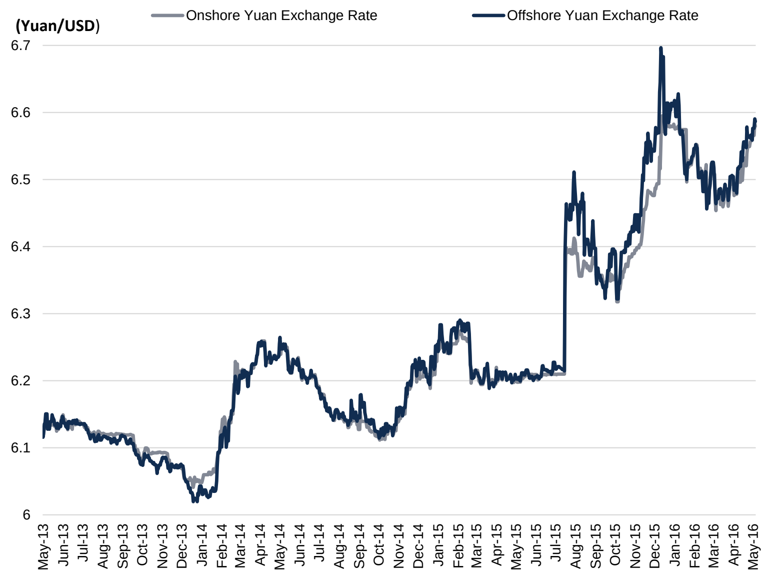
It was the rush of borrowers to redeem their US Dollar-denominated loans that contributed to the recent sharp deterioration in China's foreign exchange reserves. As the redemption gained pace, the urgency to beat other borrowers to the door exacerbated the acceleration of Yuan flow out of China. Since then, China's foreign exchange reserves are showing early signs of stabilising, thus providing some comfort to investors. As of April 2016, China's foreign currency reserves stood at US$3.22bn.

The Yuan is also central to the worries. In fact, it is the expectation of Yuan depreciation against the US Dollar that sparked the need to redeem the US Dollar-denominated loans. Unlike the original scenario that prompted Chinese companies flocking to offshore borrowings, the environment changed as the Fed was on an interest rate normalisation path, raising the FFR from a zero-bound interest rate. At the same time, China's economy was seeing some weakness due to the ongoing rebalancing away from investments towards more consumption and services. Moreover, 2015 coincided with weak global growth, hence reducing China's trade figures.

The stress on the currency could be seen from the divergent trend between the Yuan onshore and offshore exchange rates. In China, the People's Bank of China (PBOC) sets the exchange rate and allows it to fluctuate within an acceptable band. It has full control of the onshore exchange rate given capital controls and the PBOC's ability to supply and withdraw Yuan from the local market.

In order to promote international trade settlements and Yuan convertibility, there is also an offshore Yuan foreign exchange market in Hong Kong. Both rates are quite well matched under normal conditions. But at the height of the outflow, the onshore rate was more than a 2% premium to the offshore rate in the first week of January 2016. This was due to the depreciation of the offshore Yuan foreign exchange, which is more exposed to market forces than the controlled onshore rate. In other words, the market was betting against the Yuan and saw the onshore-controlled rate as being unsustainable.

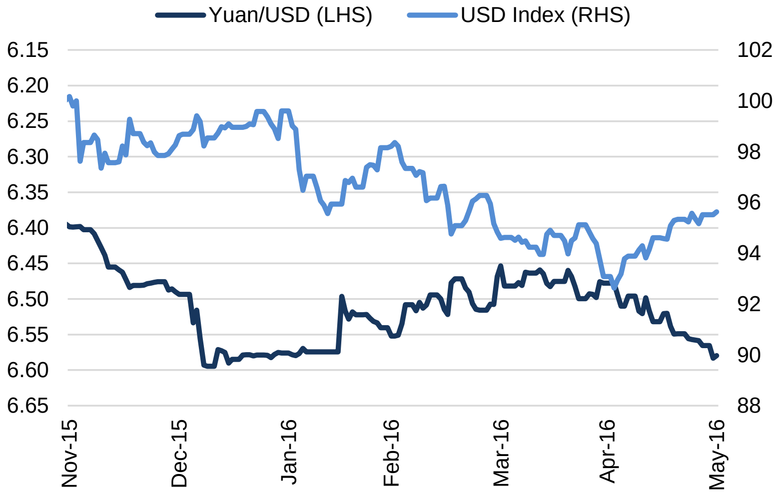
Fig 36: Onshore Yuan foreign exchange premium back to normal



Source: Bloomberg

However, the premium has narrowed and the spread between the two rates has returned to normal. This is despite the Yuan having depreciated against the US Dollar by 4% since November 2015, prior to the start of the exodus to redeem US Dollar loans. All these have also given some degree of comfort to financial markets.

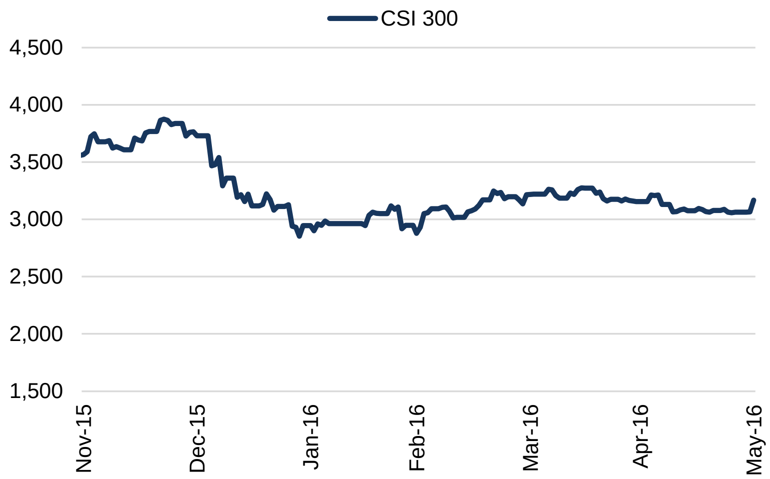
Fig 37: Yuan depreciation partly due to USD strength



Source: Bloomberg

Lastly, trading patterns in the China stock market have also returned to normal. The CSI 300 is trading at 3,169.56 as at 31 May 2016, recovering from its trough of 2,853.76 in the thick of the sell-down early this year. It is also above the 3,000 psychological level, while volatility has declined compared to earlier this year.

Fig 38: CSI 300 has stabilised



Source: Bloomberg

Global growth chugging along

According to the IMF, world GDP expanded by 3.1% in 2015. Therefore, its forecast of 3.6% global GDP growth for 2016 in its World Economic Outlook (WEO) in October 2015 indicated a better 2016. However, the forecast was quickly thrown into question at the very start of 2016 due to the volatile swing in China's stock market triggered by concerns about the state of its economy.

Right on script, the IMF revised global GDP growth to 3.4% in its January 2016 WEO update due to uneven growth in advanced economies and worse-than-expected environments in Brazil and Russia. However, there was no change to China's growth projection.

In its latest WEO in April 2016, the IMF once again reduced 2016 global GDP growth outlook to 3.2%. This is just marginally higher than the 3.1% figure in 2015 but is a significant downgrade from the original expectation of 3.6% growth in 2016. Interestingly, the downgrade came not from China but slower projections for the US, major European economies and Japan. In fact, China's growth has been revised up by 0.2 ppts.

Fig 39: Global GDP growth projections

	IMF				World Bank				ADB			
	Forecasts		*Change		Forecasts		*Change		Forecasts		*Change	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Global	**3.2**	**3.5**	**-0.2**	**-0.1**	**2.9**	**3.1**	**-0.4**	**-0.1**	**-**	**-**	**-**	**-**
Advanced economies	**1.9**	**2.0**	**-0.2**	**-0.1**	**2.1**	**2.1**	**-0.2**	**-0.1**	**1.8**	**1.9**	**-0.2**	**-**
US	2.4	2.5	-0.2	-0.1	2.7	2.4	-0.1	0.0	2.3	2.5	-0.3	-
Euro Area	1.5	1.6	-0.2	-0.1	1.7	1.7	-0.1	0.1	1.5	1.6	-0.1	-
Japan	0.5	-0.1	-0.5	-0.4	1.3	0.9	-0.4	-0.3	0.6	0.5	-0.2	-
Developing economies	**4.1**	**4.6**	**-0.2**	**-0.1**	**4.8**	**6.2**	**-0.6**	**-0.2**	**-**	**5.7**	**-**	**-**
China	6.5	6.2	0.2	0.2	6.7	6.5	-0.4	-0.4	6.5	6.3	-0.2	-
India	7.5	7.5	0.0	0.0	7.8	7.9	-0.1	-0.1	7.4	7.8	-0.4	-
Asean-5	**4.8**	**5.1**	**0.0**	**0.0**	**4.6**	**4.8**	**-0.4**	**0.2**	**4.5**	**-**	**-0.4**	**-**
Indonesia	4.9	5.3	-0.2	-0.2	5.1	5.3	-0.2	-0.2	5.2	5.5	-0.1	-
Malaysia	4.4	4.8	-0.1	-0.2	4.4	4.5	-0.1	0.0	4.2	4.4	-0.7	-
Philippines	6.0	6.2	-0.3	-0.3	6.4	6.3	0.0	0.1	6.0	6.1	-0.3	-
Singapore	1.8	2.2	-1.1	-1.0	-	-	-	-	2.0	2.2	-0.3	-
Thailand	3.0	3.2	-0.2	-0.2	2.5	2.6	0.5	0.2	3.0	3.5	-0.8	-

*Change from previous estimate

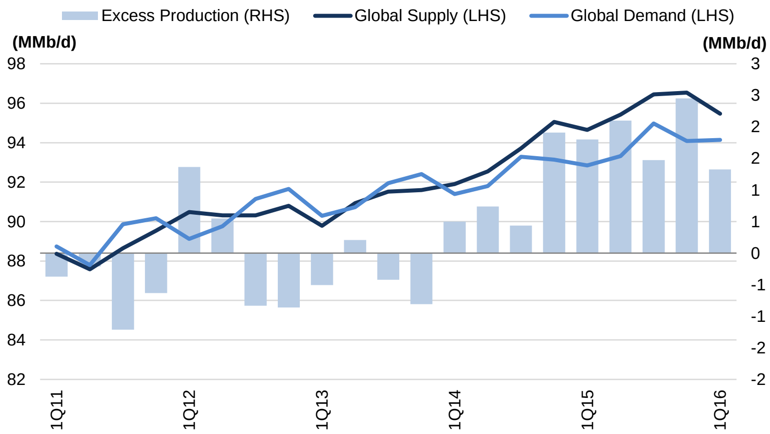
Source: IMF, WB, ADB

While downgraded, the IMF action was largely expected subsequent to similar moves by various other international agencies. However, it coincided with a time when investors found more comfort that China and global growth, although tepid, is unlikely to trigger a rout in global financial markets.

Brent price reflecting fewer concerns

In tandem with calmer nerves, the crude oil price also rebounded from its low of US$27.88/b to US$49.69/b, based on the international Brent benchmark on 31 May 2016. According to the Energy Information Administration (EIA), global petroleum demand is expected to improve 1.5% to 95.24m b/d in 2016 and another 1.6% to 96.78m in 2017. At the same time, total supply is expected to rise by 0.5% or 0.46m b/d to 96.23m in 2016 and by 0.8% 0.76m b/d to 96.99m b/d in 2017.

Fig 40: Global petroleum demand, supply and excess production

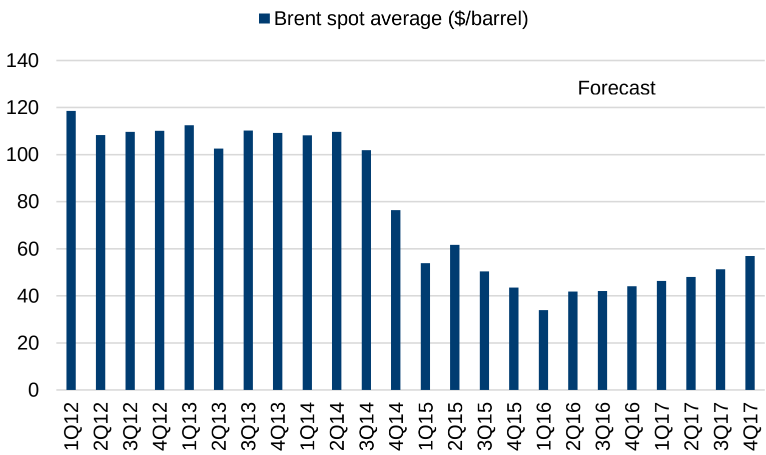


Source: EIA

The key observation is that EIA is expecting petroleum supply to grow over the next two years despite the current oil price level, predominantly coming from Iran. Therefore, the narrowing of excess production from 1.96m b/d in 2015 to 0.99m in 2016 and 0.21m in 2017 is premised on the assumption of demand growth catching up with supply.

Hence, calming global growth has prompted a rebound in Brent oil prices. The EIA is forecasting an average Brent price of US$41/b in 2016 and US$51/b in 2017. In other words, there is some buffer on market price now relative to EIA's projections. In fact, Malaysia's Brent price assumption for 2016 is pegged at an even lower figure of US$30/b.

Fig 41: Average Brent price forecast



Source: EIA

More moderate FFR trajectory

The US took its first step to normalise its policy rate by raising the FFR by 25 bps on 16 December 2015 to between 0.25% and 0.5%, coinciding with the last FOMC meeting of the year. This raised a degree of uncertainty on the policy direction for 2016. The general view at the time was four rate hikes throughout the year.

Fig 42: FOMC members' latest median economic projections

Variable (%)	Median 2016E	2017E	2018E	Longer run
Change in real GDP	2.2	2.1	2.0	2.0
December projection	2.4	2.2	2.0	2.0
Unemployment rate	4.7	4.6	4.5	4.8
December projection	4.7	4.7	4.7	4.9
PCE inflation	1.2	1.9	2.0	2.0
December projection	1.6	1.9	2.0	2.0

Source: Federal Reserve

However, the Fed gave more clues with regards to future rate hikes in its March 2016 FOMC economic projections. The FOMC's members' median forecast for the projected appropriate policy path has been revised down by 50bps from 1.4% in December to 0.9% as of March. Hence, it implies probably two rate hikes in 2016, down from expectations of four rate hikes in December.

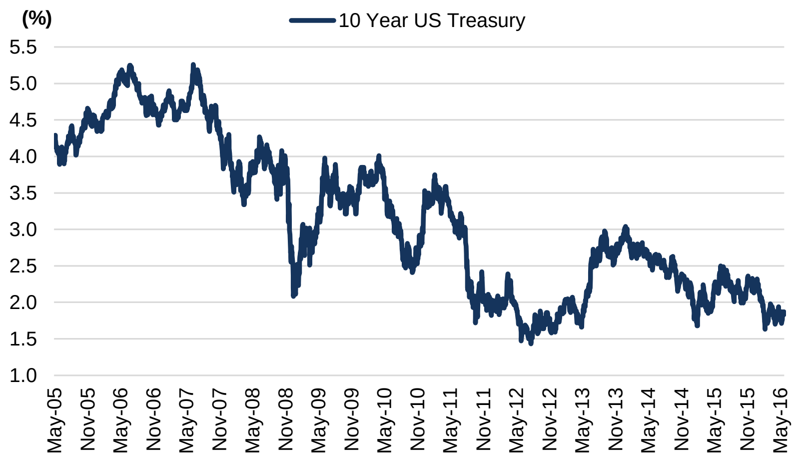
Fig 43: FOMC's assessment of appropriate monetary policy

Variable (%)	Median 2016E	2017E	2018E	Longer run
Federal Funds Rate	0.9	1.9	3.0	3.3
December projection	1.4	2.4	3.3	3.5

Source: Federal Reserve

The more gradual path versus initial expectations was another contributing factor to settling nerves in global financial markets. In addition, the slower rate of appreciation of the US Dollar also helped emerging market currencies, while the longer trajectory for interest rate hikes benefited the bond markets. This could be seen from the most recent US Treasury yields that have fallen as bond prices rise.

Fig 44: US treasury yields



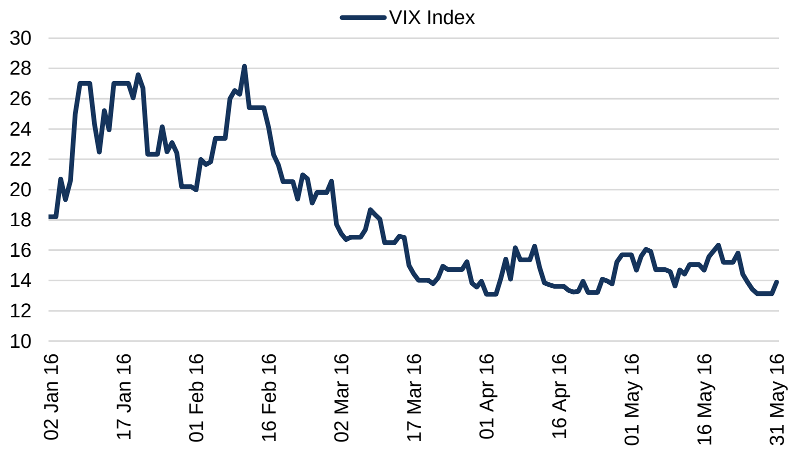
Source: Bloomberg

Facing money issues

Bouts of volatility likely to be common

Hopefully, the intense market volatility that characterised the start of 2016 will not recur. Nonetheless, bouts of market volatility will likely be the norm for the rest of the year. In fact, the VIX Index as a measure of volatility has demonstrated 11 tantrums (peak of above 15) but none has revisited the highs at the start of the year.

Fig 45: Bouts of volatility



Source: Bloomberg

Global growth, China, and crude oil may feature again as the triggers for potential bouts of volatility in the year. However, we think a certainty is the FFR hike impact if the FOMC stays true to its path of possibly two hikes for the remainder of the year.

Uneven monetary direction

As the Fed embarks on a gradual tightening trajectory, two other major central banks in the world are moving the opposite direction. The ECB commenced its own quantitative easing (QE) in its battle against deflation only in March 2015. A year on, it has expanded its government bond-buying program to Euro 80bn a month, equivalent to US$91bn (from Euro 60bn), until March 2017. It has also pushed deeper into negative deposit rates of 0.4% (from 0.3% previously).

Similarly, the BoJ is maintaining its QE that has been in place since April 2013. It has committed to buying 80 trillion Yen annually, or about US$60bn a month. In addition, it is maintaining its 0.1% negative deposit rate announced on 29 January 2016 that became effective on 16 February 2016.

Just to put things into perspective, the Fed was printing money at a rate of US$85bn a month at its peak. However, the duration was much longer, over a period of six years from November 2008 to October 2014, as compared to the other two central banks. There was about one-and-a-half year overlap between the Fed and the BoJ, but at a time when the Fed was tapering its monthly purchases; there was no overlap between the Fed and the ECB.

FFR hike on emerging markets

As the FFR hike looks certain to come into sharp focus again, it is worth paying attention to the impact on Malaysia when it happens. But before that, it is useful to look at its influence on emerging markets in general.

In a nutshell, we believe the market sees a tightening by the Fed as bad news for emerging markets. This makes sense as higher US interest rates mean better returns on capital that is invested in US Dollar-denominated assets. As such, there could be an outflow of capital from emerging markets back to the US, especially if the spread narrows between the returns offered by emerging markets and US assets, even before taking into account lower risks for holding US assets.

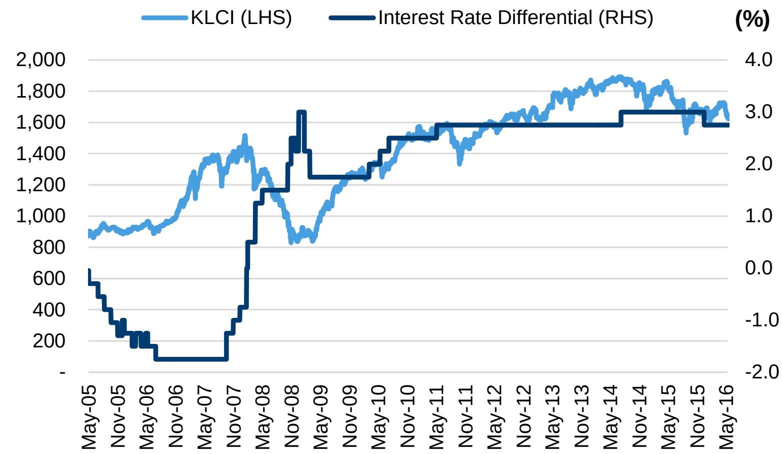
When this happens, emerging markets could see tightening liquidity, making it more difficult to source for capital to fund much-needed infrastructure and capital expenditures that are critical for long-term growth. Finance costs would go up due to the smaller pool of money. Some emerging markets have less sophisticated and shallow financial markets, thus making financial intermediation even more difficult. A natural response is to raise interest rates to maintain the spread over the US in order to retain liquidity in emerging markets. However, this would be difficult for many emerging countries if economic growth is sluggish and especially so for those dependent on commodities given the low prices, as higher interest rates would further damage growth.

In Malaysia's case, we examine the impact of higher Fed policy rate in a variety of areas. In order to do so, we plot the interest rate spread against a few parameters. We define the interest rate spread as the difference between Malaysia's OPR and the FFR.

Monetary policy on the KLCI

We begin by looking at the impact of potential monetary tightening in the US on Malaysia's stock market. In doing so, we have plotted the interest rate differential against the KLCI.

Fig 46: Policy rate differential against the KLCI



Source: Bloomberg

We can see that in 2005 right until the Global Financial Crisis in 2008, the interest rate spread was negative. In other words, the OPR was actually lower than the FFR. Nonetheless, it did not prevent Malaysia from one of its more sustained bull markets, where the index rallied by 67% over the course of the next three years, even while the interest spread moved deeper into negative territory. On the other hand, the interest rate spread reversed into positive territory as the US slashed its FFR due to the subprime crisis, but the KLCI entered the worst bear market in recent years despite the OPR spread rising over the US.

However, the relationship entered into a positive correlation phase in 2010 when BNM began hiking the OPR. The interest rate spread expanded and the stock market performed positively into 2014.

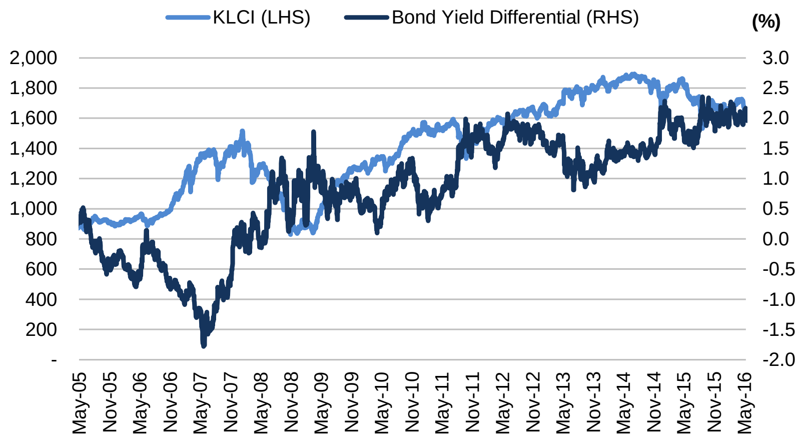
The positive correlation broke down again in more recent years when in 2014 BNM hiked the OPR and the interest rate spread expanded, but it did not prevent a sharp stock market correction. Meanwhile, the interest spread narrowed at end-2015 but the Malaysian stock market rallied thereafter, but not before correcting sharply due to China concerns.

We investigate further by looking at the bond yield spread against the KLCI. Similar to the interest spread calculation earlier, the bond yield spread represents the 10-year MGS yield minus the 10-year US treasury yield.

Just like earlier, the bond spread was negative in 2005 and widened deeper into negative territory. In other words, the 10-year US Treasury yield was higher than the 10-year MGS yield. Yet, the KLCI outperformed. However, the KLCI plunged into a sharp bear market even when the bond spread reversed into positive territory.

The inverse correlation also broke down from 2010 when the bond rate differential expanded into a positive rate but the KLCI continued to move upwards. However, from 2013 onwards the correlation alternated between positive and negative for the bond yield differential and KLCI.

Fig 47: Bond yield spread against the KLCI

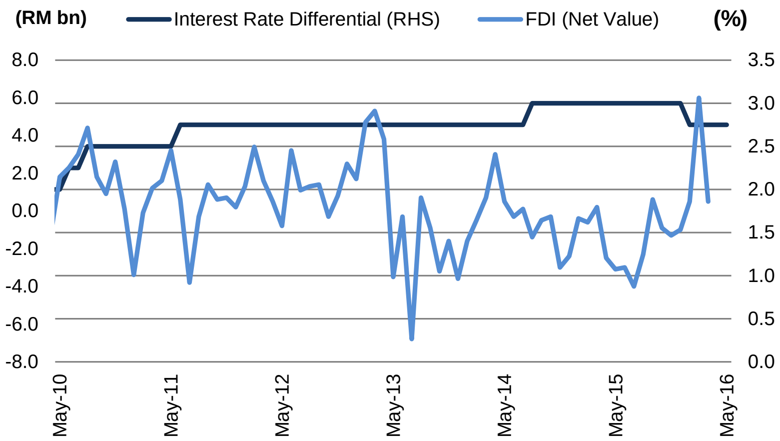


Source: Bloomberg

Monetary policy on foreign direct investment

Foreign direct investments (FDI) are by nature sticky and long term as decisions to put up a factory in a foreign country, for instance, take into consideration a different set of factors compared to portfolio investments. This makes sense since capital sunk to build a factory could not be easily extricated compared to portfolio capital. Hence it is not surprising that there is not much correlation between interest rate differential and FDI into Malaysia since the availability of our data set. Overall, FDI flows are likely to be independent of the OPR spread over the US FFR.

Fig 48: FDI independent of interest-rate spread

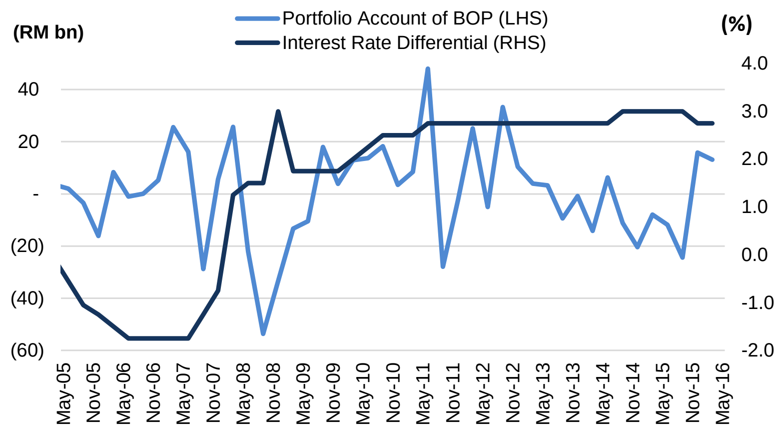


Source: BNM, Bloomberg

Monetary policy on portfolio account flows

There is a closer correlation between the interest-rate spread with portfolio account flows as captured in the balance of payments than with FDI. It is not very clear cut but generally we see higher spreads attracting more instances of portfolio investments into Malaysia. This does make sense because a higher interest-rate differential would attract better interest at least for Malaysian bonds given the depth and liquidity of Malaysian-issued securities and higher yields, assuming that the outlook for Malaysia's sovereign rating remains the same.

Fig 49: Larger influence on portfolio flows



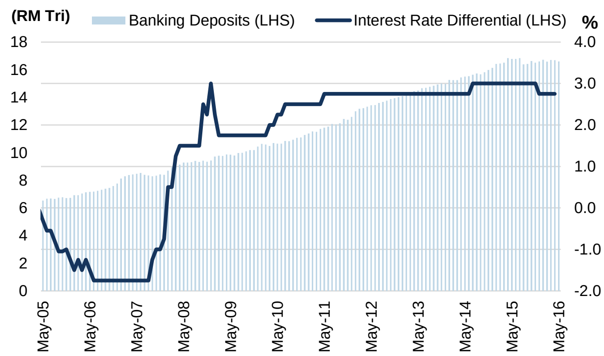
Source: BNM, Bloomberg

Monetary policy on deposits

Meanwhile, the influence on deposits in the banking system is easier to pick out. For instance, the spreads plunged deeper into negative territory in 2005 and 2006, which corresponded to slower growth in Malaysian deposits before a recovery in deposit growth once the spread stabilised towards mid-2006.

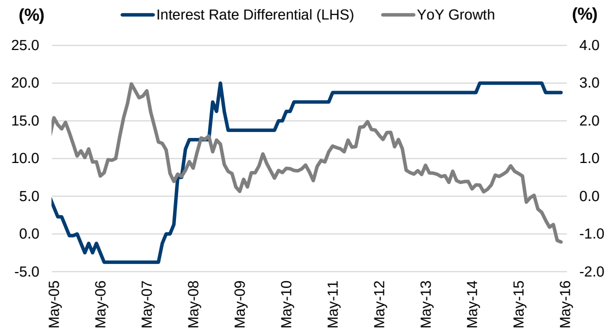
Again, we saw positive correlation from 2009 as Malaysia recovered from the Global Financial Crisis and the OPR provided positive spread over the FFR. Over this period, deposit growth accelerated too. The positive correlation could be seen once again in July 2014 when the BNM hiked the OPR by 25 bps to 3.25%, and further expanded the spread over the FFR to 3%, which witnessed a rise in deposit growth.

Fig 50: Interest-rate spread versus banking deposits



Source: BNM, Bloomberg

Fig 51: Interest-rate spread versus deposit growth



Source: Bloomberg

By 2015, the focus has shifted towards monetary tightening in the US, hence, expectations of the Fed's first rate hike in more than 9 years saw deposit growth in Malaysia easing.

Not in the same emerging market basket

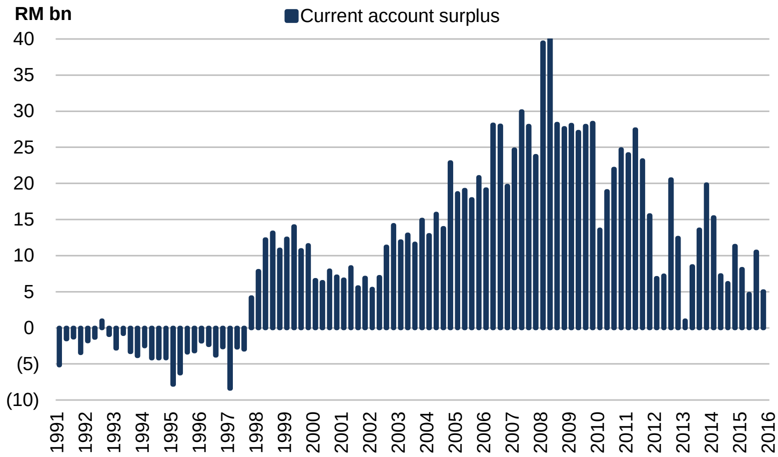
In Malaysia's case, we can see that banking system deposits are the most correlated to the policy-rate differential between Malaysia and the US – this makes sense as it directly influences the interest income for money placed in banks. Capital flows in the portfolio account of the Balance of Payments are not as clear as for banking deposits but generally we could see more instances of inflows at larger interest-rate differentials and vice versa.

On the other hand, we find that FDI flows are independent of the interest spread as these are long term and sticky in nature, being less influenced by immediate domestic monetary conditions.

Overall, we find the narrowing of spreads is not detrimental to Malaysia. As we noted earlier, the biggest concern of a FFR hike is the impact on liquidity as funds flow back into US-denominated assets due to improved yield attractiveness versus risk. This could starve capital for projects, thus slowing growth and tighter liquidity would mean higher financing costs.

In Malaysia's case, the country is a net exporter and runs a healthy current account surplus. In other words, Malaysia has a positive savings-investment gap, and could rely on its savings to fund capital projects. The current account surplus is also well diversified with a good balance of primary commodity exports and manufactured products. In addition, it also consistently sees healthy direct investment inflows that are sticky in nature.

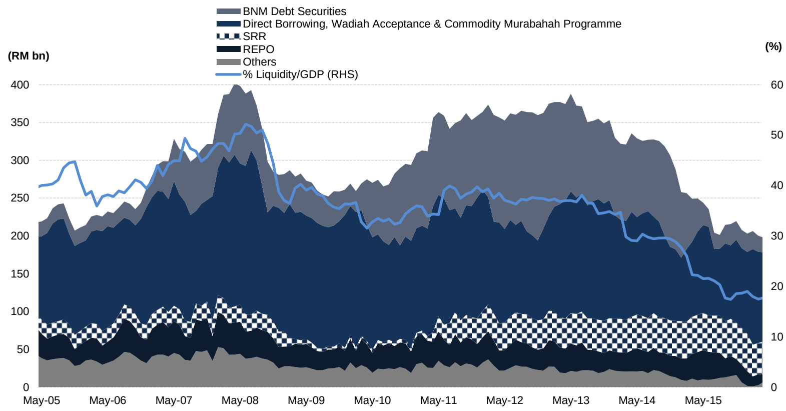
Fig 52: Malaysia has consistently run a current-account surplus



Source: BNM

Besides, there is still a large stock of excess liquidity in Malaysia. Part of this is due to the persistent current-account surplus that brings foreign currencies into the domestic economy. In fact, the BNM has been persistently mopping up excess liquidity in the system. At the peak, excess liquidity represented about 52.2% of GDP while it stood at 14.6% at its lowest level. Currently, excess liquidity still stands at a significant 17.2% of GDP.

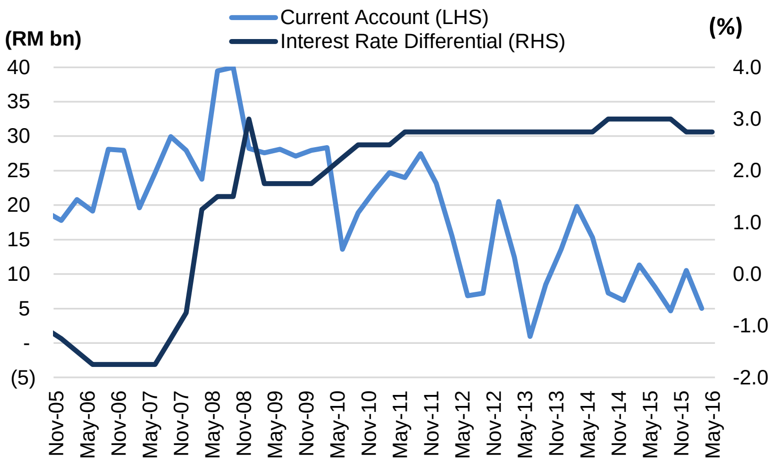
Fig 53: Plenty of excess liquidity



Source: BNM, Affin Hwang

Further examination shows that there is no clear pattern between current-account flows and the interest-rate differential. For instance, the negative interest-rate differential in 2006 actually saw a rising current-account surplus while during the three years of stable policy rate spread actually saw volatile current account positions.

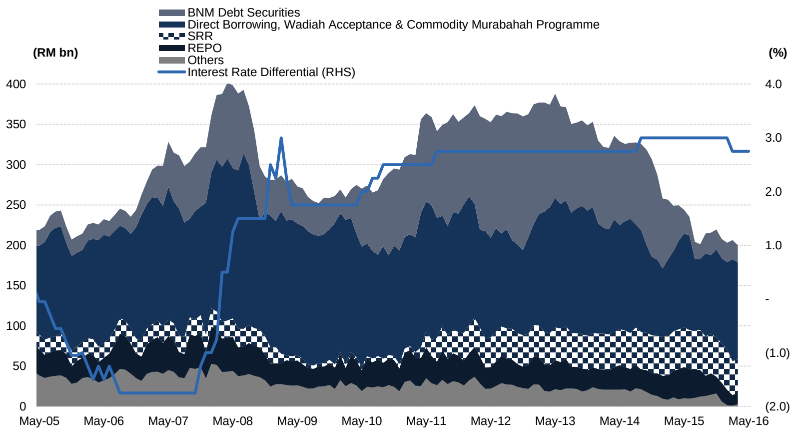
Fig 54: Interest rate differential and current account



Source: BNM, Bloomberg

Similarly, the chart between the interest-rate differential and excess liquidity in the banking system shows no discernible relation too. Again, some periods of negative Malaysian yields relative to the US coincided with large increases in excess domestic liquidity and vice versa. In more current times, excess liquidity declined even as the relative spread expanded in favour of Malaysia.

Fig 55: Interest-rate differential and excess liquidity



Source: BNM, Bloomberg, Affin Hwang

Hence, we believe Malaysia is more resistant to small rate hikes and in a better position than many emerging markets even in the event of further FFR hikes. Of course, the magnitude of the hike is important. The Fed has made it clear that the FFR hikes would be gradual in nature; little steps rather than step jumps. Lastly, we believe that there are plenty of other considerations for fund flows above and beyond just interest rate spreads. In our view, fund flows that are based on the spread are more hot money in nature while Malaysia has seen a large proportion of genuine long-term fund flows into the country.

Softer macro setting likely to improve in 2H

1Q16 softest since Global Financial Crisis

Malaysia's 1Q16 real GDP growth decelerated to 4.2% yoy from 4.5% in 4Q15, representing the slowest pace of expansion since 1.1% yoy contraction in 3Q09. The lower figure is due to a combination of slower total investment and drag from net exports. Some of the weakness in investment was due to tepid business sentiment while the drag from net exports emanated from external shocks such as weakness in crude-oil prices at the start of the year. Private consumption, which is the largest component of GDP, actually expanded from 4.9% yoy growth in 4Q15 to 5.3% in 1Q16.

Of the two, external conditions and their impact on net exports are subjected to vagaries of global economy. On the other hand, investment is to a certain degree influenced by policies. Total investment growth in 1Q16 was just 0.1% yoy from 2.7% in 4Q15. Private investment slowdown was apparent from 4.9% yoy in 4Q15 to 2.2% in 1Q16 but it is public investment that was the big drag, swinging from 0.4% yoy expansion in 4Q15 to 4.5% yoy contraction in 1Q16. Various on-going infrastructure expenditures should improve public investment going forward but the poor sentiment holding back private investment is a concern, especially if confidence levels remain low.

Fig 56: Malaysia's quarterly GDP growth

	2Q15	3Q15	4Q15	1Q16	2Q15	3Q15	4Q15	1Q16	2Q15	3Q15	4Q15	1Q16
	%yoy				%qoq				% contribution pts to GDP growth			
GDP by Expenditure Components												
Total Consumption	6.5	4.0	4.5	5.1	0.9	6.1	6.1	-7.5	4.1	2.6	3.0	3.3
Private consumption	6.4	4.1	4.9	5.3	-0.4	6.9	-1.9	0.8	3.2	2.2	2.4	2.9
Public consumption expenditure	6.9	3.6	3.3	3.8	6.9	2.8	40.3	-32.7	0.8	0.4	0.6	0.5
Total Investment	0.4	4.2	2.7	0.1	3.9	-2.4	-1.2	-0.1	0.1	1.1	0.7	0.0
Private investment expenditure	3.9	5.5	4.9	2.2	10.7	-10.5	-22.9	36.2	0.8	0.9	0.6	0.4
Public investment expenditure	-8.1	1.8	0.4	-4.5	-12.7	19.3	46.3	-36.1	12.5	9.4	1.1	-10.3
Domestic Demand	4.6	4.1	4.0	3.6	1.8	3.6	4.1	-5.6	4.2	3.7	3.7	3.4
Net exports	-11.1	3.4	4.3	-12.4	-9.3	10.6	-1.9	-9.9	-1.0	0.3	0.4	-1.2
Exports	-4.0	3.2	4.0	-0.5	-1.4	6.7	2.9	-8.1	-3.1	2.4	2.9	-0.3
Imports	-3.1	3.1	4.0	1.3	-0.1	6.2	3.5	-7.8	-2.1	2.1	2.6	0.8
Changes in inventories	NA	-88.0	-49.5	NA	NA	NA	-446.1	NA	1.7	0.7	0.5	2.0
GDP (2010 real prices)	4.9	4.7	4.5	4.2	2.5	3.2	3.1	-4.6	4.9	4.7	4.5	4.2

Source: BNM

It is also worth noting that changes in stock levels in the economy contributed a significant 2ppts to GDP growth. This could mean two things. One is manufacturers are expecting trade to pick up going forward, thus stockpiling to meet expected future demand. On the other hand, the second is if manufacturers did not increase their output but a slump in demand during the quarter resulted in build-up in inventories. These are two vastly different scenarios. In the first, inventories may fall in 2Q16, thus subtracting from growth but higher domestic demand activities or external trade would add to growth. As for the latter, manufacturers would curtail their activities concurrent with ongoing weak demand thus further dampening growth. However, we believe the situation is more realistically due to the first instance as we expect 1Q16 to be the trough in terms of GDP growth this year as global economic environment should pick up as the year progresses, if IMF projections come true.

On GDP by economic activity, the services sector, which is the biggest component, held on to its growth with 5.1% yoy expansion in 1Q16 (4Q15: 5%). Beyond this, manufacturing saw slower expansion of 4.5% yoy from 5% in 4Q15 while construction accelerated from 7.4% to 7.9% over the same period. On one hand, mining swung from a contraction of 1.3% yoy in 4Q15 to 0.3% expansion in 1Q16 but more than offsetting this was agriculture sector, which saw a swing the other direction from 1.5% yoy growth to 3.8% yoy contraction. In fact, agriculture was the main drag on GDP with lower palm-oil production due to El Nino conditions.

Fig 57: Malaysia's quarterly GDP growth by activity

	2Q15	3Q15	4Q15	1Q16	2Q15	3Q15	4Q15	1Q16	2Q15	3Q15	4Q15	1Q16
	%yoy				%qoq				%contribution pts to GDP growth			
GDP by Economic Activity												
Agriculture, Forestry and Fishing	4.6	2.3	1.5	-3.8	10.5	15.7	-11.4	-15.1	0.4	0.2	0.1	-0.3
Mining and Quarrying	6.0	5.1	-1.3	0.3	-4.1	-5.9	8.6	2.3	0.5	0.4	-0.1	0.0
Manufacturing	4.2	4.9	5.0	4.5	5.7	-0.1	4.2	-4.9	1.0	1.1	1.1	1.0
Construction	5.6	9.9	7.4	7.9	-6.0	10.7	-1.1	4.9	0.2	0.4	0.3	0.4
Services	5.0	4.4	5.0	5.1	1.6	3.7	4.7	-4.7	2.6	2.3	2.6	2.8
Import duties	9.1	18.6	39.1	27.0	16.5	-0.5	14.9	-4.7	0.1	0.2	0.4	0.3
GDP (2010 real prices)	4.9	4.7	4.5	4.2	2.5	3.2	3.2	-4.6	4.9	4.7	4.5	4.2

Source: BNM

Private consumption recovers further

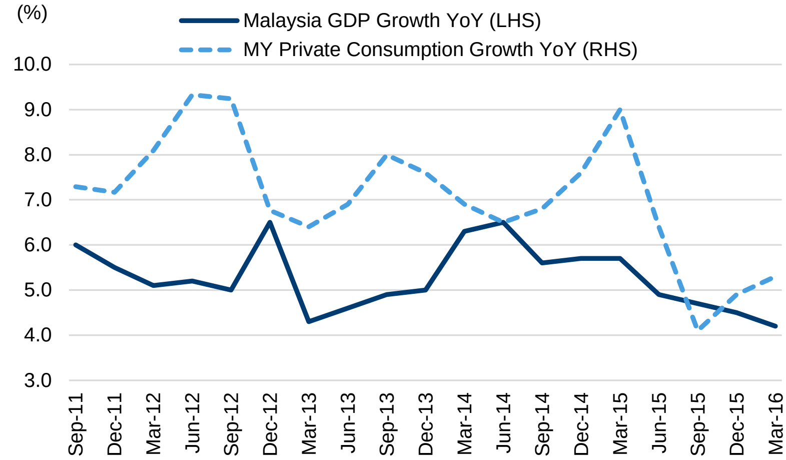
Although overall 1Q16 GDP growth was weaker on the back of poorer sentiment, private consumption growth actually accelerated further in 1Q16. Recall that growth hit a trough of 4.1% in 3Q15, but rebounded to 4.9% in 4Q15.

Just to put into some context, private consumption grew by 8.8% yoy in 1Q15. This made sense, as consumer frontloaded ahead of the inaugural introduction of the 6% Goods and Services Tax (GST) that came into effect on 1 April 2015. Private consumption did slow thereafter, but was still a strong figure of 6.4% yoy in 2Q15, despite a full quarter impact from GST.

The subsequent drop to a trough of 4.1% in 3Q15 was, thus, attributed to the lag effect from GST. However, we believe that a larger part of the weaker expansion was due to the extreme Ringgit weakness. In 3Q15, the Ringgit depreciated by 15% and it was down 10% in August alone.

The Ringgit recovered slightly in 4Q15 but was still relatively volatile. Under that scenario, private consumption managed to rebound to 4.9% in 4Q15 helped by frontloading of vehicle purchases in 4Q15 prior to the price hikes in 2016. As such, it raised the question if private consumption growth could dip once again in 1Q16 without the support of vehicle purchases, which is bound to fall post frontloading activities.

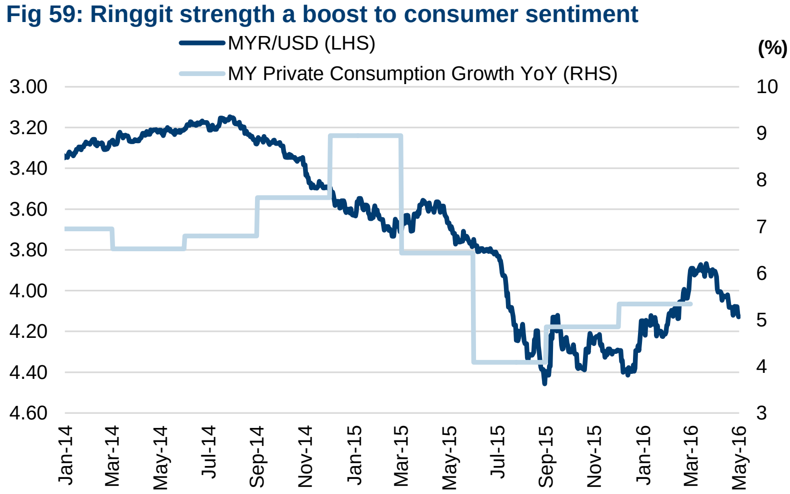
Fig 58: Sustained rebound in private consumption



Source: BNM

Therefore, we are very pleased that 1Q16 private-consumption growth extended further to 5.3% yoy despite drop off in vehicle purchases; total industry volume fell 22% yoy in 1Q16. We continue to believe that the Ringgit has a huge influence on consumer sentiment and note that the better private consumption coincided with the Ringgit strength. The Ringgit hit a high of RM3.90 to the USD in 1Q16 and appreciated by 10% over the three months. However, it is still 5% lower than the RM3.70 at the end of 1Q15.

Fig 59: Ringgit strength a boost to consumer sentiment



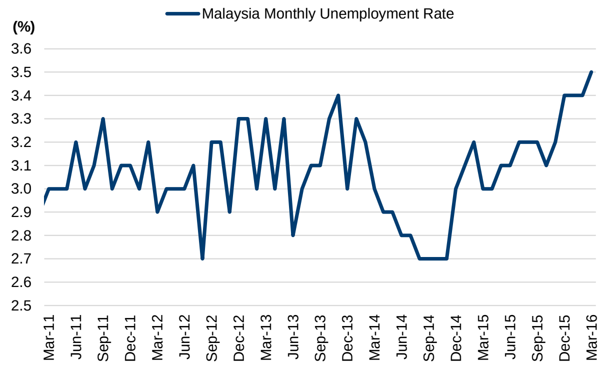
Source: BNM, Bloomberg

Private consumption is important because it is a major growth pillar of the economy. Thus far, it has demonstrated resilience despite the generally softer environment. The underlying indicators continue to be supportive of consumption. Total employment is hovering at record levels of 14.2m jobs. Taken together with a healthy labour-force participation rate of 67.9% that is also hovering near its high and it demonstrates a healthy labour market with an unemployment rate of 3.5%.

Wages are growing too. Average payrolls in 1Q16 improved by 4.4% yoy; they posted 4.6% growth in 4Q15 and 4% for the whole of 2015. Driving the wage increases in 1Q16 is the manufacturing sector that saw 7.4% yoy rise. Other major segments are wholesale and retail at 3.1% and 1.2%, respectively. Inflation rose to 3.4% in 1Q16 from 2.6% in 4Q15 due to a combination of higher electricity tariff, GST, and base effect from larger decline in energy prices a year ago. In fact, inflation in April 2016 improved to 2.1% yoy from 2.6% in March, thus demonstrating moderating inflation thereafter.

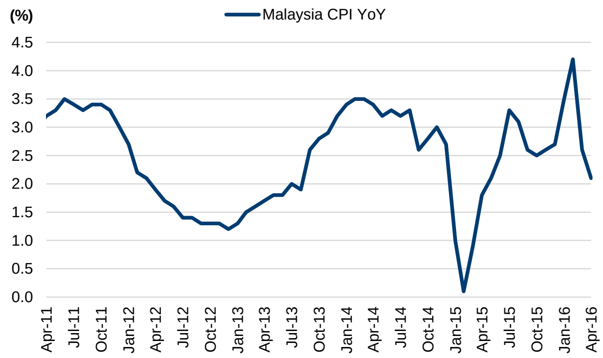
The momentum in the jobs market hopefully would create enough demand for products and services to drive further employment. This cycle is important for Malaysia given its young demographics, hence the need to create jobs for the growing workforce. A significant 63% of the population is below 35 years old, with 44% below 25 years of age. We believe this baby boom would provide enough impetus for economic growth going forward.

Fig 60: Unemployment rate



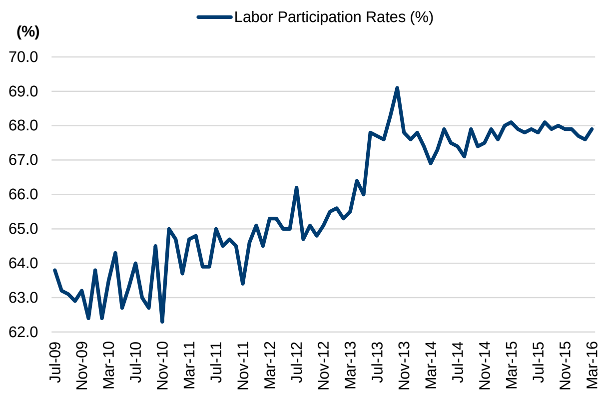
Source: BNM

Fig 61: Inflation



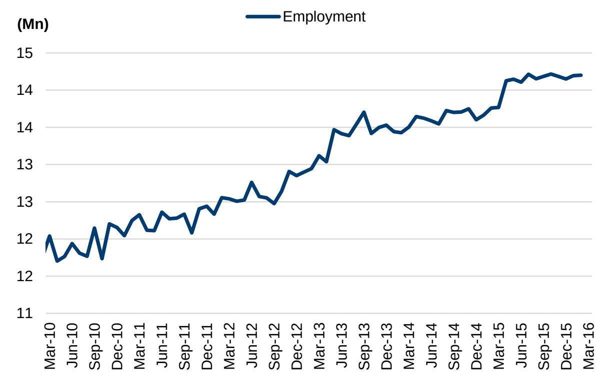
Source: BNM

Fig 62: Labour force participation rate



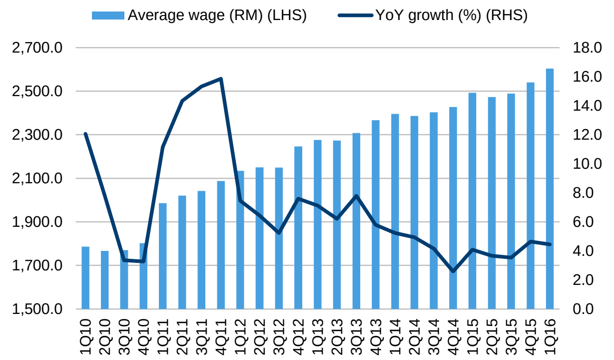
Source: BNM

Fig 63: Total employment



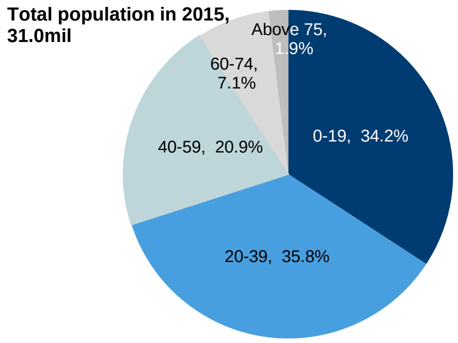
Source: BNM

Fig 64: Average payrolls



Source: BNM

Fig 65: Young demographics

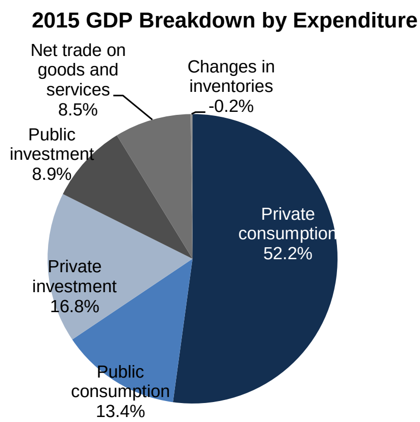


Source: BNM

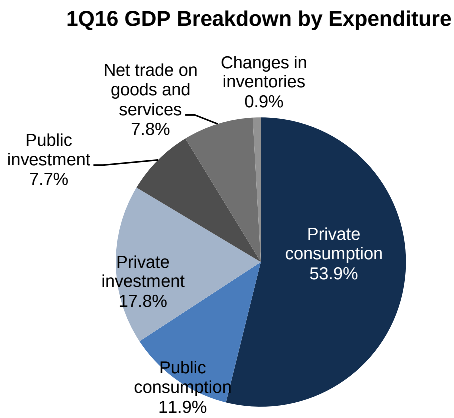
Structure of the economy

The stronger growth in private consumption means that it is increasingly becoming a bigger part of the economy. In 2015, private consumption constituted 52.2% of GDP and this has inched up further to 53.9% in 1Q16. However, the slower rate of growth in gross-fixed-capital formation (GFCF) means that total investment has receded by 0.2ppts, to 25.5% of the economy. Overall, total private expenditure gained 2.7ppts since 2015 to 71.7% of the economy in 1Q16 while total government expenditure declined by the same amount to make up 19.6% of aggregate demand. Net trade has lost momentum constituting 7.8% of the economy from 8.5% in 2015.

Fig 66: Comparing structure of the real economy by expenditure



Source: BNM

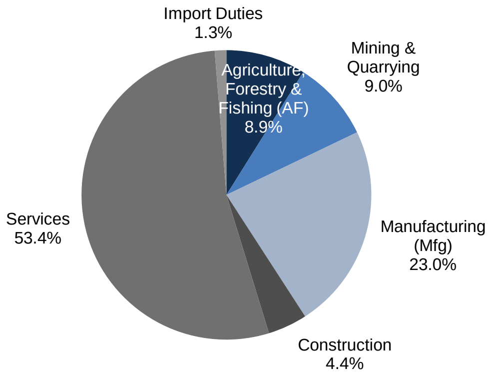


Source: BNM

By activity, the services sector gained further ground at 54% of GDP in 1Q16 (2015: 53.4%). The other big sector is manufacturing, which was relatively flat at 22.9% of the economy (2015: 23%). Agriculture, forestry and fishing was the biggest loser with a 1.3ppts decline in its constituent of the economy to 7.6% due to the impact of weather conditions on palm-oil output. Mining & quarrying saw 0.4ppts boost to 9.4% of GDP due to better LNG output. Construction also expanded to 4.7% of GDP (2015: 4.4%).

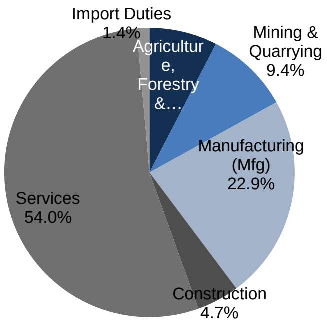
Fig 67: Comparing structure of the real economy by activity

2015 GDP Breakdown by Activity



Source: BNM

1Q16 GDP Breakdown by Activity



Source: BNM

Current account reflects weaker global trade

After strengthening to RM10.5bn or equivalent to 3.6% of GNI in 4Q15 (note that 4Q15 figure was revised from RM11.4bn or 3.9% of GNI), the current account surplus narrowed to RM5bn in 1Q16 or 1.8% of GNI. The cause was lower goods and services surplus with the sharp fall in commodity prices particularly petroleum during 1Q16 and weaker global environment. These more than offset the narrower outflow from the primary (lower profits repatriated out of Malaysia by foreigners) and secondary income accounts (drop in outward remittance), both probably also partly influenced by the Ringgit weakness. This is well within the government's forecast of 1-2% proportion of GNI in 2016E (2015: 3.1% of GNI).

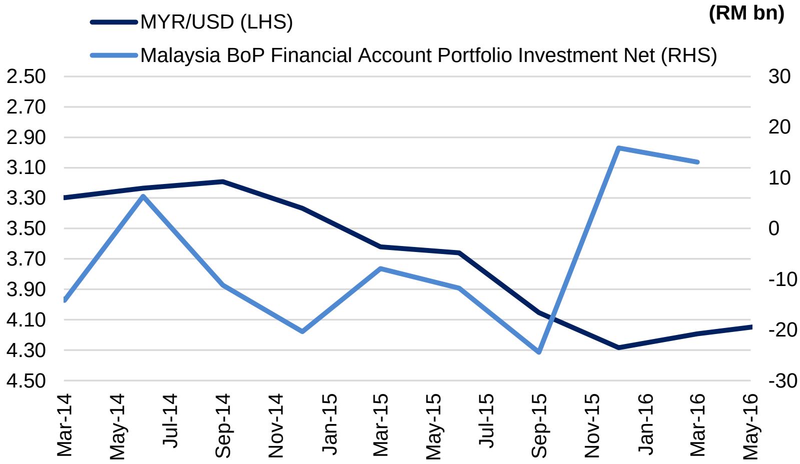
Fig 68: Balance of payment

Balance of Payments (RMbn, unless stated otherwise)	2014	2015	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Current account	**48.6**	**34.7**	**19.8**	**15.3**	**7.3**	**6.2**	**11.3**	**8.1**	**4.7**	**10.5**	**5.0**
(% of GDP)	**4.4**	**3.0**	**7.4**	**5.6**	**2.6**	**2.1**	**4.1**	**2.9**	**1.6**	**3.5**	**1.7**
(% of GNI)	**4.9**	**3.5**	**7.6**	**5.8**	**2.7**	**2.2**	**4.2**	**2.9**	**1.7**	**3.6**	**1.8**
Goods	113.3	109.6	31.2	27.4	25.7	28.9	27.7	23.6	27.2	31.1	23.5
Services	-10.7	-21.0	-0.2	-1.6	-3.9	-5.1	-3.5	-5.0	-6.0	-6.4	-6.8
Income	-36.6	-32.0	-6.6	-7.8	-9.5	-12.8	-7.7	-4.6	-10.6	-9.1	-6.7
Current transfers	-17.4	-21.9	-4.6	-2.8	-5.1	-4.9	-5.1	-5.9	-5.9	-5.0	-4.9
Capital and financial account	**-79.6**	**-52.0**	**-38.0**	**-12.1**	**-2.1**	**-27.3**	**-29.8**	**4.6**	**-30.7**	**3.9**	**5.8**
Direct investment	-18.0	4.8	-14.4	-4.0	2.2	-1.8	-1.4	0.7	-0.2	5.8	3.7
Assets	-52.6	-37.2	-20.6	-16.5	-6.3	-9.2	-10.0	-17.6	-6.7	-2.9	-11.2
Liabilities	34.6	41.9	6.2	12.5	8.5	7.4	8.5	18.2	6.5	8.6	14.9
Portfolio investment	-38.5	-28.2	-14.2	6.3	-11.2	-20.4	-7.9	-11.8	-24.4	15.9	13.1
Assets	-28.1	-9.1	-7.5	-10.4	-10.4	0.2	-7.4	-8.1	0.7	5.6	-5.9
Liabilities	-11.2	-19.1	-6.6	16.7	-0.7	-20.6	-0.5	-3.7	-25.1	10.3	19.0
Financial derivatives	-1.0	-0.5	-1.5	0.2	0.0	0.2	0.0	-0.4	-0.1	-0.1	0.5
Other investments	-23.6	-24.9	-8.0	-14.6	6.7	-5.7	-20.5	17.3	-5.9	-17.6	-11.5
Errors and omissions	**-5.5**	**21.1**	**0.9**	**-4.2**	**-11.8**	**9.6**	**2.8**	**-4.3**	**43.0**	**-20.4**	**-38.4**
Overall balance	**-36.5**	**3.8**	**-17.3**	**-1.0**	**-6.7**	**-11.5**	**-15.7**	**8.4**	**17.0**	**-6.0**	**-27.6**

Source: MOF

As a side, portfolio investment saw net inflows of RM13.1bn in 1Q16 (4Q15: RM15.9bn), representing the second consecutive quarter of inflows following five consecutive quarters of outflows. According to BNM, non-residents brought into Malaysia RM19bn while residents took out of Malaysia RM5.9bn for purchases of foreign financial instruments. This does not change the current account balance but it is interesting to see 2Q16 portfolio account position given the foreign selling that we have seen from late April 2016 onwards.

Fig 69: Portfolio investment trend



Source: BNM, Bloomberg

Federal government fiscal position weaker in 1Q16

After successfully hitting its fiscal deficit target of 3.2% of GDP in 2015, the government fiscal position was weak in 1Q16. Its fiscal deficit expanded to 6.1% in 1Q16. This was due to combination of lower revenue and higher operating and development expenditures.

Government revenue dropped 5.3% yoy in 1Q16 but this was an improvement from the 6% decline in 4Q15. At the same time, operating expenditures rose by 3.5% yoy while development expenditure was higher by 16.1% yoy. Overall, total government expenditure was up 5.2% yoy.

Fig 70: Federal government fiscal position

	2014					2015					2016
	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16
Revenue	49.2	52.7	59.1	59.6	220.6	51.5	55.3	56.3	56.0	219.1	48.8
% of annual growth	12.4	2.1	3.8	-2.3	3.4	4.8	4.9	-4.9	-6.0	-0.7	-5.3
Operating expenditure	55.2	51.7	52.9	59.7	219.6	55.4	51.8	52.3	57.5	217	57.4
% of annual growth	10.6	5.2	-0.9	1.6	3.9	0.4	0.2	-1.2	-3.8	-0.1	3.5
Current balance	-6.0	0.9	6.2	-0.1	1	-3.9	3.4	4.0	-1.4	2.1	-8.6
% of GDP	-2.3	0.3	2.2	0.0	0.1	-1.4	1.2	1.4	-0.5	0.2	-3.0
Net development expenditure	7.0	7.0	8.1	16.4	38.5	7.9	7.3	8.7	15.5	39.3	9.2
% of GDP	2.6	2.6	2.9	5.7	3.5	2.8	2.6	3.0	5.1	3.4	3.1
Overall balance	-13.0	-6.1	-1.9	-16.5	-37.4	-11.8	-3.8	-4.7	-16.9	-37.2	-17.7
% of GDP	-4.9	-2.2	-0.7	-5.7	-3.4	-4.2	-1.4	-1.6	-5.6	-3.2	-6.1

Source: MOF

Nonetheless, the federal government fiscal position should improve over the next few quarters. Recall that on 28 January 2016, the government announced a recalibrated Budget 2016 in view of the sharp decline in Brent price since its tabling of the original Budget 2016 on 23 October 2015. In it, the Brent price assumption was changed from US$48/b to US$30/b, which would see a second consecutive year of revenue decline of 1.3% to RM216.3bn in 2016.

While revenue is down, the government foresees more prudent spending to cut operating expenditure by 2.9% to RM210.7bn while net development expenditure is budgeted to grow by 12.5% to RM44.2bn in 2016. If these are achievable, the federal government fiscal deficit should narrow, albeit slightly, to 3.1% of GDP in 2016 from 3.2% in 2015.

Fig 71: Revised Government's finance

RM bn (unless stated otherwise)	2015 Actual	2016 Budget	2016 Revised budget	
Brent (US$/bbl)	**52.0**	**48.0**	**35.0**	**30.0**
Revenue	219.1	225.7	217.9	216.3
Operating expenditure	217.0	215.2	211.2	210.7
Current balance	2.1	10.4	6.7	5.6
Development expenditure	40.8	50.0	46.0	45.0
loan recoveries	-1.5	-0.8	-0.8	-0.8
Overall balance	-37.2	-38.8	-38.5	-38.7
% of GDP	-3.2	-3.1	-3.1	-3.1
Federal Government debt (% of GDP)	54.3	52.2	52.5	52.7

Source: Revised budget 2016, MOF

Note that there is no change to the government's position on the recalibrated budget despite the weaker 1Q16. There has been no change to rating agencies' outlook on Malaysia's credit rating as well. Thus far, Standard & Poor's has a stable outlook for Malaysia with a rating of A-, Moody's at A3 with stable outlook and Fitch rates Malaysia A- with stable outlook. Recently, Fitch said that its A- rating has already taken into account the possibility of the federal government assuming 1MDB's debt. It is also worth noting that large quarterly fluctuations in the government fiscal position are normal due to timing of expenditures.

No change to economic outlook for 2016

We maintain that in most likelihood Malaysia's real GDP growth has seen the weakest quarter in 1Q16 with a recovery to about 4.3% in 1H16 and about 4.7% in 2H16. This should put Malaysia on track to achieve 4.5% GDP growth in 2016, based on our forecasts, which is at the high end of the official government estimates of 4.0-4.5%.

Fig 72: Malaysia's GDP growth forecasts

	%yoy			% of GDP	% of GDP			% contribution pts to growth		
	2014	**2015**	**2016F**	**2013**	**2014**	**2015**	**2016F**	**2014**	**2015**	**2016F**
GDP by Expenditure Components										
Total Consumption	6.4	5.7	5.0	65.2	65.4	65.8	66.2	4.2	3.7	3.3
Private consumption expenditure	7.0	6.0	5.8	51.4	51.9	52.4	53.0	3.6	3.1	3.0
Public consumption expenditure	4.3	4.4	2.0	13.8	13.6	13.5	13.2	0.6	0.6	0.3
Total Investment	4.8	3.7	3.8	26.4	26.1	25.8	25.6	1.3	1.0	1.0
Private investment expenditure	11.1	6.4	6.0	15.9	16.6	16.9	17.1	1.8	1.1	1.0
Public investment expenditure	-4.7	-1.0	-0.5	10.5	9.5	8.9	8.5	-0.5	-0.1	0.0
Domestic Demand	5.9	5.1	4.7	91.6	91.5	91.6	91.8	5.4	4.7	4.3
Net exports	13.2	-3.8	2.2	8.8	9.4	8.6	8.4	1.2	-0.4	0.2
Exports of Goods & Services	5.0	0.6	3.0	76.7	76.0	72.9	72.0	3.9	0.5	2.2
Imports of Goods & Services	4.0	1.2	3.1	68.0	66.7	64.3	63.6	2.7	0.8	2.0
Changes in inventories	177.9	-75.4	-3.3	-0.3	-0.9	-0.2	-0.2	-0.6	0.7	0.0
GDP (2010 real prices)	**6.0**	**5.0**	**4.5**	**100.0**	**100.0**	**100.0**	**100.0**	**6.0**	**5.0**	**4.5**
GDP By Kind of Economic Activity										
Agriculture, Forestry & Fishing (AF)	2.1	1.2	0.5	9.5	9.2	8.9	8.5	9.2	8.9	8.5
Mining & Quarrying	3.5	4.7	3.5	9.2	9.0	9.0	8.8	9.0	9.0	8.8
Manufacturing (Mfg)	6.2	4.9	5.0	22.9	23.0	23.0	23.1	23.0	23.0	23.1
Construction	11.7	8.2	6.5	4.0	4.3	4.4	4.5	4.3	4.4	4.5
Services	6.6	5.1	5.0	53.2	53.4	53.5	53.8	53.4	53.5	53.8
Import Duties	10.0	18.5	0.3	1.1	1.1	1.3	1.2	1.1	1.3	1.2
GDP (2010 real prices)	**6.0**	**5.0**	**5.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BNM, Affin Hwang forecasts

Key macro expectations

In summary, we believe that Malaysia is on track to achieve 4.5% real GDP growth in 2016. It is a deceleration from the 5% growth in 2015 but still healthy considering weak consumer and business sentiment.

Under this scenario, we believe that inflation should be manageable at 2.5-3.0% range, a figure that many developed nations would be jealous of. Our range is narrower than the official government forecast of 2.5-3.5%.

As inflation is under control and growth is healthy, we believe that the current OPR is accommodative enough for growth. Therefore, we expect no change in BNM's monetary policy for the entire 2016 at 3.25% OPR, even if there is a divergence in direction between the US (uptrend) and other developed nations (EU and Japan, which are loosening).

Over the short term, the Ringgit would be dictated by the size of portfolio fund flows. However, we believe that the Ringgit should appreciate over time as Malaysia has a positive savings-investment gap. We expect the Ringgit to trade around RM3.95 to the USD by year-end.

Barring further downgrades in global growth, we believe that Malaysia should continue to run a current account surplus anchored by trade in goods. This is due to surplus commodities of petroleum and palm oil. In addition, Malaysia also has a large manufactured products base that caters for exports. We are anticipating a current account surplus of RM20-25bn or 2% of GNI for 2016. The official government forecast is a surplus of 1-2% GNI.

Lastly, we believe the government's fiscal deficit target of 3.1% in 2016 is achievable, which is based on US$30/b Brent oil price. This is especially so if the year progresses with the crude-oil price hovering at current levels of around US$49.69/b.

Fig 73: Malaysia's Key Economic Forecasts

Malaysia - Key Economic Indicators

	2013	2014	2015p	2016f
Population (million persons)	30.2	30.6	31.0	31.4
Labour force (million persons)	13.6	14.0	14.2	14.6
Employment (million persons)	13.2	13.5	13.8	14.1
Unemployment (as % of labour force)	3.1	2.9	3.2	3.3-3.5
Per Capita Income (RM)	32,596	34,945	36,285	37,930
(USD)	10,345	10,677	9,291	8,821
National Product (% change)				
Real GDP at 2010 prices[1]	4.7	6.0	5.0	4.0-4.5
(RMbn)	955.3	1,012.5	1,062.6	1,106.1
Agriculture, forestry and fishery	1.9	2.1	1.0	-0.3
Mining and quarrying	1.2	3.3	4.7	3.5
Manufacturing	3.4	6.2	4.9	4.1
Construction	10.8	11.8	8.2	7.9
Services	6.0	6.5	5.1	4.4
Nominal GNI	5.3	8.6	5.2	5.9
(RMbn)	984.8	1,069.3	1,124.7	1,191.0
Real GNI	5.2	6.0	6.8	3.8
(RMbn)	916.9	971.9	1,038.1	1,077.7
Real aggregate domestic demand[2]	7.3	5.9	5.1	4.3
Private expenditure	8.5	7.9	6.1	5.2
Consumption	7.2	7.0	6.0	5.1
Investment	12.8	11.0	6.4	5.5
Public expenditure	4.1	0.4	2.1	1.6
Consumption	5.9	4.4	4.3	2.0
Investment	1.9	-4.7	-1.0	1.1
Gross national savings (as % of GNI)	30.4	30.3	28.8	28.3
Balance of Payments (RMbn)				
Goods balance	96.6	113.4	108.9	99.5
Exports	637.7	679.9	685.8	707.6
Imports	541.1	566.5	576.9	608.1
Services balance	-9.6	-11.2	-20.5	-19.2
Primary Income, net	-34.0	-37.3	-32.2	-38.0
Secondary income, net	-17.5	-17.6	-22.2	-23.1
Current account balance	35.5	47.3	34.0	19.1
(as % of GNI)	3.6	4.4	3.0	1.0-2.0
Bank Negara Malaysia international reserves,net[3]	441.9	405.3	409.1	-
(in months of retained imports)	9.5	8.3	8.4	-
Prices (% change)				
CPI (2010=100)[4]	2.1	3.2	2.1	2.5-3.5
PPI (2005=100)[5]	-1.7	1.4	-4.8	-
Real w age per employee in the manufacturing sector	5.8	1.5	3.7	-

Note: Numbers may not necessarily add up due to rounding.

[1] *Beginning 2015, real GDP has been rebased to 2010 prices, from 2005 prices previously*

[2] *Exclude stocks*

[3] *All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain*

[4] *Effective from 2011, the Consumer Price Index has been revised to the new base year 2010=100, from 2005=100 previously*

[5] *Effective from 2015, the Producer Price Index has been revised to the new base year 2010=100, from 2005=100 previously*

[6] *Based on average USD exchange rate for the period of January-February 2016*

p *Preliminary*

f *Forecast*

Source: BNM

The earnings prophesy

Pressure on growth

Since our previous strategy report, '***Breathing space***', published on 3 March 2016, market sentiment remains weak. Earnings trajectory in the past, or at least over the preceding two years, has seen higher growth projections at the beginning of the year only for continual downward revisions as the year progresses.

The prophecy of that happening for 2016E has materialised again. Three months ago, we were expecting 8.5% fully diluted EPS growth for the market, based on the 98 companies under our stock universe as a proxy to the KLCI. Now, our numbers tell us just 3% fully-diluted EPS growth for 2016E.

In fairness, the change in forecast for net profit growth is not as drastic. Three months ago, the expected 2016E net profit growth was 9.2% and it is now at 8.5%, based on the same stock universe.

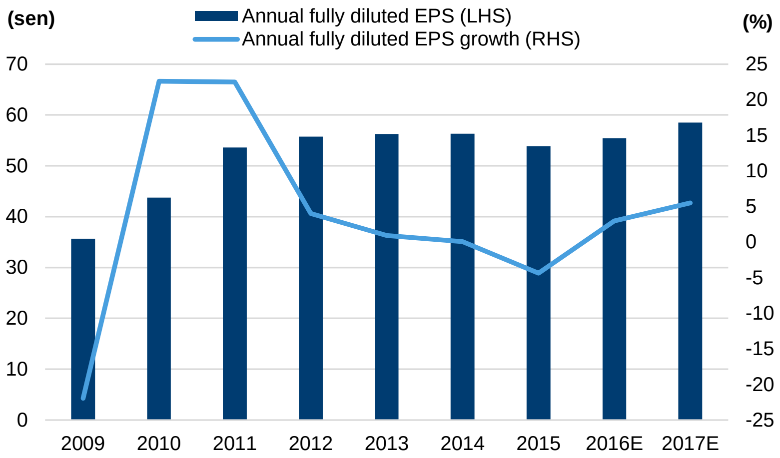
There are two reasons for the change in EPS growth forecast. The first is downward revision in earnings. We have reduced our 2016E fully-diluted EPS by 3.2% since the three months between the post-4Q15 results season that concluded at end-February and the 1Q16 results season that finished at end-May. The second reason is the finalisation of the 2015 fully-diluted EPS figure. The 2015 base is now 1.9% higher than our initial estimate. While it provides a challenge as it reduces growth in 2016, the contraction in 2015 at 4.4% is not as bad as the initial 6.2%.

Of the 5.5ppts difference in growth, 37% of that was due to the higher base of 2015. Just to give a sense, without the higher base effect, 2016E fully-diluted EPS growth would have been 5% (instead of 3%). The balance is due to a lower fully-diluted EPS for 2016E.

Still best since 2012

If the 3% fully-diluted EPS growth does come through in 2016, earnings would have expanded at the quickest pace since 2012. This goes to show the poor earnings run in Malaysia over the past few years. It would also represent a turnaround from the 4.4% contraction in 2015.

Fig 74: Annual fully-diluted EPS growth



Source: Bloomberg, Affin Hwang forecasts

Drivers of market earnings growth

Clearly the KLCI could not outperform if market earnings are not growing, as ultimately profit is the key determinant of value. Therefore, we provide a breakdown of each sector's contribution to market growth. Similar to the global economy, the KLCI earnings growth is uneven. Of the 18 sectors under our coverage, there are 12 that are contributing positively to growth. However, the balance 33%, or 6 sectors, are subtracting to market growth.

The three largest contributors to growth are plantation, utilities and gaming. Collectively they make up 3.9ppt growth or 130% of the 3ppts market average. On the other hand, banks & financials, consumer and property are the three worst sectors that subtracts from the market average. They represent minus 2.2ppts to the market average.

Fig 75: Breakdown of contribution to 2016E EPS growth by sector

Sector	Rating	Market Cap (RMm)	Weighting	Sector contribution to EPS growth (%)
Auto & Autoparts Sector	N	7,384	0.6	0.3
Banks Sector	OW	269,078	23.2	(1.2)
Building Materials Sector	N	6,903	0.6	0.1
Const & Infra Sector	OW	31,557	2.7	(0.0)
Consumer Sector	N	49,974	4.3	(0.9)
Gaming Sector	OW	61,608	5.3	0.5
Healthcare Sector	OW	57,685	5.0	0.2
Media Sector	N	18,971	1.6	0.0
MREIT Sector	OW	25,760	2.2	0.2
Oil & Gas Sector	UW	78,579	6.8	0.1
Plantation Sector	N	116,294	10.0	2.5
Property Sector	OW	32,519	2.8	(0.1)
Rubber Products Sector	N	21,509	1.9	0.1
Technology Sector	N	8,932	0.8	(0.0)
Telecoms Sector	N	147,487	12.7	0.0
Timber Sector	OW	3,174	0.3	(0.0)
Transport Sector	N	53,019	4.6	0.2
Utilities Sector	OW	168,920	14.6	0.8
TOTAL		**1,159,353**		**3.0**

Source: Affin Hwang estimates and forecasts

We provide more details below on the top three sectors that are key drivers of growth. We also explain the reasons for contraction in earnings for the three key sectors that is dragging 2016 growth.

Plantation is key market earnings driver

Plantation sector has seen a rally in CPO price since hitting a trough of RM1,867 per tonne on 26 August 2015. It rallied by as much as 49% to a high of RM2,779 on 29 March 2016 but has corrected to RM2,620 now. There are two factors driving sector-earnings growth in 2016.

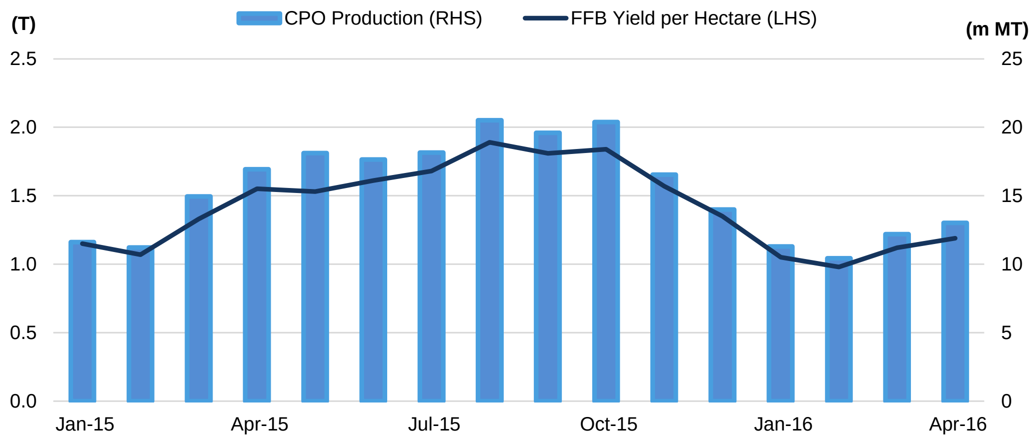
Fig 76: Correction in recent CPO rally

Source: Bloomberg

The first is price. The average CPO price for 2015 was RM2,235 per tonne. Ytd, CPO is hovering at an average of RM2,581 versus RM2,220 for the same period last year. Hence if the CPO price stays at the current RM2,620 through year end it would mean at least a 16% boost to revenue. Our forecast assumes RM2,400 per tonne average selling price for 2016.

The second is volume. For the first four months of 2016, CPO production in Malaysia totalled 4.63m tonnes, representing a 14% reduction in volume. The fall is due to tree stress from the much publicised El Nino effect. This is the worst El Nino since the turn of the century. In fact, its impact could be seen on FFB yields that hit a low of 1 tonne per hectare in February 2016. General expectation is for production to pick up as the year progresses with dissipating effects from the weakening El Nino condition.

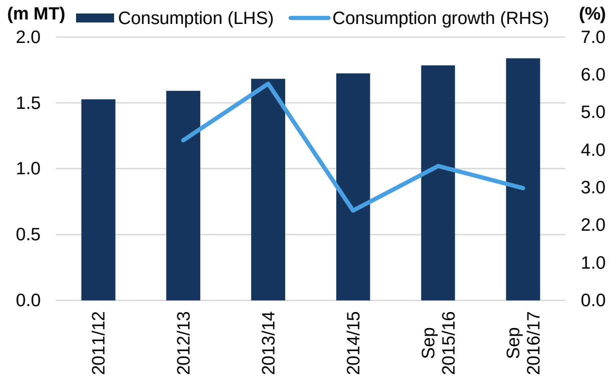
Fig 77: Palm production in Malaysia



Source: MPOB

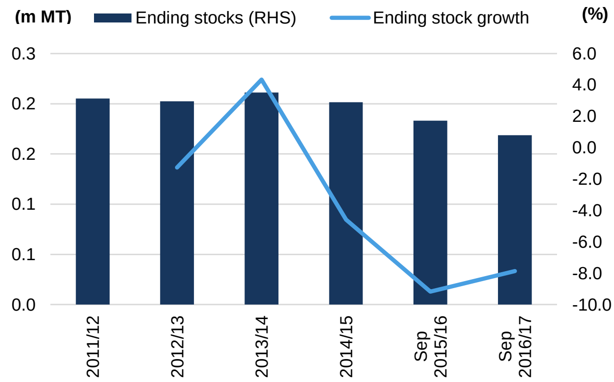
Of course, one lingering fear is if CPO prices fall with a recovery of production. This is a logical possibility given that one significant reason for the rally since 3Q15 seems to be the decline in CPO production. However, the US Department of Agriculture (USDA) provides some comfort in their forecast of global vegetable oil. According to them, global vegetable consumption is expected to grow by 3.6% in Sept 2015/2016 period and by another 3% in the Sept 2016/2017 season. As a result, stock levels would fall by a drastic 9.2% and by another 7.9%, respectively. Hopefully, this would support global vegetable oil prices.

Fig 78: Global vegetable oil demand



Source: USDA

Fig 79: Global vegetable oil stock level



Source: USDA

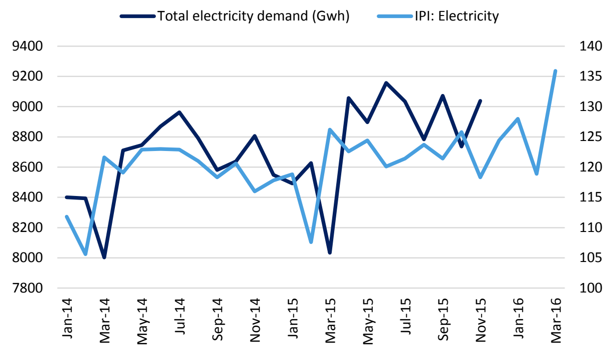
Utilities sector is powering up

The fact that the steady utilities sector is the second largest contributor to market growth underlines the tepid growth in 2016. Among the key driver of sector earnings is big cap Tenaga but negated to an extent by Petronas Gas.

Operationally, electricity demand growth could pick up for the remainder of the year. This is premised on a better 2H16 domestically. Also, trade activities and, hence, manufactured goods could pick up in the latter part of the year in tandem with better global growth.

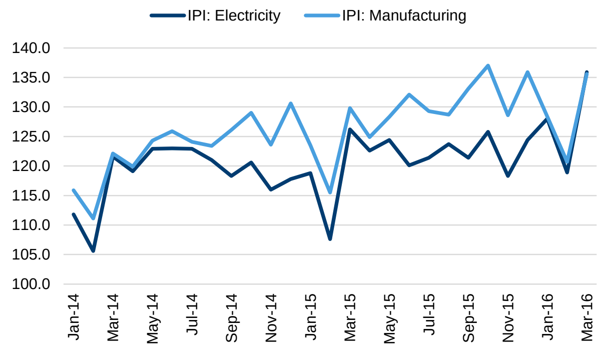
Reassuring at the moment is electricity production as reflected in the Industrial Production Index (IPI) data. In particular, IPI for electricity production has pushed higher to 7.7% and above in the first three months of 2016 with a peak of 10.5% yoy in February. Corresponding period in 2015 saw a range of 1.9% to 6.3% yoy. Note that there is a close correlation between electricity IPI and Tenaga's electricity demand growth. There is also clear correlation between manufacturing IPI and electricity IPI. Thus far, manufacturing IPI has held up fairly well between 4% and 4.5% in 1Q16 but of course worse compared to the corresponding three months in 2015 of 4% to 6.3%.

Fig 80: Electricity IPI versus Tenaga's demand



Source: BNM, TNB

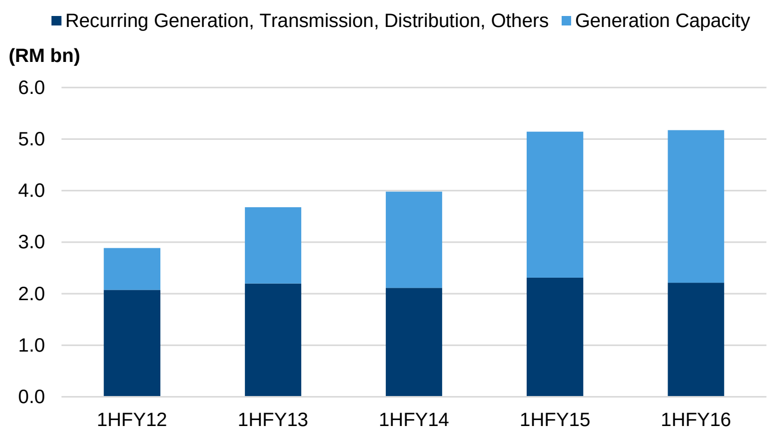
Fig 81: Electricity IPI versus manufacturing IPI



Source: BNM

Financially, Tenaga is seeing some tax benefits due to reinvestment allowances given its accelerating capex commitments as it expands generation capacity to cater for future electricity demand growth.

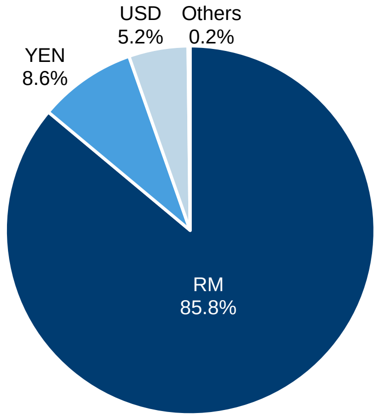
Fig 82: Tenaga's capex profile



Source: TNB

Another major area that could have an impact on Tenaga's, and hence, sector earnings is forex changes. In Tenaga's FY15 (Aug) results, it recognised RM819m in translation losses due to the strong USD. Some of that should dissipate as the Ringgit movement is less volatile now. However, that is not the full story. As of end-February, Tenaga had RM32.9bn in debt. Of this, 5.3% is denominated in USD. Another 8.8% is in Yen. The balance is in Ringgit.

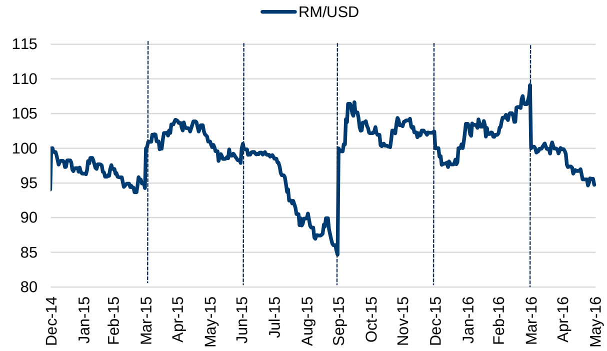
Fig 83: Tenaga's debt exposure at 2QFY16



Source: TNB

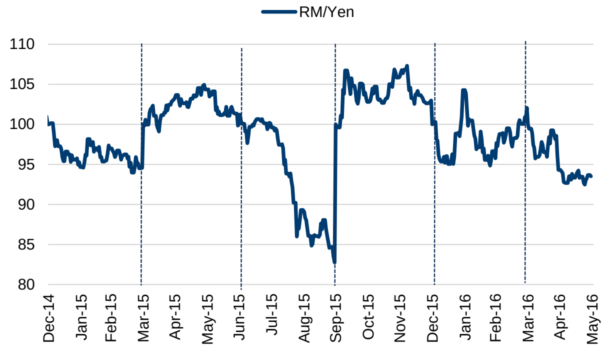
So far, the Ringgit is quite mixed against the USD. After depreciating significantly in August 2015 the Ringgit has regained some strength. It appreciated in 1Q16 by 10.1% but has since depreciated by 5.5% qoq in 2Q16. However, it is a bit trickier in the case of the Yen. The Yen has strengthened against the Ringgit by 3.1% qoq in 1Q16 and again so far in 2Q16 by 6.7% qoq. Depending on how the exchange rate transpires by end of each quarter, it could provide some volatility to growth.

Fig 84: Change in RM-USD from start of each quarter



Source: Bloomberg

Fig 85: Change in RM-Yen from start of each quarter



Source: Bloomberg

Gaming on a different level

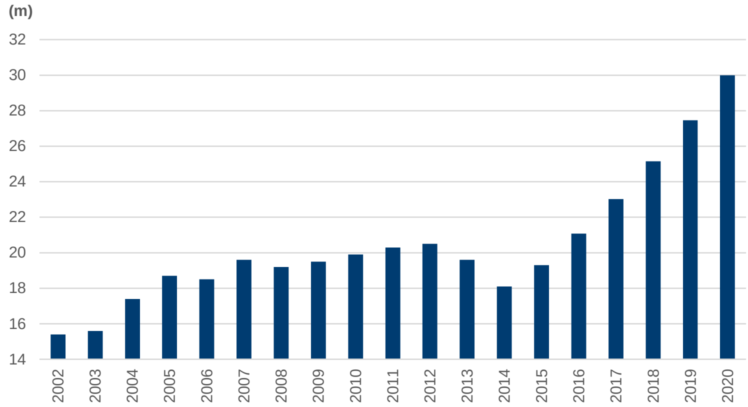
The gaming sector contributes the third largest to market earnings growth. This is courtesy of the Genting group consisting of Genting Malaysia and its parent Genting Bhd. In fact, Genting Malaysia is one of the rare companies that has literally doubled its bet on capex despite the poor business and consumer sentiment currently. It is this investment trajectory that we believe could put Genting Malaysia in a good position for earnings growth.

The Genting Integrated Tourism Plan (GITP) original budget of RM5bn was raised to RM10.38bn in February this year.

Thus far, an additional 1,300-room hotel is already open. A few other facilities such as the Sky Avenue lifestyle mall and Genting Premium Outlets would progressively open in 2H16. It is also renewing its indoor theme park. Ultimately, more gaming floor space and Twentieth Century

Fox outdoor theme park (first in the world) is expected to drive visitor arrivals to the hilltop resort from 19.3m in 2015 to 30m by 2020.

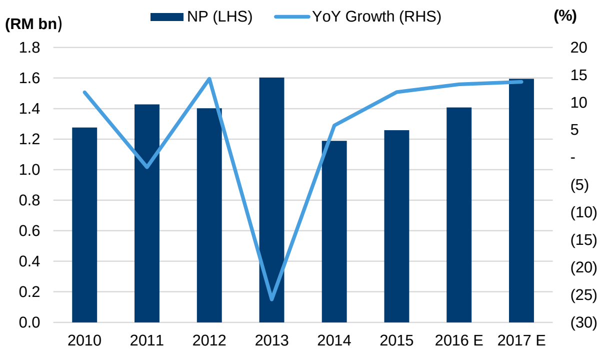
Fig 86: Visitor arrivals at Resorts World Genting



Source: GENM, Affin Hwang'

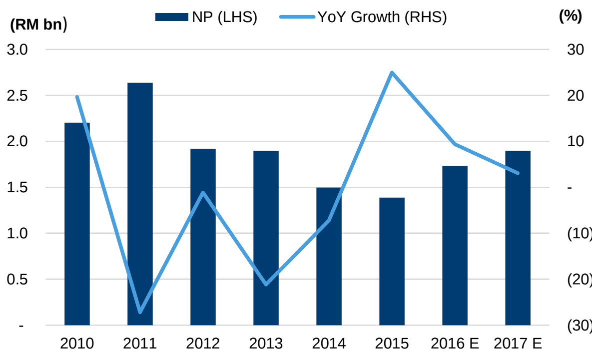
The earnings growth from 2016 is on the back of progressive opening of new facilities and attractions on the back of the GITP. In addition, there is a base effect as in 2015, Genting Malaysia booked in some pre-opening expenses for its Genting Birmingham facility in the UK and impairment losses in Bimini, Bahamas. Also, stabilisation of earnings from Genting Singapore in 2015 would support Genting Bhd's earnings this year.

Fig 87: Genting Malaysia's earnings profile



Source: Company, Affin Hwang forecasts

Fig 88: Genting Bhd earnings profile



Source: Company, Affin Hwang forecasts

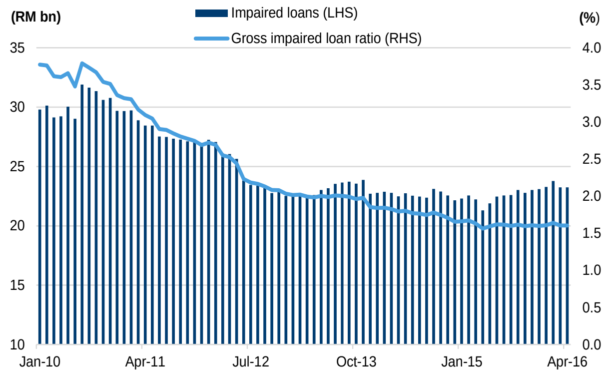
Banks & financial services on weak sentiment

The drag on our forecast for market growth at banks & financial services sector mainly comes from Maybank and Public Bank. We are forecasting fully-diluted EPS to contract by 11.1% yoy in 2016 for Maybank and fall by 7.2% for Public Bank.

Essentially, the poor business and consumer sentiment that is hampering share prices now has allowed us to build in more conservative assumptions. We are forecasting NIM contraction assuming that unexciting loans growth would keep pricing competition for loans elevated. Meanwhile, we have also built in some buffer in asset quality as reflected in higher credit cost and for impaired loans allowances.

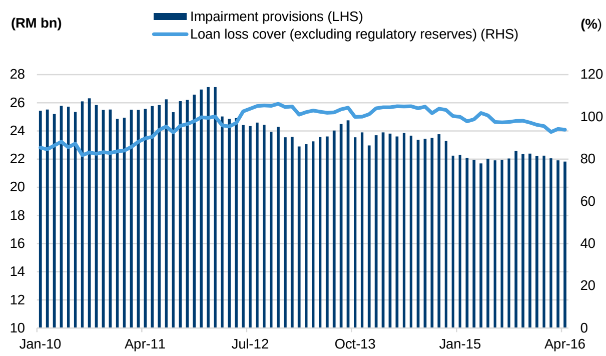
It is worth noting that despite the poor sentiment, we do not expect asset quality to deteriorate materially, which is what the market seems to be pricing in for the banks. For instance, system gross impaired loans have been very stable at 1.60% now (trough was 1.56% in April 2015). In addition, banking system loan-loss cover remains healthy at 93.9%; the highest level prior to this is 106.2% in November 2012.

Fig 89: Banking system gross impaired loans



Source: BNM

Fig 90: Banking system loan-loss cover

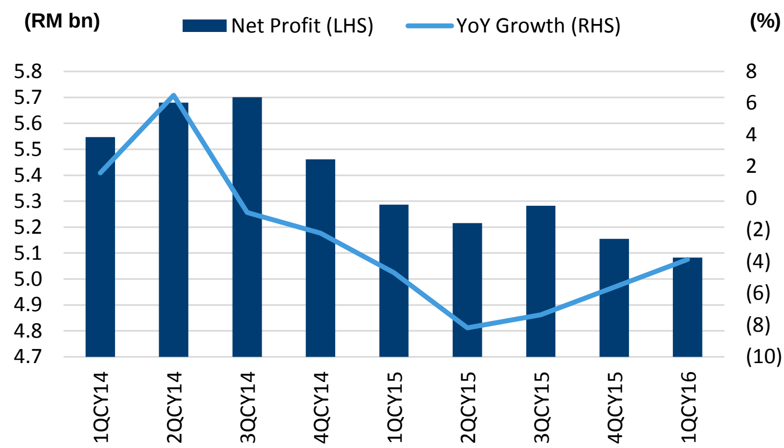


Source: BNM

More specifically, our Public Bank forecasts are more conservative due to management's prudent guidance. For instance management is currently guiding the market a credit cost of 20bps (without factoring in recoveries) compared to its annualized net credit cost of 10bps (in 1Q16) versus our current forecast of 18bps. That translates into an impaired loan allowances difference of circa RM240-250m between actual 1Q16 and our assumption (5% of FY16 net profit forecast of RM4.7bn), of which if we add back will result in flattish net profit growth in FY16. There is also a base effect due to one-off revaluation gain of RM100m in 4Q15 on their new Public Mutual headquarters.

As for Maybank, we have imputed higher credit costs, lower loan growth and NIM compression. In addition, there is share-dilution effect arising from the dividend reinvestment programme (DRP), about 500m new shares issued each year from 2016-18E, hence, that represents about a 5% increase in share capital p.a. Also note that fully-diluted EPS for 2015 also includes a one-off disposal gain of Maybank PNG.

Fig 91: Banks & financial services sector quarterly net profit trend



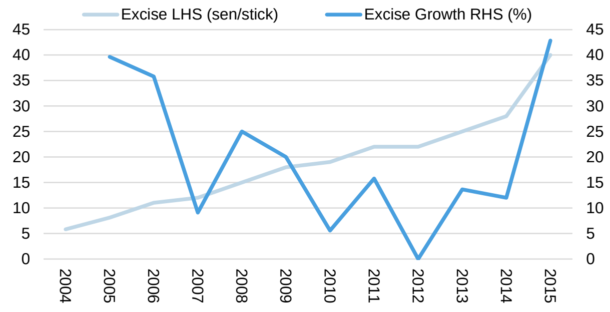
Source: Bloomberg

Consumer going up with the smoke

The drag from the consumer sector comes predominantly from BAT, for which we expect fully-diluted EPS to contract by 18.9% in 2016E before stabilising in 2017E. The company has solid brand equity and controls 58.7% market share by volume. Incidences of smoking amongst Malaysians are high and the young population provides a natural growing market. Its premium brands such as Dunhill are also aspirational and should be able to capture up-trading activities as the smoking population becomes wealthier. Strong pricing power is another feature for BAT.

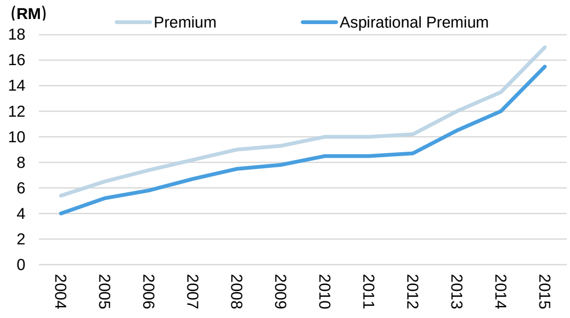
However, 2016 seems like a perfect storm for BAT. Another round of excise duty hike has prompted the cigarette makers to increase prices to RM17 per pack of 20s for the premium brands. Usually, BAT's solid pricing power means that the excise duty increase could be easily passed to the consumer. Volumes typically fall immediately after the increase but recovers thereafter. This time round, administrative-price increases have exerted additional cost pressures on the urban population. Also, poor enforcement on contraband cigarettes effectively neutralises the strong pricing power residing in BAT as it gives smokers a comparable alternative but at cheaper prices. The threat of further excise-price increases remain, which could push the price-volume elasticity further towards breaking point.

Fig 92: Cigarette duty hikes



Source: Affin Hwang, BAT

Fig 93: Cigarette prices per pack of 20s



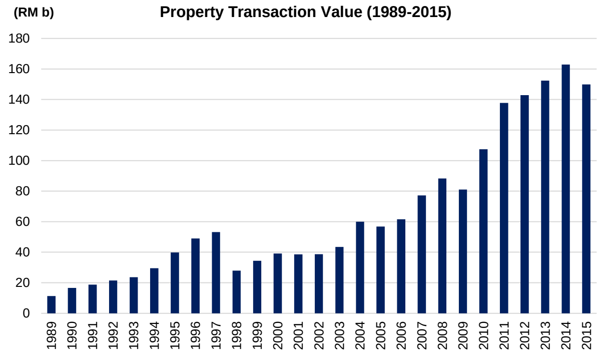
Source: Bloomberg, BAT

Property suffering from sentiment depression

Property sector profits are generally being dragged down by a combination of slower property sales on the back of poor sentiment and a high base last year due to rapid recognition of billings given the record unbilled sales levels in 2014.

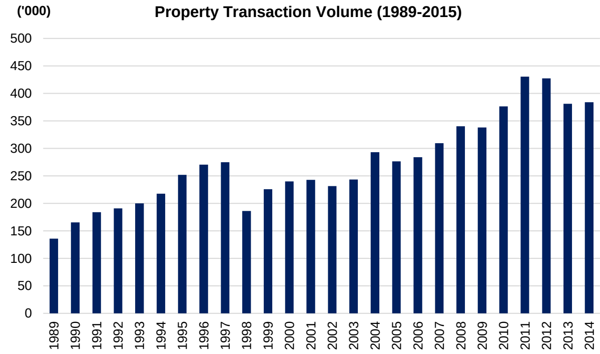
The consumer sentiment hit the lowest in 2015 and this could be seen from property transaction values that dipped for the first time since 2010; property value fell by 8% in 2015 to RM149.9bn. Meanwhile, property transaction volumes have fallen for four consecutive years now since 2011. The latest figure shows 5.7% contraction to 362,105 units in 2015. The fall in units transacted is due to a combination of regulated withdrawal of the Developer Interest Bearing Scheme (DIBS), a rise in property prices and tougher lending standards by banks.

Fig 94: Property transaction values dipped in 2015



Source: NAPIC

Fig 95: Property transaction volumes

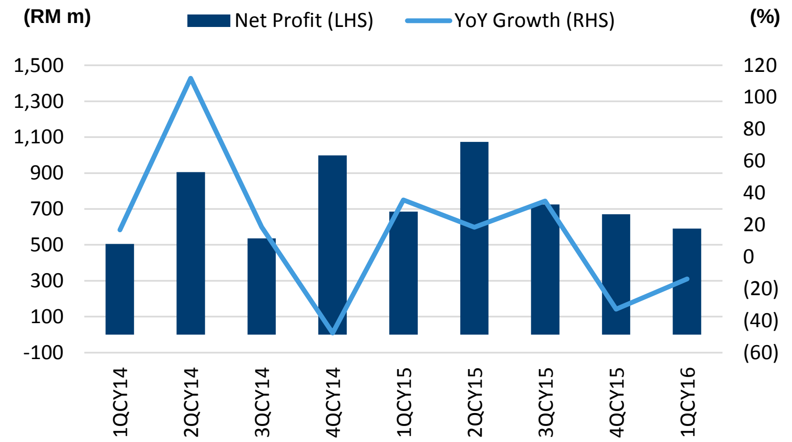


Source: NAPIC

Nonetheless, the fundamentals for property demand remain good given rapid household formation from a combination of young population where 70% is below 40 years old and falling household sizes. Nonetheless, sentiment would need to pick up in order to see a recovery in transactions.

The bigger cap names that are dragging down sector earnings are IOI Properties, SP Setia, Sunway and UOAD. Both IOIP and Sunway had gains on revaluation of investment properties in the previous year. As for SP Setia, there were lumpy contributions from Fulton Lane in Melbourne last year, which are absent this year. Lastly, UOAD had limited launches in 2015 that would have an impact on lower progress billings in 2016.

Fig 96: Property sector quarterly net profit trend

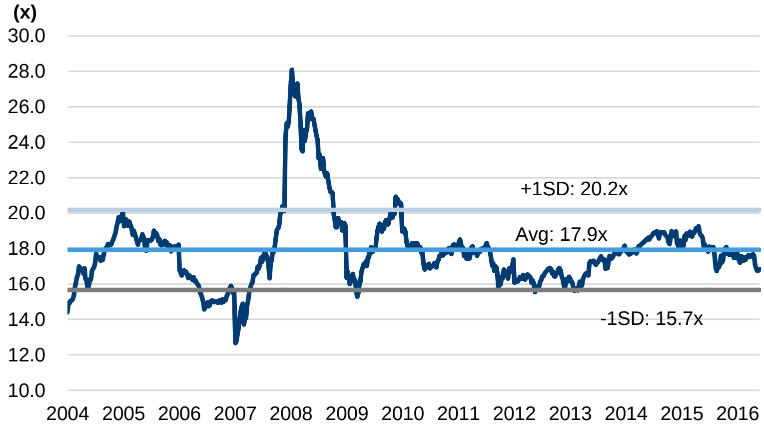


Source: Companies

Minor adjustment to 1,746 KLCI target

We estimate that the Malaysian market is currently trading at 17.1x 2016E PER based on our stock universe of 98 companies as a proxy for the overall market. This falls to 16.2x PER in 2017E with our 5.5% EPS growth forecast. It is worth noting that Malaysia has consistently traded at a mid-to-high teens PER. Therefore, we believe that the nature of the market is that it should be able to sustain such valuation patterns. As such, it is more relevant to compare its current valuation relative to its historical average. Under this scenario, the Malaysian market is still trading below its long term average of a 17.9x PER.

Fig 97: Overall market fully-diluted PER trend



Source: Bloomberg, Affin Hwang

We believe that the KLCI should in fairness trade up to its mean PER. Market earnings growth is tepid but Malaysia's GDP looks resilient and is poised for better activities as 2016 progresses. Moreover, macro fundamentals are conducive as well. We expect that better economic activities would translate into improved corporate earnings especially given that the corporates' share of GDP has fallen below its long-term average.

We revise our KLCI 2016 index target to 1,746 points (or down 1.6% from 1,774). This is premised on a PER target at its long-term average of 17.9x and applied to the average of our 2016 and 2017 EPS forecasts. This provides 7.4% upside potential from the current level.

Fig 98: KLCI index target calculation

	Units	2016E	2017E
KLCI (31 May 2016)	pts	1,626.00	1,626.00
Market EPS	pts	94.92	100.15
Fully diluted PE	x	17.1	16.2
Index Target			
Average fully diluted PE	x	17.9	17.9
Current market EPS	pts	94.92	100.15
Average market EPS	pts	97.54	
Average KLCI target	**pts**	**1,745.95**	
Upside	**%**	**7.4%**	
Revision			
Old KLCI target	pts	1,773.98	
Change	%	-1.6%	

Source: Affin Hwang forecast

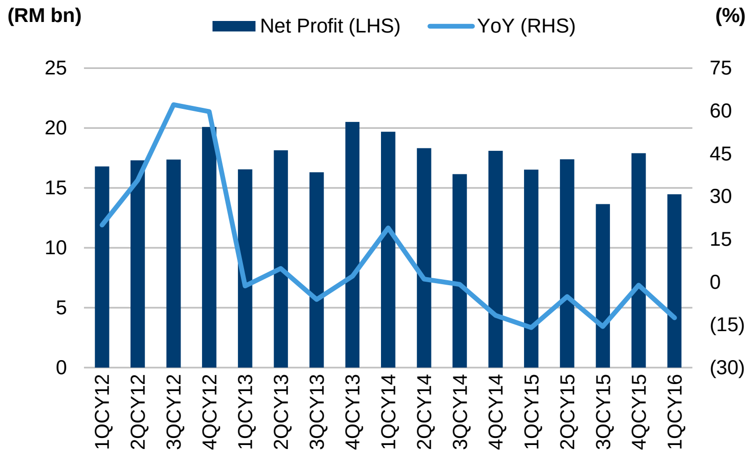
Abysmal run continues

Seven consecutive quarters and counting

Seven months ago, we highlighted the abysmal market earnings trend. At the time, the market was on a run of four consecutive quarters of decline and we pointed out that the KLCI could not outperform if profits do not recover. We were hopeful that earnings could turnaround either in 4Q15 or 1Q16 given the low base subsequent to the large 11.7% yoy decline in 4Q14 and 16% fall in 1Q15. In fact, the latter represented the largest pace of contraction over this period.

We were wrong. The abysmal run continued into 4Q15 with a revised 1.1% yoy decline (note that our initial estimate was marginal 0.2% yoy expansion). Instead of moderating further, the decline has accelerated to 12.5% yoy in 1Q16 despite the low base.

Fig 99: Extending the abysmal run



Source: Affin Hwang, Bloomberg

Naturally, there was a count of 11 sectors with declining earnings in 1Q16 outnumbering seven sectors with higher profitability. The top three drags in on headline net profit were oil & gas, utilities, and gaming. The oil & gas sector was hit by huge impairments at SapuraKencana in relation to lower oil prices. The fall in utilities profit was a result of Tenaga's change in its incomplete pass-through mechanism treatment in the income statement. This change began in its 3QFY15 (March-May 2015 quarter) where the over-recovery in tariff is subtracted from its revenue. Previously, the over-recovery was recognised in revenue, which translates to a windfall profit. The drag in gaming sector came from the Genting group due to a combination of foreign-exchange losses (due to Ringgit strengthening in 1Q16) and a higher base in 1Q15 that took into account disposal of available for sale financial assets and reversal of impairment losses.

Meanwhile, plantation is the only significant earnings grower in 1Q16 vs. the same period in 2015. It benefited from better operations at its resource-based manufacturing business as well as foreign-exchange gains.

Overall performance by each sector

The 1Q16 net profit made up 19.7% of our previous RM73.5bn 2016 forecast. Overall, we deem this as below expectation. Post results, we have revised our 2016E market net profit by 3.8% to RM70.7bn. We have provided details and commentary of 1Q16 performance for all the sectors below.

Fig 100: Net profit performance in 1Q16 by sector

Sector	Rating	Net Profit 1QCY14	Net Profit 2QCY14	Net Profit 3QCY14	Net Profit 4QCY14	Net Profit 1QCY15	Net Profit 2QCY15	Net Profit 3QCY15	Net Profit 4QCY15	Net Profit 1QCY16	YoY %	% of Affin Forecast 1QCY2016	Affin Forecast FY16
Auto & Autoparts Sector	N	284.4	198.8	245.8	141.3	218.1	116.0	31.8	(263.9)	44.3	-79.7%	6.8	650.6
Banks Sector	OW	5,547.0	5,679.6	5,701.1	5,460.8	5,286.7	5,215.3	5,282.3	5,154.4	5,083.0	-3.9%	22.6	22,489.1
Building Materials Sector	N	76.9	80.2	58.3	52.7	77.6	67.1	68.1	44.1	23.5	-69.7%	7.1	329.3
Const & Infra Sector	OW	255.6	469.9	400.7	374.2	602.4	647.8	421.1	557.2	213.9	-64.5%	9.5	2,260.1
Consumer Sector	N	678.5	625.9	633.1	706.6	662.7	433.6	734.3	549.7	575.9	-13.1%	22.1	2,607.7
Gaming Sector	OW	1,004.4	771.1	697.2	683.4	1,086.8	376.3	759.9	748.2	350.8	-67.7%	10.7	3,266.7
Healthcare Sector	OW	189.3	242.8	176.0	289.2	205.4	264.1	156.6	440.4	269.7	31.3%	22.3	1,211.5
Media Sector	N	184.2	230.3	246.3	141.0	194.5	277.8	236.0	219.1	247.2	27.1%	20.2	1,226.9
MREIT Sector	OW	207.7	198.5	306.2	684.8	217.2	221.8	184.2	552.5	227.6	4.8%	16.0	1,423.8
Oil & Gas Sector	UW	1,305.6	1,344.6	1,407.9	973.9	966.9	637.3	1,206.3	411.8	(690.8)	-171.4%	(15.3)	4,527.8
Plantation Sector	N	3,683.0	2,088.0	958.7	911.3	537.0	1,520.6	(183.9)	2,013.9	1,542.1	187.1%	24.7	6,250.3
Property Sector	OW	505.2	905.2	536.7	999.0	684.9	1,073.6	724.8	671.2	590.5	-13.8%	21.9	2,701.2
Rubber Products Sector	N	165.7	173.0	169.1	170.7	196.6	224.5	279.4	317.8	246.9	25.6%	20.6	1,199.8
Technology Sector	N	74.9	84.8	116.0	117.8	128.4	150.5	175.9	174.8	123.4	-3.8%	18.6	662.8
Telecoms Sector	N	1,854.6	1,614.0	1,760.6	1,716.6	1,603.0	1,728.2	1,874.8	1,510.1	1,607.6	0.3%	23.8	6,749.0
Timber Sector	OW	52.7	50.1	79.0	18.7	33.1	55.3	112.8	111.1	11.0	-66.7%	3.3	336.9
Transport Sector	N	743.5	481.8	266.9	939.8	528.1	806.9	(184.9)	1,465.5	1,631.0	208.8%	49.7	3,280.0
Utilities Sector	OW	2,863.4	3,082.4	2,395.8	3,719.2	3,293.3	3,568.6	1,758.7	3,224.1	2,357.2	-28.4%	19.1	12,333.8
TOTAL		**19,676.5**	**18,320.9**	**16,155.4**	**18,101.1**	**16,522.5**	**17,385.1**	**13,638.3**	**17,901.9**	**14,454.7**	-12.5%	19.7	**73,507.0**
YoY growth %		**18.9**	**1.1**	**(0.9)**	**(11.7)**	**(16.0)**	**(5.1)**	**(15.6)**	**(1.1)**	**(12.5)**			
QoQ growth %		**(4.1)**	**(6.9)**	**(11.8)**	**12.0**	**(8.7)**	**5.2**	**(21.6)**	**31.3**	**(19.3)**			

Source: Companies, Affin Hwang forecasts

Fig 101: Individual sector performances

Sector	Net Profit 1QCY16 yoy	Comments
Auto & Autoparts	-79.70%	Across the board, earnings were impacted by lower vehicle-sales volumes as well as margin contraction due to unfavorable forex. In 1Q16, total industry volumes fell 22% YoY due to strong pre-GST purchase levels in 1Q15. UMW's earnings were further dragged down by wider losses from its O&G segment.
Banks	-3.90%	The banking and financial sector universe (excluding Bursa Malaysia) reported a 1Q16 net profit of RM5.0bn (-4.1% YoY) and was below our expectations (vs. our forecast of RM22.3bn in sector universe 2016 net profit. Banks which have dragged down the sector earnings include Maybank (higher provisions, which may reverse after 6 months), AMMB (weak operating-income growth) and MBSB (high provisions). On the other hand, sector earnings have been propped up by these banks: CIMB (lower provisions), RHBCap (lower overhead), AFG (higher operating income) and Public Bank (higher operating income). On a QoQ comparison, our universe net profit was down by 1.6% QoQ due to heavyweights Maybank (higher provisions) and Public Bank (due to a one-off credit recovery in 4Q15 and higher overhead). Overall, we have revised down our universe's 2016E net profit by 2.4% to RM21.7bn subsequent to downward revisions on Maybank, MBSB and AEON Credit.
Building Materials	-69.70%	The huge decline in earnings was due to margin compression on strong competition which resulted in higher rebates on selling prices, higher interest expenses and depreciation charges following the merger with Holcim Malaysia in 4Q15. EBITDA margin fell 7.8ppts on intergation costs, offsetting the cheaper coal prices.
Const & Infra	-64.50%	Overall, the construction companies reported 1Q16 results that were below our expectations. The stronger Ringgit in 1Q16 led to unrealised forex losses for companies with overseas operations such as IJM Corp, WCT and Eversendai. Sector earnings contracted sharply due to lower exceptional gains, while Eversendai incurred an exceptional loss due to the write down of an associate. Most construction companies saw an order-book expansion to new highs with the award of contracts for the MRT Line 2 (IJM Corp, MRCB, Sunway Construction and Gamuda benefited). However, the new projects did not contribute significantly to bottom line in 1Q16.
Consumer	-13.10%	The consumer sector recorded a decrease in 1Q16 net profit by 13.1%, largely dragged down by BAT's net profit decline of 28% due to a large volume contraction of 34%. Retailers such as Aeon, Bonia and Parkson announced results that were below expectations as they continued to record depressed earnings due to a slowdown in retail sales as well as a contraction in margins because of higher operating costs and promotional expenses. Hai-O, however, was in line with expectations and saw an improvement in earnings from its low 2015 base due to growth in its multi-level-marketing division. Of the two names in the F&B segment, Nestle was in line with strong earnings due to favorable raw material prices, while MSM was below expectations due to higher average raw sugar prices and operating costs from the setup in its Dubai and Johor sites. Our brewery stocks continued their stellar performance with Heineken in line with expectations and Carlsberg above expectations due to better volumes and margins, particularly from its Singapore operations.

Sector	Net Profit 1QCY16 yoy	Comments
Gaming	-67.70%	The gaming sector saw a significant YoY decline in reported 1Q16 earnings mainly due to forex losses (RM280m) at Genting Berhad as a result of the stronger RM on USD-denominated assets. In addition, Genting Malaysia reported lower earnings as a result of absorbing the GST which was implemented only from April 2015. Operationally, Genting Malaysia reported a lower hold percentage in its VIP segment on YoY basis.
Healthcare	31.30%	Headline net profit grew 31% YoY mainly due to the absence of forex losses in 1Q16 vs 1Q15. Excluding exceptional items, the healthcare sector core net profit would have grown by only c.5% in 1Q16, which was an improvement vs 4Q15 when core net profit declined by 13% YoY. The rebound in earnings trajectory was driven by the ramp-up of the new hospitals opened in recent years, and we expect this trend to drive earnings in subsequent quarters. Also, patient volumes have staged a strong comeback in the quarter, with KPJ reporting a 1% growth YoY following three consecutive quarters of decline, and IHH reporting 7-17% inpatient admission growth in its three key home markets of Singapore, Malaysia and Turkey. Sector earnings growth prospects is robust, backed by clearly defined expansion plans and strong pricing power.
Media	27.10%	Media sector net profit grew 27% YoY in 1Q16 mainly due to Astro's strong performance. Astro remains our only BUY call in the sector, as it has a more diversified earnings base compared to the traditional print companies, which rely heavily on adex revenue. We are still cautious on the print companies, largely due to: 1) them being adversely affected by the shift in adex revenue towards the broadcast segment (especially pay TV) from print; 2) potentially cautious ad spending given the uncertainties in the market coupled with soft business and consumer sentiment; and 3) negative effects on hard copy circulation due to the continual shift in reader preferences to reading on mobile devices or over the Internet.
MREITs	4.80%	Our M-REITs universe, saw a net earnings growth of 4.8% YoY with Pavilion REIT, IGB REIT and KLCCPSG posting results within our expectations, while Axis REIT was below expectations (due to a prolonged period in vacancy rates since a year ago, 1Q16: 8%). The other M-REITs are doing well, supported by high occupancy rates, steady tenancy renewal rates and stable leases (for KLCCPSG's office portfolio). We believe that retail spending at city-centric malls is likely to remain sustainable, underpinned by a diverse upper-middle class income group, despite the challenging environment.

Sector	Net Profit 1QCY16 yoy	Comments
Oil & Gas	-171.40%	The sector's bottom line fell 171.4% YoY to a headline net loss of RM690.8m in 1Q16, primarily due to SAKP which booked a RM1.3bn impairment and write-offs in 4QFY16 (end-Jan). While many of the O&G companies under coverage reported a core net loss in 1Q16, the sector as a whole would have reported a core net profit of RM279.1m (-73.1% YoY; -67.9% QoQ), supported by the earnings from PCHEM and DLG. Falling asset utilisation and pricing reduction continue to feature prominently in the quarter's results, which led to a significant decline in revenue and margin compression. We do not expect this trend to revert anytime soon, as PETRONAS remains committed to its spending reduction program despite the recent uptick in crude prices. We understand PETRONAS will consider re-accelerating capex spending, only if crude prices recover sustainably to the US$60-70/bbl level. In addition, we see risks to the present US$50/bbl crude-oil prices, as US shale producers are likely to undertake drilling activities in order to take advantage of the higher oil prices arising from supply shocks in Libya and Canada.
Plantation	187.10%	1Q16 headline net profit surged yoy mainly due to higher profits from IOI (large net forex translation gain vs large net forex translation loss in 1Q15) and SIME as the other five companies in our universe posted lower headline net profits yoy. Adjusted for exceptional items, 1Q16 core net profits were below expectations for all, except for IOI, mainly due to sharp decline in own FFB production yoy and qoq. CPO ASPs were generally higher yoy and qoq, following a recovery from the lows in 2H15. CPO ASPs for plantation companies with significant production in Indonesia were lower mainly due to the US$50/MT Indonesian export levy. For SIME, the Industrial and Motors divisions also performed below expectations.
Property	-13.80%	Results were a mixed bag. Sector earnings were dragged down by Sunway Bhd (lower earnings from construction and quarry segments) and E&O (earnings affected by forex losses) and Tropicana (absence of recognition and gain on land sale).
Rubber Products	25.60%	Rubber products headline net profit posted strong YoY growth on added capacity and high utilization levels in the quarter. However, overall earnings missed our expectation, as overcapacity worries dragged down ASPs and margins, especially for the nitrile-glove makers. Manufacturers were also impacted by higher raw-material costs, natural-gas price hikes, and a stronger Ringgit for the quarter. Global demand for gloves should remain intact for CY16E, driven by healthy take-up rates from emerging markets on increasing healthcare awareness. However, the unabating price competition could drag ASPs down further on overcapacity worries, leading to sector-wide margin compression. Top Glove is the only company, whose earnings surprised on the upside for the quarter, as ongoing operational optimization efforts led to better-than-expected margins. Earnings from Hartalega and Kossan disappointed on lower ASPs and a decline in margins. We maintain the sector at Neutral.
Technology	-3.80%	Results were mixed, but earnings largely lower QoQ due to an inventory imbalance, weaker demand for smartphones and seasonal weakness. On a YoY basis, earnings were down 4%, only lifted by the depreciation of the RM.

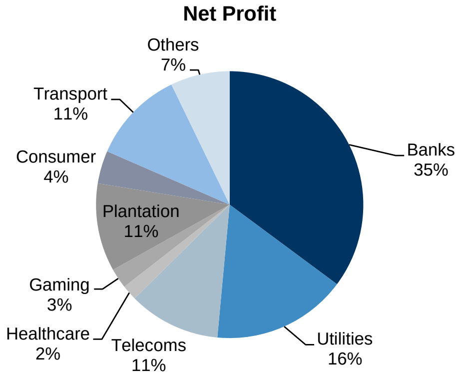
Sector	Net Profit 1QCY16 yoy	Comments
Telecoms	0.30%	Earnings growth for the sector was relatively flat as forex gains from a stronger RM at Maxis and TM offset the lacklustre results at Axiata and DiGi. Celcom's revenue fell by 13% YoY which contributed to a tepid 1Q16 for Axiata. Besides that, Axiata also booked a forex loss due to its large cash holdings denominated in USD and other foreign currencies.
Timber	-66.70%	Results were below expectations. The timber companies' net profit in 1Q16 was down by 66.7% YoY. This was partly attributable to lower ASPs for logs and plywood, as well as higher FFB and CPO costs of production.
Transport	208.80%	Strong earnings were driven by cheaper fuel costs, improvement on average fares on more pricing discpline, strong YoY passenger growth (return of Chinese tourists) and forex gains. There was also a low base and sharp losses (AAX) in 1Q15.
Utilities	-28.40%	The key reason for the YoY decline in earnings for the utilities sector is the change in accouting policy at TNB with regards to the imbalance cost-pass-through mechanism that took place from 3QCY15 (ie, TNB no longer books extra profits should it record an over-recovery on fuel costs). Excluding TNB, the YoY earnings growth for the sector was relatively flat. Note that TNB's earnings in 2QCY15 were inflated by the inclusion of an over-recovery on fuel costs as a result of lower-than-expected LNG usage and benign coal prices.

Source: Affin Hwang

Market earnings structure

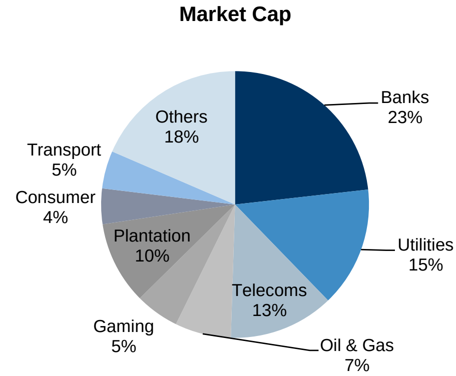
The huge impairments in the oil & gas sector means that the sector has dropped out of the top five in terms of profit contribution in 1Q15, being overtaken by transport. However, it remains in the list by market capitalisation. The top five sectors make up 85% of 1Q16 earnings and 67% of market cap of our stock universe.

Fig 102: Earnings breakdown by sector in 1Q16



Source: Affin Hwang, Bloomberg

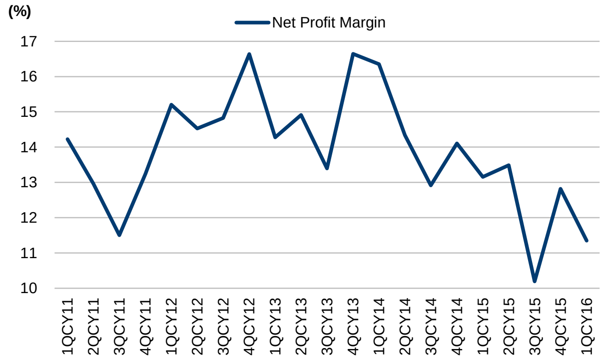
Fig 103: Breakdown of market cap by sector



Source: Affin Hwang, Bloomberg

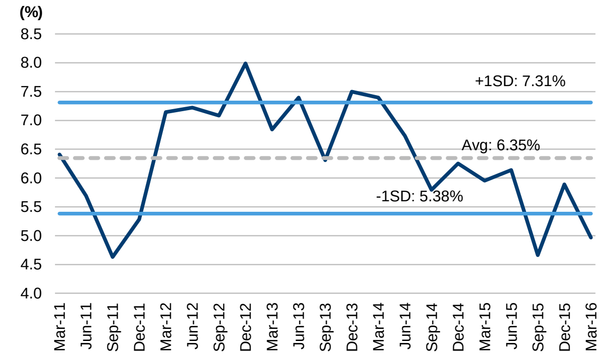
We make two further observations in the 1Q16 performance. The net profit margin, which improved from a low of 10.2% in 3Q15 to 12.8% in 4Q15, has lost ground again to 11.4% in 1Q16. Total net profit of companies under our coverage has also lost ground measured against quarterly nominal GDP. It fell from 5.9% of GDP in 4Q15 to 5% in 1Q16, though this is still higher than the trough of 4.7% in 3Q15. We have to go back to 3Q11 to see a lower share of corporate profit as a proportion of GDP. As an observation, corporate profit took off subsequent to the trough in 3Q11.

Fig 104: Net profit margin of stock universe



Source: Affin Hwang, Bloomberg

Fig 105: Net profit as proportion of nominal GDP



Source: Affin Hwang, Bloomberg

Majority dipped below

After an encouraging 4Q15 where there was an increase in companies coming above expectation relative to 3Q15, the most recent 1Q16 saw another setback. Of the 98 companies under coverage, only 11 (4Q15: 29) companies came in above expectations and 41 (4Q15: 42) companies were in line. An overwhelming 46 companies came in below expectations from 27 in the preceding quarter. In other words, there is a net 35 companies that were below expectation.

Fig 106: Performances relative to our expectations in 1QCY16

Sector	Above	In line	Below
Auto & Autoparts			APM MBM Resources UMW
Banks & Financial Services	RHB Capital	Aeon Credit AFG AMMB Bursa CIMB Hong Leong Bank Public Bank	Maybank MBSB
Building Material			Choo Bee Metal Lafarge
Construction & Infrastructure		Gamuda	Benalec Eversendai Gabungan AQRS IJM MRCB Sunway Construction WCT
Consumer	Carlsberg	Heinken Malaysia Hai-O Nestle	Aeon BAT Bonia MSM Parkson
Gaming		Genting Genting Malaysia	BJ Toto
Healthcare & Pharma.		IHH Healthcare KPJ	
Media		Astro Media Prima	Media Chinese International Star Publications
MREIT		IGB REIT KLCC Pavilion REIT	Axis REIT
Oil & Gas	MMHE Petronas Chemicals	Petra Energy	Alam Maritim Bumi Armada Dialog Sapura Kencana UMW-OG
Plantation		IOI Corp KL Kepong Amcorp Properties	Felda Global Venture Genting Plantations Hap Seng Plt. Sime Darby IJM Plantations

Source: Affin Hwang

Sector	Above	In line	Below
Property	SP Setia	IOI Properties Sunway UOA Development	E&O Tropicana
Rubber Gloves	Top Glove		Hartalega Karex Kossan Supermax
Technology	MPI Scicom Uchi Technology	Inari Unisem	Aemulus Globetronics
Telecoms		Axiata Digi Telekom Maxis	
Timber			Jaya Tiasa Ta Ann WTK
Transports & Logistics	AirAsia AirAsia X	MISC	Malaysia Airports
Utilities		Gas Malaysia Jaks Resources MMC Corp Petronas Gas Tenaga Nasional YTL Corp YTL Power	Malakoff
Total	**11**	**41**	**46**

Source: Affin Hwang

Drastic turn in momentum

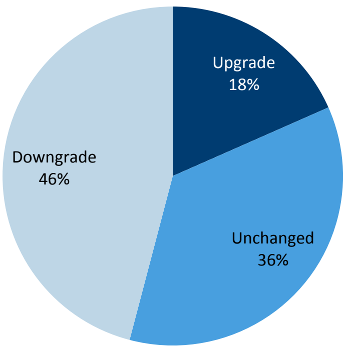
In terms of earnings revision, we see a net downgrade of 28 companies and this compares with the difference of 18 downgrades in the preceding quarter. On target prices, we saw a net difference between downgrades and upgrades of 27 (4Q15: 13) companies. Recommendation change is the only measure which saw an improvement, with a net downgrade of two companies versus six in 4Q15.

Fig 107: Changes in CY2016E earnings

Sector	Earnings Changes made on CY16E		
	Upgrade	Unchanged	Downgrade
Auto & Autoparts	0	0	3
Banks & Financial Services	0	7	3
Building Materials	1	1	0
Construction & Infrastructure	3	1	4
Consumer	1	3	5
Gaming	2	0	1
Healthcare & Pharma.	1	0	1
Media	0	1	3
MREIT	0	4	0
Oil & Gas	2	0	6
Plantation	0	1	6
Property	1	5	1
Rubber Gloves	1	0	4
Technology	2	2	3
Telecoms	1	3	0
Timber	0	0	3
Transports & Logistics	1	3	0
Utilities	2	3	3
Total	**18**	**34**	**46**

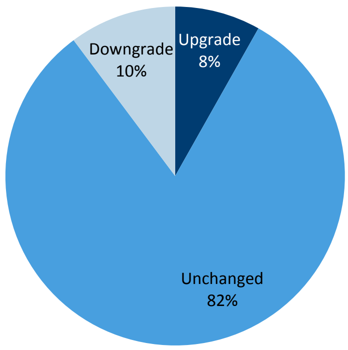
Source: Affin Hwang

Fig 108: Breakdown of changes in target prices



Source: Affin Hwang

Fig 109: Breakdown of changes in recommendations



Source: Affin Hwang

Overall, the 1Q16 results season was negative in terms of performance versus expectations, earnings revisions, recommendation changes and target price amendments.

Sector and stock positioning

Sector positioning based on structural developments

Our sector positioning is based on long-term structural developments in Malaysia such as its journey towards developed nation status by 2020, young population, and an eventual large middle income group. As such, our sector positioning has not changed much. Our 98-stock universe is clustered into 18 sectors. Of these, we are Overweight on eight sectors, Neutral on nine sectors, and Underweight on one.

Fig 110: Positioning for the eighteen sectors under coverage

Overweight	Neutral	Underweight
Banks & Financial Services	Auto & Autoparts	Oil & Gas
Construction & Infrastructure	Building Materials	
Gaming (↑)	Consumer	
Healthcare	Media	
MREIT	Plantation	
Property	Rubber Products	
Timber	Technology	
Utilities	Telecoms	
	Transports & Logistics	

Source: Affin Hwang
Note: sectors upgraded (↑), sectors downgraded (↓)

We have made one change to our current sector positioning and that involves upgrading Gaming to Overweight (from Neutral). The sector had been Overweight but we downgraded it to Neutral in our Strategy piece three months ago. While we continue to like the sector, at that time we had no Buy recommendations in our stock universe for exposure to the Gaming sector subsequent to the downgrade of Genting Bhd to Hold (due to its strong share price performance).

However, within the past three months we have upgraded Genting Malaysia Bhd to Buy and we have now a recommendation to play the sector. It provides exposure to private consumption and tourism in addition to a capital investment theme due to its huge drive to modernise the hilltop resort.

Meanwhile, we have also provided a breakdown of our stock universe by rating and market cap. The top five sectors, which make up two-thirds of our coverage by market cap, are Financials, Utilities, Telecoms, Plantation and Oil & Gas. Our stock universe makes up 70.6% of the RM1.64tn total market cap of Bursa Malaysia.

Fig 111: Breakdown of our sector coverage by recommendation

Sector	Rating	% of market cap	Total mkt cap (RMbn)	Rating				% of rating				Rating as a % of mkt cap			
				Buy	Hold	Sell	Total	Buy	Hold	Sell	Total	Buy	Hold	Sell	Total
Auto & Autoparts	N	0.6%	7,384	-	-	3	3	-	-	100	100	-	-	100	100
Banks & Financial Services	OW	23.2%	269,078	5	5	-	10	50	50	-	100	52	48	-	100
Building Materials	N	0.6%	6,903	-	1	1	2	-	50	50	100	-	98	2	100
Construction & Infrastructure	OW	2.7%	31,557	7	1	-	8	88	13	-	100	99	1	-	100
Consumer	N	4.3%	49,974	2	3	4	9	22	33	44	100	17	50	32	100
Gaming	OW	5.3%	61,608	1	1	1	3	33	33	33	100	43	51	7	100
Healthcare	OW	5.0%	57,685	1	1	-	2	50	50	-	100	8	92	-	100
Media	N	1.6%	18,971	1	-	3	4	25	-	75	100	76	-	24	100
MREIT	OW	2.2%	25,760	2	2	-	4	50	50	-	100	41	59	-	100
Oil & Gas	UW	6.8%	78,579	1	5	2	8	13	63	25	100	0	30	69	100
Plantation	N	10.0%	116,294	-	5	2	7	-	71	29	100	-	89	11	100
Property	OW	2.8%	32,519	7	-	-	7	100	-	-	100	100	-	-	100
Rubber Products	N	1.9%	21,509	2	3	-	5	40	60	-	100	37	63	-	100
Technology	N	0.8%	8,932	3	2	2	7	43	29	29	100	50	29	21	100
Telecoms	N	12.7%	147,487	-	4	-	4	-	100	-	100	-	100	-	100
Timber	OW	0.3%	3,174	2	1	-	3	67	33	-	100	64	36	-	100
Transports & Logistics	N	4.6%	53,019	2	1	1	4	50	25	25	100	15	65	20	100
Utilities	OW	14.6%	168,920	3	5	-	8	38	63	-	100	51	49	-	100
Total		100.0%	1,159,353	39	40	19	98								

Source: Affin Hwang

In terms of companies, we have 39 companies on Buy, 40 on Hold and 19 on Sell. Note that our stock positioning reconciles the top-down attractiveness of the sector with bottom-up stock calls using a combination of the proportion of those companies to the total number of companies as well as a proportion of the market cap of their respective sector.

Fig 112: Summary of sector valuation

Sector	Rating	Market Cap (RMm)	EPS Growth (%) 2016E	2017E	PE (x) 2016E	2017E	EV/EBITDA (x) 2016E	2017E	Yield (%) 2016E	2017E	P/BV (x) 2016E	2017E	ROE (%) 2016E	2017E
Banks & Financial Services	OW	269,078.0	(3.4)	7.0	13.4	12.5			3.7	4.0	1.5	1.4	10.4	10.3
Auto & Autoparts	N	7,384.0	1,645.6	67.7	22.9	13.7	15.6	12.4	2.7	3.9	1.1	1.3	3.5	6.2
Building Materials	UW	6,902.6	27.7	1.7	21.1	20.7	12.1	11.8	4.0	4.0	2.3	2.2	9.1	9.1
Construction & Infrastructure	OW	31,557.2	(1.4)	0.5	16.3	16.2	13.3	6.9	2.8	2.9	1.3	1.2	8.5	7.9
Consumer	N	49,973.7	(5.4)	5.1	23.3	22.2	12.3	10.6	4.3	4.3	17.3	18.5	22.8	32.4
Gaming	OW	61,608.4	18.8	10.3	17.7	16.1	6.4	5.4	1.1	1.1	0.6	0.6	4.5	4.7
Healthcare & Pharma.	OW	57,684.8	15.8	16.7	47.5	40.7	20.7	16.9	0.6	0.7	2.5	2.4	5.3	5.8
Media	N	18,971.0	9.2	13.5	19.2	16.9	7.5	1.5	5.1	5.4	5.4	4.9	21.6	22.0
MREIT	OW	25,759.9	32.4	1.8	17.7	17.4	14.6	14.3	5.5	5.8	1.1	1.1	6.8	7.1
Oil & Gas	UW	78,579.4	3.9	6.2	21.4	20.1	12.4	8.3	2.1	2.2	1.9	1.8	5.8	6.5
Plantation	N	116,294.0	36.3	3.5	18.5	17.9	13.5	7.6	2.7	3.0	2.2	2.3	9.6	10.7
Property	OW	32,518.8	(12.5)	14.0	11.3	9.9	10.0	6.8	4.0	4.3	0.9	0.9	7.6	8.4
Rubber Products	N	21,509.0	12.7	8.1	19.5	18.0	17.4	9.7	1.7	1.9	5.0	4.5	18.0	17.6
Technology	OW	8,932.5	(7.0)	3.0	14.6	14.1	9.7	6.6	2.5	2.8	2.9	2.7	16.9	16.7
Telecoms	N	147,487.1	0.4	6.0	22.0	20.7	10.2	9.8	3.3	3.3	4.8	4.7	19.4	20.0
Timber	OW	3,173.5	(18.9)	13.5	11.1	9.8	7.6	5.2	3.5	3.5	1.1	1.1	6.0	6.7
Transports & Logistics	N	53,018.9	6.4	5.7	15.5	14.7	0.4	10.9	1.5	1.5	1.3	1.2	7.7	7.8
Utilities	N	168,920.4	3.9	1.8	14.5	14.2	8.9	6.4	2.6	2.6	1.9	1.8	10.5	9.9
Coverage		**1,159,353.0**	**3.0**	**5.5**	**17.1**	**16.2**	**4.5**	**9.2**	**3.2**	**3.4**	**2.1**	**2.0**	**9.4**	**9.6**

Source: Bloomberg, Affin Hwang forecasts

Stock pick lists

On our top picks list, we have made three deletions and three additions. We have removed IGB REIT, E&O and Globetronics and in their place we have included Carlsberg, Genting Malaysia and Scicom. The deletion of IGB REIT is due to its good share price performance over the past three months resulting in limited upside to our target price. On the other hand, Globetronics is removed after our downgrade of the stock to Hold given the deterioration in global demand conditions, poor orders for its sensors, and below-expectation results. The removal of E&O is due to delays in getting a strategic partner for its Seri Tanjung Penang Phase 2 (STP2) reclamation project given that its investment proposition is premised on being an asset value play with crystallization of value in STP2. Our top picks list still consists of 20 stocks.

Genting Malaysia. The investment climate in Malaysia is weak as seen from the GDP figures. However, Genting Malaysia is one company that has actually upped its capex commitment. The RM5bn Genting Integrated Tourism Plan (GITP) is in full swing and in February 2016 it increased its commitment to RM10.38bn. The capex includes adding facilities for the world's first Fox World theme park, more retail floor space, transforming its other theme park that is located indoors, and potentially more gaming floor space. As a result, Genting sees tourist arrivals increasing by more than 50% to 30m annually by 2020.

Carlsberg. The company is proprietor of a portfolio of globally renowned brands. It includes premium beer selections that tap the natural demand trajectory of income growth for the nation. In addition, we like the pricing power of its strong brands. The stock also has a Singapore arm that contributes 39% of group operating profit thus providing some country diversification. It also gives an attractive 6% yield, based on our estimates.

Scicom. It is a technology services play encompassing business process outsourcing (BPO) as well as e-government services. The BPO anchors about two-thirds of group revenue while the balance is contributed by the e-government services. Its BPO clients include multinationals and large local enterprises. The e-government services, the business that is driving growth, encompasses international student visa processing for the government. It is a sustainable and growing business given that Malaysia is gaining traction as an affordable tertiary education destination. In fact, the government is targeting 200,000 students by 2020 from about 150,000 currently. Its database of foreign students also allows Scicom to provide ancillary services to them while they are in Malaysia, thus providing another revenue stream.

On our top sells list, we have made two changes. This is the removal of MMHE due to the weak share price that has shot below our target price. We have also dropped Petronas Chemical, prompted by the recent rebound in the Brent price. As such, we believe that it is no more a top sell as its ethane feedstock is fixed, potentially leading to margin expansion when selling prices recover in tandem with the Brent price. We have not replaced MMHE and Petronas Chemical with other stocks. As a result, our top sells list is shorter by two to six stocks.

Fig 113: List of our top buys and top sells

Stock	Rating	Price (RM)	TP (RM)	Upside (%)	Mkt Cap (RMm)	Core PE (x) CY16	Core PE (x) CY17	Core EPS CY16	Core EPS CY17	Core EPS Growth (%) CY16	Core EPS Growth (%) CY17	PBV CY16	PBV CY17	DPS(sen) FY16	DPS(sen) FY17	Div. Yield (%) FY16	Div. Yield (%) FY17	ROE (%) FY16	ROE (%) FY17
Top Buys																			
AEON CREDIT	BUY	13.58	14.80	9.0	1,955.5	8.3	7.4	1.6	1.8	10.3	11.5	2.5	2.1	63.0	69.7	4.6	5.1	27.4	25.6
AFG	BUY	4.05	4.50	11.1	6,268.5	11.5	11.1	0.4	0.4	2.6	3.3	1.3	1.2	14.9	15.8	3.7	3.9	10.7	10.4
CARLSBERG	BUY	13.16	14.40	9.4	4,079.0	16.6	16.1	0.8	0.8	7.7	2.8	12.0	5.0	79.3	81.5	6.0	6.2	29.9	80.3
CIMB	BUY	4.39	5.00	13.9	38,319.7	9.5	9.0	0.5	0.5	37.6	5.8	0.9	0.9	13.8	14.6	3.1	3.3	9.1	9.1
GAMUDA	BUY	4.80	5.70	18.8	11,586.8	19.8	17.7	0.2	0.3	(8.1)	11.6	1.8	1.7	12.0	12.0	2.5	2.5	9.9	10.3
GENTING MALAYSIA	BUY	4.41	5.00	13.4	26,184.6	17.8	15.7	0.2	0.3	14.5	13.3	1.3	1.4	7.1	7.7	1.6	1.7	8.1	8.7
INARI	BUY	3.10	3.54	14.2	2,964.9	17.7	14.7	0.2	0.2	4.4	20.3	4.3	3.3	7.1	8.4	2.3	2.7	24.3	24.4
JAKS RESOURCES	BUY	0.86	1.60	86.0	377.0	5.6	5.5	0.2	0.2	780.8	1.9	0.8	0.5	-	-	-	-	9.5	8.2
KPJ	BUY	4.28	4.87	13.8	4,528.0	30.8	28.5	0.1	0.2	26.2	7.9	3.1	3.0	7.5	8.0	1.8	1.9	9.2	9.1
PUBLIC BANK	BUY	19.12	21.80	14.0	74,226.5	15.7	14.8	1.2	1.3	(7.2)	6.1	2.4	2.2	57.0	59.0	3.0	3.1	14.3	14.0
PETRA ENERGY	BUY	1.14	1.48	29.8	366.8	9.4	5.9	0.1	0.2	nm	59.5	0.7	0.6	2.4	3.9	2.1	3.4	6.9	10.0
PAVILION REIT	BUY	1.66	1.90	14.5	5,012.9	18.7	17.5	0.1	0.1	11.5	6.7	1.3	1.3	9.5	10.9	5.7	6.6	7.0	7.5
SUNWAY CONSTRUCTION	BUY	1.58	1.98	25.3	2,042.8	14.2	12.1	0.1	0.1	13.6	18.0	4.5	3.9	5.5	6.5	3.5	4.1	27.3	27.9
SCICOM	BUY	2.34	2.58	10.3	831.8	18.2	18.2	0.1	0.1	17.5	-	9.6	8.3	8.7	8.4	3.7	3.6	46.0	40.1
SUNWAY	BUY	3.01	3.90	29.6	5,988.1	9.6	8.6	0.3	0.4	(5.8)	12.1	0.8	0.8	10.0	11.0	3.3	3.7	8.0	8.5
TA ANN	BUY	4.02	5.30	31.8	1,490.4	10.7	9.7	0.4	0.4	(21.3)	11.0	1.3	1.2	20.0	20.0	5.0	5.0	11.2	11.7
TENAGA	BUY	13.98	16.50	18.0	78,897.7	10.6	10.2	1.3	1.4	13.6	3.2	1.6	1.4	33.4	36.2	2.4	2.6	13.5	12.6
TOP GLOVE	BUY	5.07	7.17	41.4	6,367.3	14.8	14.3	0.3	0.4	27.7	3.4	3.8	3.4	17.1	17.7	3.4	3.5	22.8	21.2
UOA DEVELOPMENT	BUY	2.27	2.57	13.2	3,452.2	10.2	8.5	0.2	0.3	(21.6)	19.8	1.1	1.1	12.0	14.0	5.3	6.2	10.4	11.6
WCT	BUY	1.56	2.02	29.5	1,959.9	15.1	10.2	0.1	0.2	(46.3)	48.5	0.7	1.0	6.0	8.0	3.8	5.1	14.7	8.3
Stocks to Avoid																			
MAHB	SELL	6.39	5.50	(13.9)	10,602.2	81.9	91.3	0.1	0.1	nm	(10.3)	1.4	1.4	4.0	4.0	0.6	0.6	1.8	1.6
MCIL	SELL	0.73	0.55	(24.7)	1,231.7	10.6	10.4	0.1	0.1	0.8	2.5	1.8	1.3	4.3	4.4	5.9	6.0	12.2	11.6
MEDIA PRIMA	SELL	1.41	1.21	(14.2)	1,564.0	11.3	11.7	0.1	0.1	0.9	(3.2)	1.0	0.9	8.3	8.1	5.9	5.7	8.0	7.3
STAR	SELL	2.45	1.85	(24.5)	1,809.5	15.8	14.0	0.2	0.2	(14.5)	12.9	1.6	1.5	18.0	18.0	7.3	7.3	9.7	10.6
UMW-OG	SELL	0.88	0.73	(16.6)	1,891.8	(10.7)	(13.7)	(0.1)	(0.1)	61.9	(22.0)	0.6	0.6	-	-	-	-	(5.2)	(3.9)
UNISEM	SELL	2.40	1.76	(26.7)	1,761.2	16.7	16.3	0.1	0.1	(35.0)	2.1	1.3	1.6	8.7	8.8	3.6	3.7	9.6	9.4

Source: Affin Hwang forecasts, Bloomberg

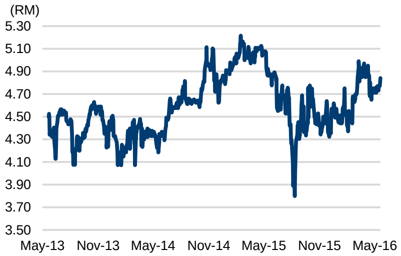
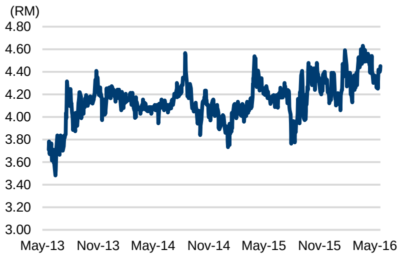
Note: In our top Buys, we have added Genting Malaysia, Scicom, and Calsberg and removed Globetronics, E&O and IGB Reit. In our Stocks to Avoid, we have removed MMHE and PCHEM

Please find below more details for our top buys and top sells.

Fig 114: Individual top buys and top sells

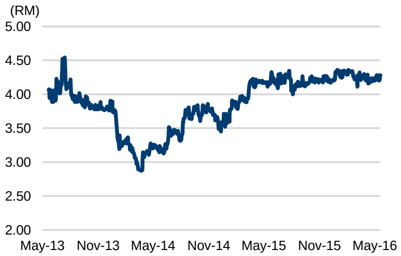
Top BUY	Rating	Analysts' Comments
AEON CREDIT (ACSM MK) Target Price : RM14.80 Share Price as at : RM13.58 31 May 2016 	BUY	Our BUY rating on AEONCS, with a 12-month TP of RM14.80, is based on a 9x CY16E EPS. 2015-17E ROEs are expected to stay above 20%, underpinned by a high effective interest rate of 16-17% on its robust receivable portfolio growth (at circa 20% p.a.), which is currently being funded by a cost of debt of 4.2%. Despite concerns of lower business volumes, we see various growth opportunities as the company diversifies and expands from the low-to-middle-income and small-business segments. NPLs are expected to remain manageable – NPL ratio may stabilize at around 2.5-2.6% given management's tight credit-screening policy and increased collection efforts.
AFG (AFG MK) Target Price : RM4.50 Share Price as at : RM4.05 31 May 2016 	BUY	Our BUY rating on AFG, with a 12-month TP of RM4.50, is based on a 1.31x CY16E P/BV target on CY16E ROE of 10.6%. Being the smallest anchor bank, AFG does not need to compete on volume with the big banks. Its key competitive edge is in focusing on being a niche retail-banking (consumer and SMEs) solutions provider. Given its size, management is able to leverage on the 'risk-adjusted return' model to improve its margins and ROE by focusing more on SMEs, commercial, personal loans, credit cards and share-margin financing rather than relying entirely on volume growth. Risk of Basel-3 equity capital-raising is not foreseen in the near term given its compliance. Asset quality is intact with gross impaired loan ratio at 1.0% and loan loss cover at 109.1%.

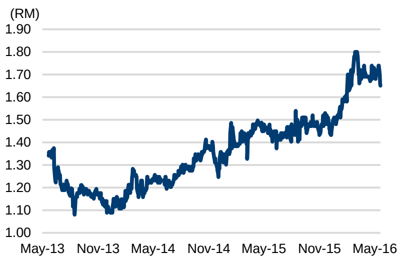
Top BUY	Rating	Analysts' Comments
Carlsberg (CAB MK)* Target Price : RM14.40 Share Price as at : RM13.16 31 May 2016  *new addition to our top BUY list	BUY	Carlsberg started its FY16 on a strong note, with earnings driven by improved contribution from both its Singapore and Malaysian operations. Not only did revenue see an increase, margins also expanded on the back of an improved product mix and effective cost controls, especially with increased contribution from its Singapore operation as well as the stronger SGD. We think that the Group's strategy of focusing on beer as its core business, introducing premium beer into its portfolio and its continual efforts to increase efficiency has and will continue to pay off as consumer sentiment normalizes. Estimated dividend yields are attractive at ~6% for the next 3 years. Maintain BUY with a DCF-based TP of RM 14.40.
CIMB Group (CIMB MK) Target Price : RM5.00 Share Price as at : RM4.39 31 May 2016 	BUY	We maintain a BUY rating on CIMB Group, at a 12-month target price of RM5.00 (based on an implied 2016E P/BV target of 1.0x and ROE of 9.4%). Taking a 12-month view of the stock, we believe that the current share price weakness is unjustified. We remain upbeat on management's initiatives and effort to bring down operational costs (expectation of RM500-600m cost savings p.a.), improve RWA and optimize capital ratios as well as to maintain the group's asset quality (a potential improvement in credit costs given the absence of hefty provisions at CIMB Niaga). Meanwhile, the Target18 (T18) initiatives are expected to reposition the CIMB Group in the face of increased banking sector competition and challenges in the region.

Top BUY	Rating	Analysts' Comments
GAMUDA (GAM MK) Target Price : RM5.70 Share Price as at : RM4.80 31 May 2016 	BUY	Gamuda is our top BUY among the Malaysian construction stocks with a fully-diluted RNAV-based 12-month target price of RM5.70. Gamuda and its partners have been appointed as the project delivery partner for the RM30bn Klang Valley Mass Rapid Transit Line 2 (MRT2) and RM27bn Penang Transport Master Plan (PTMP). MMC Gamuda Joint Venture was also awarded the RM15.47bn underground works contract for MRT2. The two projects will spur long-term earnings growth of its construction division. The potential sale of its 40% stake in the Splash water supply concession will provide the funding for its PTMP project.
Genting Malaysia (GENM MK)* Target Price : RM5.00 Share Price as at : RM4.41 31 May 2016  *new addition to our top BUY list	BUY	We like GENM for the potential in earnings growth from additional gaming facilities and non-gaming revenue (such as retail and theme parks). Visitor arrivals to Resorts World Genting (RWG) saw strong growth in 1Q16 (+8.0% yoy) and would bode well for the Genting Integrated Tourism Plan. Our 12-month target price of RM5.00 translates to a 2017E PER of 17.8x, which is comparable to the forward PER of US gaming companies and lower than that of Genting Singapore. Potential catalysts for GENM include: 1) the commissioning of the podium in 2H16; and 2) the opening of the Fox World theme park by end-2017.

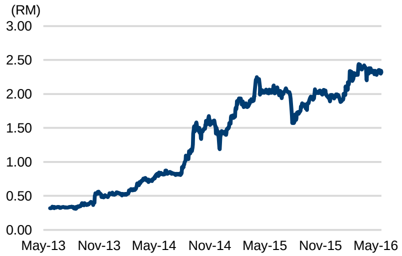
Top BUY	Rating	Analysts' Comments
INARI AMERTRON (INRI MK) Target Price : RM3.54 Share Price as at : RM3.10 31 May 2016 	BUY	Inari is a leading RF test house in the region and is poised to further consolidate its position given its solid working relationship with its key customer Broadcom, also a leader in the RF industry. We project that Inari will achieve a 3-year forward net profit CAGR of 18% over 2015-18E, which we believe will continue to be driven by RF expansion in the near term. Longer term, Inari is well positioned to benefit from the Internet of Things, through its fiber-optic division. Trading at 13x 2017E EPS, we believe valuations are attractive considering its growth prospects and given that it is still one of the cheapest semiconductor stocks on the FBMKLCI.
JAKS RESOURCES (JAK MK) Target Price : RM1.60 Share Price as at : RM0.86 31 May 2016 	BUY	Our BUY rating on JAKS Resources with a 12-month TP of RM1.60 is based on a discount of 20% to our RNAV (realisable net asset value) valuation of RM2.00. We expect earnings contributions from the Vietnam EPC contract to gather pace from 2Q16 onwards, given that the ground-breaking ceremony for the power plant only took place around end-Mar16. We understand from management that upon getting the go-ahead for the plant's detailed design in 3Q16, JAKS would be able to progress with piling and other major infrastructure works. We gather that mobilisation work has begun on certain infrastructure related work such as the jetty and workers' living quarters. Positive earnings surprises from the construction of non-technical work on the Vietnam project would be the key rerating catalyst for JAKS, in our view.

<table>
<tr><th>Top BUY</th><th>Rating</th><th>Analysts' Comments</th></tr>
<tr><td>KPJ (KPJ MK)

Target Price : RM4.87
Share Price as at : RM4.28
31 May 2016
</td><td>BUY</td><td>KPJ's patient volume has finally staged a comeback, growing by 1% yoy in 1Q16 following three consecutive quarters of decline. More impressive is that the growth was led by higher-margin inpatients (+4% yoy) which outpaced that of outpatients (+1% yoy) in 1Q16. All these suggest that the drag on business volume following the implementation of the GST in Apr 2015 has started to wear off. If so, patient volume will likely resume its long-term growth trend, in line with the group's expansion plan. KPJ is planning to open nine new hospitals in 2016-19E, which will collectively add 750 beds to the group's network (21% of existing capacity). Maintain BUY with a RM4.87 TP, based on SOTP valuation.</td></tr>
<tr><td>Pavilion REIT (PREIT MK)

Target Price : RM1.90
Share Price as at : RM1.66
31 May 2016
</td><td>BUY</td><td>We have a BUY rating on PavREIT with a 12-month target price of RM1.90 (based on 8.14% cost of equity, 6% equity risk premium and 3% terminal growth rate). We expect a continual rerating of the stock, driven by PavREIT's asset injection pipeline and the sustainability of its yields at 5.6-6.9% for 2015-17E. Our conviction on PavREIT is based on its dominance in the upmarket retail sector, underpinned by its: i) strategically located prime assets (malls and office towers) in Bukit Bintang (the heart of KL's shopping district); ii) robust organic and inorganic growth plans, with a pipeline of asset injection totalling approximately 3.5m sq ft in NLA; and iii) high occupancy rates, ability to attract new tenants and sustainability of existing tenancies.</td></tr>
</table>

Top BUY	Rating	Analysts' Comments
Petra Energy (PENB MK) Target Price : RM1.48 Share Price as at 31 May 2016 : RM1.14 	BUY	Services and marine asset segments are suffering from PETRONAS' spending reductions, but earnings from the group's 30% stake in Kapal, Banang, and Meranti (KBM) RSC is expected to tide PENB over the trying times. We estimate KBM RSC to contribute RM58m/78m/92m in 2016/17/18E, premised on an average crude oil price of US$40/50/55 per barrel. Given the relatively low net gearing of 0.1x at end-1Q16, we expect the group to turn net cash by end-2016E, on the back of the strong cash generation from KBM RSC. The 1Q16 core net loss has led to a selldown in the stock, but we see this as an attractive opportunity to accumulate the stock, as we expect the share price to re-rate, as earnings pick up in subsequent quarters. Potential upside to our forecasts could come from higher crude prices, which now stand at US$50/bbl, vs our assumption of US$40/bbl for 2016E. Maintain BUY with a TP of RM1.48, based on SOTP valuation.
Public Bank (PBK MK) Target Price : RM21.80 Share Price as at 31 May 2016 : RM19.12 	BUY	Our BUY rating on PBB is based on a 12-month target price of RM21.80 at a 2.5x P/BV target on a 2016E ROE of 14.5%. Public Bank's operations remained intact throughout 1Q16, supported by robust non-interest income growth and fund-based income. This is a highly defensive stock in nature, supported by a well-established franchise in the retail market, an above-industry loan and deposit growth track record, sound asset quality (backed by the lowest GIL of 0.48% and a high LLC of 120.8%), a well-capitalised balance sheet (CET 1 at 10.8%) and well-contained overheads, with the lowest CIR at 31.5% vs. the industry at 51%.

Top BUY	Rating	Analysts' Comments
Scicom (SCIC MK)* Target Price : RM2.58 Share Price as at : RM2.34 31 May 2016  *new addition to our top BUY list	BUY	Scicom specializes in business process outsourcing (BPO) and is an attractive e-government service play. The company has seen earnings increase by 54% in the past two years after being granted the Education Malaysia Global Services (EMGS) which effectively commenced in 2013. Moving forward, we believe earnings should continue to expand due to the increase in international students, in line with the government's ETP target to achieve 200,000 students by 2020 as well as margin improvement due to increasing economies of scale and the expansion in services provided. Another key catalyst would be the eventual extension of its e-government services to regional shores. Maintain BUY with a 12-month target price of RM2.58, based on an unchanged 20x CY16E EPS.
Sunway Berhad (SWB MK) Target Price : RM3.90 Share Price as at : RM3.01 31 May 2016 	BUY	We like Sunway not only as a proxy to an integrated township developer, but also as a diversified player with exposure to construction sector as well as investment properties. It has a total landbank of more than 3,000 acres with a potential effective GDV of RM32bn. Its property development segment has unbilled sales of RM1.5bn while Sunway Construction has an outstanding record high orderbook at RM45.0bn as at end-March. Given its diversified exposure, we believe that any slowdown in one of the segments can be cushioned by other segments. However, key risk is the vast exposure in Iskandar Johor – which may see a prolonged oversupply situation. Our 12-month target price of RM3.90 is based on a 30% discount to its RNAV.

<table>
<tr><th>Top BUY</th><th>Rating</th><th>Analysts' Comments</th></tr>
<tr><td>Sunway Construction (SCGB MK)

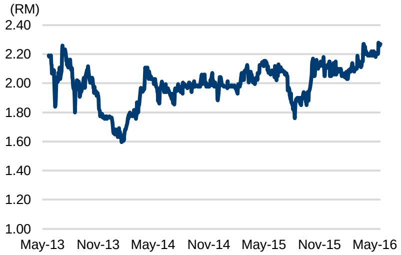
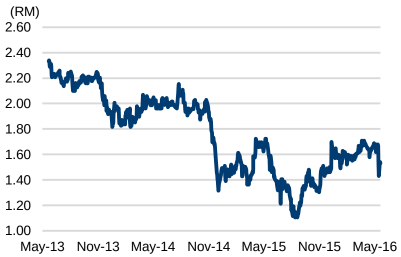
Target Price : RM1.98
Share Price as at 31 May 2016 : RM1.58

</td><td>BUY</td><td>SCGB is our top BUY among the mid-cap construction stocks with RM1.98 target price, based on a 10% discount to its RNAV. We believe its prospects to win new infrastructure projects are good as a pre-qualified contractor for LRT Line 3, Pan-Borneo Highway (Sarawak stretch), SUKE and DASH expressways to be rolled out this year. We think SCGB provides pure construction exposure to the cyclical upturn for the sector. Its precast concrete division benefits from the weak Ringgit as it derives revenue in SGD. We also believe that its strong net cash position will support a high dividend payout and attractive net yield of over 3% in FY16E.</td></tr>
<tr><td>Ta Ann (TAH MK)

Target Price : RM5.30
Share Price as at 31 May 2016 : RM4.02

</td><td>BUY</td><td>We have a BUY rating on TA Ann with a SOTP-derived 12-month target price of RM5.30. This is based on 10x our 2016E EPS for its timber division, 15x for its plantation division and 1x for BV for its forest plantation. We continue to like Ta Ann for its rising plantation earnings prospects and attractive dividend yields of 5%.</td></tr>
</table>

Top BUY	Rating	Analysts' Comments
Tenaga (TNB MK) Target Price : RM16.50 Share Price as at : RM13.98 31 May 2016 	BUY	We have a BUY rating on Tenaga with a DCF-derived (WACC: 8.1%, LT growth: 3.0%) 12-month TP of RM16.50. Our TP translates into an FY17E PE of 12x, which is below TNB's forward PE range of 13-16x prior to the gas shortage issues in FY11-13. We still like TNB for its undemanding valuation and growing market share (the 1,000MW Manjung 5 is targeted to be completed in Oct17). In the medium term, management sees potential for new plants and O&M services via Gama Enerji (1,027MW gross capacity) in Turkey. In addition, TNB expects its new venture in India to turn profitable by FY18 upon debt restructuring and new hydro capacity coming on-stream.
Top Glove (TOPG MK) Target Price : RM7.17 Share Price as at : RM5.07 31 May 2016 	BUY	We like Top Glove for its undemanding valuation and improving margins on the back of better operational efficiency. Top Glove is the world's largest glove manufacturer with a latex centric business model (60% product mix) at 44bn pieces total installed capacity, amid aggressive expansion into nitrile gloves by its peers which led to pricing pressure in the nitrile segment. We believe that lower raw material prices bode well for Top Glove's outlook, and we expect it to stay soft in 2016 as slump in commodity prices drove latex prices to record low. Meanwhile, the ongoing revamp of older production lines should sustain margin improvement, while committed capacity expansion plan provides better earnings visibility. We think Top Glove's valuations are attractive at 15x CY16E EPS.

Top BUY	Rating	Analysts' Comments
UOA Development (UOAD MK) Target Price : RM2.57 Share Price as at : RM2.27 31 May 2016 	BUY	We like UOA Development for its strong management, good product branding as well as net cash position (RM777m as at end- March 2016). Being a niche property player focusing on the greater KL segment as well as mid-to-high income projects, it is partially sheltered from the slowdown in the Johor property segment, as well as the tight credit approval process. The group targets to launch another RM3bn worth of properties in 2016. Next key catalyst will be its Jalan Ipoh development, which is expected to mirror the success of Bangsar South Development. Our 12-month target price of RM2.57 is based on a 30% discount to its RNAV.
WCT (WCTHG MK) Target Price : RM2.02 Share Price as at : RM1.56 31 May 2016 	BUY	WCT is one of our top BUYs among the mid-cap construction stocks with a 12-month target price of RM2.02, based on a 10% discount to its RNAV. WCT clinched RM3.4bn new contracts in 2015 to extend its order book to RM5.6bn. We believe WCT's prospects to secure more local contracts have improved after it was pre-qualified to bid for the MRT2, LRT3, WCE, SUKE, DASH and PBH projects. The potential construction and shopping mall REIT listings in 1H17 should unlock values and reduce its gearing. We expect strong 3-year core EPS CAGR of 48% in FY16-18E.

Source: Bloomberg, Affin Hwang

<table>
<tr><th>Top Sell</th><th>Rating</th><th>Comments</th></tr>
<tr><td>Malaysian Airports (MAHB MK)

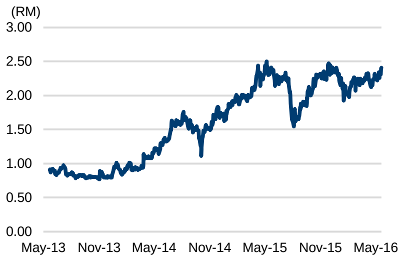
Target Price : RM5.50
Share Price as at : RM6.39
31 May 2016

</td><td>SELL</td><td>We are less upbeat on Malaysia Airports premised on; (i) high operational costs (namely staff salary, maintenance and utilities) from KLIA2, (ii) high depreciation and interest expense which translated into net losses for Istanbul Sabiha Gocken airport (ISGA) and (iii) less buoyant passenger movement for the overall local operation due to anticipated softer consumer spending. However, upside risk to our recommendation includes; (iv) strong rebound in passenger traffic and revision to KLIA2's passenger service charge.</td></tr>
<tr><td>MCIL (MCIL MK)

Target Price : RM0.55
Share Price as at : RM0.73
31 May 2016

</td><td>SELL</td><td>We maintain our SELL rating on Media Chinese International Limited (MCIL), largely due to: 1) weakness in its main print division; 2) potentially cautious ad spending in the Malaysia segment given the poor consumer sentiment and the uncertainties in the market; 3) potential ad spending slowdown in the HK/China segment as advertisers cut their ad budgets in view of the slow property market as well as the slumping luxury retail sales; and 4) negative effects on hard copy circulation due to the continual shift in reader preferences to reading on mobile devices or over the Internet. Our target price for MCIL is at RM0.55, based on 8x CY16E EPS.</td></tr>
</table>

Top Sell	Rating	Comments
Media Prima (MPR MK) Target Price : RM1.21 Share Price as at 31 May 2016 : RM1.41  	SELL	We are still cautious on Media Prima largely due to: 1) the unfavourable shift in broadcast adex towards the pay TV segment; 2) potentially cautious ad spending given the uncertainties in the market; 3) rising competition from other broadcasters; 4) negative effects on adex due to declining TV viewership; and 5) negative effects on hard copy circulation due to the continual shift in reader preferences to reading on mobile devices or over the Internet. Our SELL call with a 12-month target price of RM1.42 is based on a 10x 2016E PER.
Star (STAR MK) Target Price : RM1.85 Share Price as at 31 May 2016 : RM2.45  	SELL	We are still less upbeat on Star Media primarily due to the continual weakness in its main print division coupled with potentially cautious ad spending given the uncertainties in the market and poor consumer sentiment. Maintain SELL rating on the stock with a 12-month target price of RM1.85, which is based on a 12x 2016E PER.

Top Sell	Rating	Comments
UMWOG (UMWOG MK) Target Price : RM0.73 Share Price as at : RM0.88 31 May 2016 	SELL	Weak asset utilisation continues to be drag on UMWOG, with only two of its eight drilling rigs working in 1Q16. It has reportedly deployed an additional two rigs to work starting April, but we believe this may not be sufficient to take the group out of the woods. EBITDA turned negative for the first time since listing, with a LBITDA of RM6.1m in 1Q16. We don't think solvency is a concern with net gearing at 0.9x, but liquidity is worrisome with a net debt/EBITDA ratio of 19x in 2016E. Maintain SELL with a TP of RM0.73, based on 0.5x 2016E P/BV.
UNISEM (UNI MK) Target Price : RM1.76 Share Price as at : RM2.40 31 May 2016 	SELL	We are contrarian on Unisem as we hold the view that its earnings cycle peaked in 2015. The company has been plagued by inventory problems and has benefited predominantly from a strong US$. With weak underlying demand and possibly a stronger RM in the year ahead, we think that earnings risk is to the downside. Our target price is based on mid-cycle valuations and at 0.9x book value.

Source: Bloomberg, Affin Hwang

Fig 115: Affin Hwang's stock universe

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Auto & Autoparts					**7,384**	**1,645.6**	**67.7**	**92.9**	**56.1**	**22.9**	**13.7**	**15.6**	**12.4**	**2.7**	**3.9**	**1.1**	**1.3**	**3.5**	**6.2**
APM AUTOMOTIVE	SELL	3.70	3.10	(16.22)	745.37	11.5	7.0	12.5	7.0	10.7	10.0	3.1	2.4	5.3	5.4	0.7	0.7	6.7	6.7
MBMR	SELL	2.10	1.98	(5.71)	820.49	6.9	30.0	6.9	30.0	9.5	7.3	40.7	26.7	3.3	3.8	0.4	0.5	4.0	6.1
UMW	SELL	4.98	4.52	(9.24)	5,818.10	(667.6)	81.5	246.8	81.5	26.3	14.5	16.8	13.1	4.0	6.0	0.8	0.9	2.9	6.1
Banks & Financial Services					**269,078**	**(3.4)**	**7.0**	**4.8**	**7.7**	**13.4**	**12.5**			**3.7**	**4.0**	**1.5**	**1.4**	**10.4**	**10.3**
AEON CREDIT	BUY	13.58	14.80	8.98	1,955.52	10.7	10.5	10.3	11.5	7.6	6.9	0	0	4.6	5.1	2.1	1.8	27.4	25.6
AFG	BUY	4.05	4.50	11.11	6,268.54	1.5	5.8	2.6	3.3	11.6	11.0	0	0	3.7	3.9	1.2	1.2	10.7	10.4
AMMB	HOLD	4.31	4.75	10.21	12,991.14	(4.9)	9.2	(5.0)	9.0	9.4	8.6	0	0	3.9	4.1	0.8	0.7	8.4	8.5
BURSA M'SIA	HOLD	8.79	8.60	(2.16)	4,705.11	6.6	7.7	6.5	7.7	22.3	20.7	12.6	11.6	3.6	3.6	5.9	5.5	26.5	26.6
CIMB	BUY	4.39	5.00	13.90	38,319.70	37.8	5.8	37.6	5.8	9.5	9.0	0	0	3.1	3.3	0.9	0.8	9.1	9.1
HONG LEONG BANK	HOLD	13.36	13.60	1.80	28,946.26	(2.8)	16.8	(3.7)	12.8	13.0	11.2	0	0	2.5	3.0	1.3	1.2	11.2	12.0
MAYBANK	HOLD	8.16	7.50	(8.09)	79,752.67	(11.1)	3.9	(12.7)	3.9	12.8	12.3	0	0	6.1	6.7	1.3	1.2	10.2	10.2
MBSB	HOLD	1.11	1.17	5.41	3,157.04	24.7	(4.3)	75.7	0.6	9.7	10.1	0	0	3.1	3.0	0.6	0.6	6.3	5.6
PUBLIC BANK	BUY	19.12	21.80	14.02	74,226.48	(7.2)	6.1	(7.2)	6.1	15.7	14.8	0	0	3.0	3.1	2.2	2.1	14.3	14.0
RHB CAPITAL	BUY	6.10	7.80	27.87	18,755.52	14.5	3.6	14.0	3.6	9.2	8.9	0	0	-	-	0.6	0.6	8.2	7.9
Building Materials					**6,903**	**27.7**	**1.7**	**28.2**	**2.2**	**21.1**	**20.7**	**12.1**	**11.8**	**4.0**	**4.0**	**2.3**	**2.2**	**9.1**	**9.1**
CHOO BEE	SELL	1.42	0.94	(33.80)	156.06	78.3	19.6	51.6	19.6	14.6	12.2	7.5	6.6	4.2	4.2	0.4	0.3	2.4	2.9
LAFARGE	HOLD	7.94	8.60	8.31	6,746.58	27.5	1.6	27.5	1.6	21.1	20.8	12.2	12.0	4.4	4.4	2.1	2.1	10.0	9.9
Construction & Infrastructur					**31,557**	**(1.4)**	**0.5**	**(8.4)**	**18.7**	**16.3**	**16.2**	**13.3**	**6.9**	**2.8**	**2.9**	**1.3**	**1.2**	**8.5**	**7.9**
BENALEC	HOLD	0.49	0.53	9.28	393.71	84.9	122.2	88.2	122.2	35.9	16.2	12.9	4.6	2.4	5.2	0.7	0.6	1.9	4.0
EVERSENDAI	BUY	0.63	0.84	33.33	487.62	(116.6)	(900.0)	3.5	14.3	(52.5)	6.6	6.3	5.8	6.3	6.3	0.5	0.5	(0.9)	7.1
GABUNGAN AQRS	BUY	0.95	1.20	26.32	373.31	(383.3)	(10.6)	(1,044.4)	(10.6)	11.2	12.5	6.5	8.5	-	-	1.0	0.9	11.6	9.3
GAMUDA	BUY	4.80	5.70	18.75	11,586.85	(5.0)	10.9	(8.1)	11.6	18.5	16.7	20.7	11.0	2.5	2.5	1.7	1.6	9.9	10.3
IJM CORP	BUY	3.49	3.76	7.74	12,524.65	10.7	(8.2)	11.0	18.9	15.3	16.6	10.4	2.3	2.9	2.9	1.1	1.0	7.1	6.3
MRCB	BUY	1.16	1.46	25.86	2,188.45	(69.2)	(10.5)	(81.1)	45.7	20.4	22.7	18.9	16.2	2.2	2.2	1.0	1.0	5.0	4.2
SUNWAY CONSTRUCTION	BUY	1.58	1.98	25.32	2,042.78	12.8	18.0	13.6	18.0	14.2	12.1	7.3	5.4	3.5	4.1	3.9	3.4	27.3	27.9
WCT	BUY	1.56	2.02	29.49	1,959.88	20.4	(33.8)	(46.3)	48.5	6.8	10.2	14.7	11.8	3.8	5.1	1.0	0.9	14.7	8.3

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 31 May 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Consumer					**49,974**	**(5.4)**	**5.1**	**(3.3)**	**7.9**	**23.3**	**22.2**	**12.3**	**10.6**	**4.3**	**4.3**	**17.3**	**18.5**	**22.8**	**32.4**
AEON CO	HOLD	2.75	2.70	(1.82)	3,861.00	4.2	34.3	3.2	34.3	27.8	20.7	8.1	6.9	1.2	1.6	1.8	-	6.4	0
BAT	SELL	50.06	47.90	(4.31)	14,293.63	(18.9)	0.5	(19.1)	0.5	19.4	19.3	15.8	15.7	5.1	5.1	25.1	24.2	129.4	125.5
BONIA	SELL	0.56	0.47	(15.32)	447.49	(10.6)	30.8	(11.5)	30.8	14.2	10.9	6.0	2.4	1.2	1.8	0.8	0.8	5.9	7.3
CARLSBERG	BUY	13.16	14.40	9.42	4,078.96	12.3	2.8	7.7	2.8	16.6	16.1	10.0	10.1	6.0	6.2	5.0	13.0	29.9	80.3
HEINEKEN	BUY	14.86	15.58	4.85	4,489.18	9.5	5.4	9.2	5.4	17.8	16.9	10.0	4.8	6.1	5.3	10.1	10.4	56.8	61.2
HAI-O	SELL	2.59	2.02	(22.01)	519.06	8.6	8.0	8.6	8.0	14.8	13.7	8.4	2.6	4.4	4.7	1.6	1.7	11.3	12.9
MSM	HOLD	5.00	4.73	(5.40)	3,514.90	(5.1)	6.1	(4.7)	6.1	13.2	12.4	6.6	6.5	4.9	5.2	1.5	1.6	11.3	12.5
NESTLE	HOLD	76.00	77.20	1.58	17,822.00	8.2	8.8	8.0	8.9	27.9	25.6	17.8	16.5	3.7	3.8	20.8	20.1	74.6	78.5
PARKSON	SELL	0.85	0.75	(11.76)	947.48	45.6	52.8	33.3	52.8	15.7	10.3	7.0	2.7	1.8	2.9	0.4	0.4	2.4	3.4
Gaming					**61,608**	**18.8**	**10.3**	**14.8**	**10.3**	**17.7**	**16.1**	**6.4**	**5.4**	**1.1**	**1.1**	**0.6**	**0.6**	**4.5**	**4.7**
BTOTO	SELL	3.05	3.00	(1.64)	4,131.55	(7.6)	1.2	(7.5)	1.2	14.3	14.1	8.2	2.7	5.9	5.9	5.5	5.1	38.4	35.9
GENTING	HOLD	8.36	9.00	7.66	31,292.29	25.2	9.4	20.1	9.4	17.9	16.4	5.0	4.4	0.4	0.4	0.5	0.5	3.0	3.1
GENTING MALAYSIA	BUY	4.41	5.00	13.38	26,184.57	11.9	13.3	14.5	13.3	17.8	15.7	9.4	8.2	1.6	1.7	1.4	1.4	8.1	8.7
Healthcare & Pharma.					**57,685**	**15.8**	**16.7**	**28.6**	**15.8**	**47.5**	**40.7**	**20.7**	**16.9**	**0.6**	**0.7**	**2.5**	**2.4**	**5.3**	**5.8**
IHH	HOLD	6.46	6.25	(3.25)	53,156.76	16.2	17.4	7.4	20.0	48.9	41.7	21.6	17.5	0.5	0.6	2.5	2.3	5.1	5.6
KPJ	BUY	4.28	4.87	13.79	4,528.02	11.4	7.9	26.2	7.9	30.8	28.5	14.3	12.2	1.8	1.9	3.0	2.8	9.2	9.1
Media					**18,971**	**9.2**	**13.5**	**1.8**	**10.5**	**19.2**	**16.9**	**7.5**	**1.5**	**5.1**	**5.4**	**5.4**	**4.9**	**21.6**	**22.0**
ASTRO	BUY	2.76	3.20	15.94	14,365.84	14.7	15.5	2.2	14.3	20.7	17.9	8.4	0.7	4.7	5.1	13.3	10.9	64.7	61.2
MCIL	SELL	0.73	0.55	(24.66)	1,231.68	5.5	4.8	0.8	2.5	10.9	10.4	4.8	1.1	5.9	6.0	1.3	1.2	12.2	11.6
MEDIA PRIMA	SELL	1.41	1.21	(14.18)	1,563.97	(0.1)	(3.2)	0.9	(3.2)	11.3	11.7	4.1	3.8	5.9	5.7	0.9	0.9	8.0	7.3
STAR	SELL	2.45	1.85	(24.49)	1,809.48	(14.0)	12.9	(14.5)	12.9	15.8	14.0	7.0	6.5	7.3	7.3	1.5	1.5	9.7	10.6
MREIT					**25,760**	**32.4**	**1.8**	**105.1**	**3.9**	**17.7**	**17.4**	**14.6**	**14.3**	**5.5**	**5.8**	**1.1**	**1.1**	**6.8**	**7.1**
AXIS REIT	HOLD	1.70	1.65	(2.94)	1,869.65	9.0	3.1	16.3	3.1	17.7	17.2	17.2	16.6	5.8	5.8	1.4	1.4	7.9	8.2
IGB REIT	BUY	1.61	1.60	(0.62)	5,608.16	15.1	7.8	15.1	7.8	19.1	17.7	15.0	14.0	5.8	6.2	1.5	1.5	8.0	8.7
KLCC	HOLD	7.35	7.50	2.04	13,269.20	39.2	1.0	596.4	1.2	17.5	17.4	13.5	13.6	5.0	5.2	1.1	1.1	6.3	6.3
PAVILION REIT	BUY	1.66	1.90	14.46	5,012.88	(4.9)	6.7	11.5	6.7	18.7	17.5	16.6	15.5	5.7	6.6	1.3	1.3	7.0	7.5

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 31 May 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Oil & Gas					**78,579**	**3.9**	**6.2**	**(11.6)**	**14.1**	**21.4**	**20.1**	**12.4**	**8.3**	**2.1**	**2.2**	**1.9**	**1.8**	**5.8**	**6.5**
ALAM MARITIM	HOLD	0.34	0.36	5.88	314.32	(193.8)	(20.0)	(304.5)	(20.0)	(7.6)	(9.4)	950.8	806.1	-	-	0.4	0.3	(4.7)	(3.6)
BUMI ARMADA	HOLD	0.65	0.64	(1.54)	3,813.07	(180.0)	109.4	167.8	109.4	20.3	9.7	16.2	9.3	0.8	1.5	0.5	0.5	2.3	4.7
DIALOG	HOLD	1.55	1.43	(7.74)	8,157.43	8.3	15.4	10.4	15.4	26.5	23.0	22.1	10.4	1.5	1.7	3.4	3.1	12.8	13.3
MMHE	HOLD	1.11	1.25	12.61	1,776.00	66.7	15.6	(50.9)	15.6	24.7	21.3	6.6	5.5	-	-	0.6	0.6	2.5	2.7
PCHEM	SELL	6.58	5.29	(19.60)	52,640.00	(11.1)	1.9	(11.0)	1.9	21.2	20.8	11.9	11.7	2.4	2.5	1.9	1.8	9.1	8.7
PETRA ENERGY	BUY	1.14	1.48	29.82	366.79	(24.4)	59.5	2.5	59.5	9.4	5.9	15.7	13.4	2.1	3.4	0.6	0.6	6.9	10.0
SAPURA KENCANA	HOLD	1.60	1.88	17.50	9,620.02	(189.8)	45.3	(13.3)	18.1	17.5	12.0	9.9	0.8	1.0	1.2	0.7	0.7	4.0	5.5
UMW-OG	SELL	0.88	0.73	(16.57)	1,891.75	(52.4)	(22.0)	61.9	(22.0)	(10.7)	(13.7)	23.4	19.5	-	-	0.6	0.5	(5.2)	(3.9)
Plantation					**116,294**	**36.3**	**3.5**	**37.3**	**25.4**	**18.5**	**17.9**	**13.5**	**7.6**	**2.7**	**3.0**	**2.2**	**2.3**	**9.6**	**10.7**
FELDA	SELL	1.37	1.17	(14.60)	4,997.97	84.4	64.4	60.6	64.4	23.2	14.1	14.2	13.6	5.8	5.8	0.8	0.7	1.8	3.2
GENTING PLANT	SELL	10.40	8.84	(15.00)	8,207.92	96.4	18.1	100.4	18.1	22.4	18.9	15.4	13.1	1.2	1.2	1.9	1.7	8.2	8.9
HAP SENG PLANT	HOLD	2.40	2.20	(8.33)	1,919.92	30.2	8.9	28.6	8.9	15.3	14.0	9.0	8.4	4.2	4.6	1.0	0.9	6.2	6.6
IJM PLANT	HOLD	3.48	3.42	(1.72)	3,064.42	201.0	54.0	144.0	49.0	24.6	15.9	14.5	2.7	2.2	2.9	1.7	1.6	7.1	10.2
IOI CORP	HOLD	4.14	4.24	2.42	26,624.80	86.5	7.7	68.8	7.7	20.0	18.6	17.7	8.2	2.9	2.9	4.4	4.0	22.8	22.1
KUALA LUMPUR KEPONG	HOLD	23.04	21.70	(5.82)	24,595.32	40.7	(13.8)	22.9	14.7	16.8	19.5	11.9	9.2	2.3	2.6	3.0	3.8	17.9	19.8
SIME DARBY	HOLD	7.41	7.11	(4.05)	46,883.61	10.2	29.2	18.9	38.7	20.3	15.7	12.2	5.3	3.7	4.0	1.5	1.4	7.1	8.8
Property					**32,519**	**(12.5)**	**14.0**	**1.7**	**12.2**	**11.3**	**9.9**	**10.0**	**6.8**	**4.0**	**4.3**	**0.9**	**0.9**	**7.6**	**8.4**
AMCORP PROP	BUY	0.91	1.54	70.17	538.43	42.1	196.3	47.8	41.9	5.3	1.8	7.6	2.8	7.5	10.6	0.5	0.4	9.3	12.0
E&O	BUY	1.52	2.35	54.61	1,952.26	(35.7)	31.3	(29.9)	43.0	41.4	31.5	48.2	9.0	1.3	1.3	1.3	1.3	2.3	3.2
IOI PROPERTIES	BUY	2.43	2.50	2.88	10,748.31	(6.9)	22.2	9.2	22.2	11.2	9.2	9.5	3.8	3.5	3.7	0.7	0.7	6.5	7.5
SP SETIA	BUY	3.18	3.25	2.20	8,358.65	(8.6)	2.5	(4.2)	2.4	12.9	12.6	10.2	8.5	4.4	4.4	1.2	1.3	8.6	10.1
SUNWAY	BUY	3.01	3.90	29.57	5,988.12	(20.1)	12.1	(5.8)	12.1	9.6	8.6	9.3	8.2	3.3	3.7	0.8	0.8	8.0	8.5
TROPICANA	BUY	1.02	1.95	91.18	1,480.83	5.1	(28.2)	141.9	(28.2)	6.3	8.7	9.6	11.3	4.4	4.4	0.6	0.6	9.3	6.4
UOA DEVELOPMENT	BUY	2.27	2.57	13.22	3,452.17	(21.6)	19.8	(21.6)	19.8	10.2	8.5	6.2	5.8	5.3	6.2	1.1	1.1	10.4	11.6

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 31 May 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Rubber Products					**21,509**	**12.7**	**8.1**	**14.8**	**9.3**	**19.5**	**18.0**	**17.4**	**9.7**	**1.7**	**1.9**	**5.0**	**4.5**	**18.0**	**17.6**
HARTALEGA	HOLD	4.17	4.00	(4.08)	6,843.13	11.3	9.4	10.7	9.4	24.8	22.7	23.1	5.2	1.6	1.8	4.3	3.8	17.4	16.7
KAREX	HOLD	2.26	2.40	6.19	2,265.37	25.2	20.3	24.8	20.3	26.3	21.8	23.2	9.7	0.7	0.8	4.2	3.6	16.1	16.6
KOSSAN	HOLD	6.80	6.40	(5.88)	4,348.38	0.7	15.6	0.7	15.6	21.3	18.4	17.7	15.5	2.4	2.8	4.0	3.6	18.7	19.4
SUPERMAX	BUY	2.51	3.05	21.51	1,684.88	(27.7)	(10.4)	1.8	11.6	18.6	20.7	12.1	11.3	2.3	2.5	1.5	1.3	11.2	11.3
TOP GLOVE	BUY	5.07	7.17	41.42	6,367.28	30.0	3.4	27.7	3.4	14.8	14.3	14.0	8.9	3.4	3.5	3.4	3.0	22.8	21.2
Technology					**8,932**	**(7.0)**	**3.0**	**(6.5)**	**3.5**	**14.6**	**14.1**	**9.7**	**6.6**	**2.5**	**2.8**	**2.9**	**2.7**	**16.9**	**16.7**
AEMULUS	SELL	0.28	0.20	(28.57)	122.88	(44.8)	8.2	(45.1)	8.2	22.9	21.1	42.5	26.9	-	-	1.4	1.1	6.0	5.4
GLOBETRONICS	HOLD	3.59	3.87	7.80	1,011.86	(27.0)	39.5	(25.3)	39.5	19.4	13.9	21.7	15.7	4.6	6.5	3.3	3.2	17.0	23.3
INARI	BUY	3.10	3.54	14.19	2,964.87	4.4	19.3	4.4	20.3	17.6	14.7	16.0	6.7	2.3	2.7	3.3	2.8	24.3	24.4
MPI	HOLD	7.38	7.91	7.18	1,548.94	1.2	(13.6)	1.0	(22.2)	11.3	13.1	5.1	2.9	2.9	2.7	1.7	1.6	16.0	13.2
SCICOM	BUY	2.34	2.58	10.26	831.76	18.6	(0.4)	17.5	-	18.1	18.2	12.6	5.6	3.7	3.6	8.3	7.3	46.0	40.1
UCHI TECH	BUY	1.74	1.90	9.20	690.97	5.0	(3.7)	(6.6)	127.9	12.8	13.3	10.2	10.8	6.3	6.3	3.3	3.3	26.0	25.0
UNISEM	SELL	2.40	1.76	(26.67)	1,761.19	(34.7)	2.1	(35.0)	2.1	16.7	16.3	6.2	6.3	-	-	1.6	1.5	9.6	9.4
Telecoms					**147,487**	**0.4**	**6.0**	**6.3**	**5.1**	**22.0**	**20.7**	**10.2**	**9.8**	**3.3**	**3.3**	**4.8**	**4.7**	**19.4**	**20.0**
AXIATA	HOLD	5.22	5.70	9.20	46,057.73	(16.4)	13.5	(1.5)	11.2	21.3	18.8	8.4	7.8	3.8	3.8	2.1	2.0	10.1	11.0
DIGI	HOLD	4.48	4.80	7.14	34,832.00	2.5	-	3.1	-	19.7	19.7	14.5	14.3	5.1	5.1	50.8	50.8	256.9	257.6
MAXIS	HOLD	5.50	6.35	15.45	41,306.44	13.2	2.7	11.8	2.7	21.0	20.4	13.1	13.0	3.6	3.6	8.3	8.2	39.6	39.9
TELEKOM	HOLD	6.73	6.85	1.78	25,290.90	23.0	5.7	22.5	5.7	29.3	27.7	7.7	7.3	3.1	3.2	3.3	3.3	11.3	11.9
Timber					**3,174**	**(18.9)**	**13.5**	**(6.0)**	**17.3**	**11.1**	**9.8**	**7.6**	**5.2**	**3.5**	**3.5**	**1.1**	**1.1**	**6.0**	**6.7**
JAYA TIASA	HOLD	1.17	1.20	2.56	1,139.25	63.7	27.7	57.5	27.7	13.5	10.6	9.1	4.0	1.5	1.9	0.6	0.6	4.4	5.3
TA ANN	BUY	4.02	5.30	31.84	1,490.36	(25.5)	11.0	(21.3)	11.0	10.7	9.7	6.8	5.9	5.0	5.0	1.2	1.1	11.2	11.7
WTK	BUY	1.13	1.44	27.43	543.91	(13.4)	15.7	(25.2)	15.7	10.5	9.0	6.4	6.0	2.2	2.2	0.4	0.4	3.6	4.1

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 31 May 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Transports & Logistics					**53,019**	**6.4**	**5.7**	**9.8**	**9.6**	**15.5**	**14.7**	**0.4**	**10.9**	**1.5**	**1.5**	**1.3**	**1.2**	**7.7**	**7.8**
AIRASIA	BUY	2.30	1.81	(21.30)	6,400.61	(6.7)	26.0	42.6	26.0	12.7	10.1	0.1	9.5	1.6	2.0	1.2	1.0	9.0	10.2
AIRASIA X	BUY	0.38	0.47	25.33	1,555.56	(164.2)	(7.4)	(143.6)	34.0	5.5	6.0	6.4	7.5	-	-	(4.6)	(2.0)	(82.4)	(34.3)
MAHB	SELL	6.39	5.50	(13.93)	10,602.24	(704.7)	(10.3)	(1,425.4)	(10.3)	81.9	91.3	14.2	15.3	0.6	0.6	1.4	1.4	1.8	1.6
MISC	HOLD	7.72	8.60	11.40	34,460.48	2.5	5.6	(12.8)	5.6	13.6	12.9	11.9	11.2	1.9	1.9	1.1	1.0	7.8	7.8
Utilities					**168,920**	**3.9**	**1.8**	**7.6**	**2.7**	**14.5**	**14.2**	**8.9**	**6.4**	**2.6**	**2.6**	**1.9**	**1.8**	**10.5**	**9.9**
GAS MALAYSIA	HOLD	2.32	2.36	1.72	2,978.88	23.3	1.0	23.3	1.0	22.7	22.5	12.2	12.4	4.4	4.4	2.8	2.8	12.4	12.6
JAKS RESOURCES	BUY	0.86	1.60	86.05	376.99	62.4	1.9	780.8	1.9	5.6	5.5	5.9	5.4	-	-	0.5	0.4	9.5	8.2
MALAKOFF	HOLD	1.61	1.65	2.48	8,050.00	(1.8)	-	(12.8)	-	16.8	16.8	7.8	7.4	4.5	4.5	1.0	0.8	5.9	4.8
MMC	BUY	2.12	2.35	10.85	6,455.53	(74.6)	2.9	17.6	2.9	15.5	15.0	29.0	28.0	1.9	1.9	0.6	0.5	3.6	3.6
PETRONAS GAS	HOLD	21.64	20.24	(6.47)	42,819.76	(10.0)	(2.0)	(10.1)	(2.0)	23.9	24.4	15.1	14.7	2.5	2.4	3.5	3.3	14.5	13.7
TENAGA	BUY	13.98	16.50	18.03	78,897.68	14.2	3.2	13.6	3.2	10.6	10.2	6.7	4.3	2.4	2.6	1.4	1.3	13.5	12.6
YTL CORP	HOLD	1.63	1.52	(6.75)	17,594.21	(0.5)	3.6	4.8	3.6	16.9	16.3	7.7	3.8	7.4	7.4	1.0	1.0	5.9	5.9
YTL POWER	HOLD	1.45	1.52	4.83	11,747.32	(0.3)	7.1	(3.8)	7.3	11.5	10.7	9.5	4.8	6.9	6.9	0.9	0.9	8.2	8.6
Market Total					**1,159,353**	**3.0**	**5.5**	**1.9**	**6.9**	**17.1**	**16.2**	**4.5**	**9.2**	**3.2**	**3.4**	**2.1**	**2.0**	**9.4**	**9.6**

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 31 May 2016

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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