Securities

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Economic Update

Malaysia-IPI

IPI growth rises slightly to 3% yoy in April

Manufacturing slowed but higher electricity and mining output

Growth in Malaysia's industrial production index (IPI) improved marginally from 2.8% yoy in March to 3% in April, albeit lower than market expectations of a 3.5% expansion. The slight improvement in IPI growth was supported by mining and electricity production, where mining output turned around significantly from a 2.5% yoy decline in March to 0.6% in April, driven by higher output of natural gas (+3.7%), while the contraction in the output of crude-petroleum output narrowed to -1.5% (-3.6% in March). Meanwhile, electricity output also rose higher by 9.4% yoy in April (7.7% in March). However, growth in manufacturing production, which accounts for close to two-thirds of the IPI, slowed for the second consecutive month, from 4.4% yoy in March to 3.3% in April (4.5% in February). On a 3-month moving average basis, the IPI slowed from 3.3% yoy in March to 3.2% in April, where the slowdown in the country's manufacturing production was consistent with Malaysia's manufacturing PMI, which slowed from 48.3 in 1Q16 to 47.2 in April-May.

Fig 1: Industrial production by industry (April 2016)

		Total IPI		Manufacturing		Mining		Electricity	
Weight (%)		**100**		**65.89**		**28.92**		**5.19**	
Annual		**% yoy**		**% yoy**		**% yoy**		**% yoy**	
	2014	5.1		6.1		2.6		4.7	
	2015	4.5		4.8		4.1		2.4	
Quarterly		**% yoy**	**%qoq**	**% yoy**	**%qoq**	**% yoy**	**%qoq**	**% yoy**	**%qoq**
2015	2Q	4.3	2.3	4.1	4.5	5.7	-3.7	0.6	4.1
	3Q	4.5	0.1	4.7	1.5	4.7	-3.8	1.2	-0.2
	4Q	2.9	3.2	4.8	5.2	-2.4	2.7	4.0	0.6
2016	1Q	3.3	-2.2	4.3	-4.2	-0.3	2.3	8.5	3.9
Monthly		**% yoy**	**% mom**	**% yoy**	**% mom**	**% yoy**	**% mom**	**% yoy**	**% mom**
2015	Sep	5.1	3.7	5.6	3.4	4.4	5.9	2.6	-1.9
	Oct	4.2	2.7	6.2	3.0	-1.4	1.7	4.3	3.7
	Nov	1.8	-4.6	4.1	-6.1	-4.1	0.1	2.0	-6.0
	Dec	2.7	5.4	4.0	5.7	-1.5	4.7	5.6	5.1
2016	Jan	3.2	-3.0	3.9	-5.5	0.7	3.2	7.7	2.9
	Feb	3.9	-6.9	4.5	-6.0	1.1	-9.1	10.5	-7.1
	Mar	2.8	11.2	4.4	12.3	-2.5	7.3	7.7	14.3
	Apr	3.0	-5.0	3.3	-4.9	0.6	-6.2	9.4	-1.2

Source: Department of Statistics (DOS)

Slower activity in domestic oriented industries

Slower growth in manufacturing production was due to weaker performance in domestic-oriented industries, where output of food, beverage & tobacco contracted by 7.1% yoy for the month (+6.7% in March), the first decline in four months and the sharpest contraction since February 2015. Furthermore, output contraction was also seen in transport equipment, which fell 7.5% yoy, the first decline in seven months and largest contraction since March 2013, while production of non-metallic mineral products, basic metal & fabricated metal products, a measure of construction activity, moderated slightly by 4.1% (4.3% in March). On the other hand, overall performance in the export-oriented industries improved in April, also in line with better export performance for the month (1.6% yoy vs 0.2% in March). Specifically, output growth in petroleum, chemical, rubber & plastic products improved to 4.8% yoy (3.3% in March), supported by higher output of refined petroleum products, as well as rubber and plastic products. This higher output was attributed and reflected mainly to the turnaround in petroleum product exports, which rose 34.4% yoy in April after declining for four months.

Economic Research
(603) 2146 7540
alan.tan@affinhwang.com
yeeping.lim@affinhwang.com

As for the production of electrical and electronic (E&E), growth trended higher by 7.9% yoy in April (5.5% in March), on higher production in the computer, electronics & optical segments, which was also in line with higher E&E exports for the month. However, with the recovery in the global semiconductor industry losing momentum, where global semiconductor sales declined by 1% mom in April (+0.3% in March), we expect production of manufactured goods, including E&E output, to remain lacklustre in 2Q16.

Fig 2: Manufacturing industry breakdown (April 2016)

Breakdown of manufacturing production	Weights	Feb-16	Mar-16 %yoy	Apr-16	Feb-16	Mar-16 %mom	Apr-16
TOTAL INDUSTRIAL PRODUCTION	**100.00**	**3.9**	**2.8**	**3.0**	**6.9**	**11.2**	**-5.0**
MANUFACTURING	**65.89**	**4.5**	**4.4**	**3.3**	**-6.0**	**12.3**	**-4.9**
Food, Beverages & Tobacco	**7.37**	**5.5**	**6.7**	**-7.1**	**-12.2**	**21.5**	**-2.2**
Textiles, Wearing Apparel, Leather Products & Footwear	**0.87**	**7.8**	**8.9**	**5.5**	**-8.4**	**17.3**	**0.2**
Wood Products, Furniture, Paper products, Printing	**4.62**	**9.6**	**2.8**	**3.5**	**-4.8**	**2.4**	**3.7**
Petroleum, Chemical, Rubber & Plastic Products	**25.37**	**2.9**	**3.3**	**4.8**	**-4.2**	**7.4**	**-8.3**
Coke & Refined Petroleum Products	13.87	2.0	2.3	5.1	-4.1	6.9	-11.1
Chemicals and Chemical Products	6.91	3.7	4.3	4.1	-3.5	7.7	-7.8
Basic Pharmaceutical Products & Pharmaceutical Preparations	0.29	4.3	3.8	4.7	-5.8	-6.8	5.6
Rubber & Plastic Product	4.30	4.4	4.7	5.0	-5.4	9.3	-2.6
Non-metallic Mineral Products, Basic Metal & Fabricated Metal Products	**7.46**	**4.5**	**4.3**	**4.1**	**-8.6**	**14.4**	**-0.9**
Electrical & Electronics Products	**16.57**	**5.8**	**5.5**	**7.9**	**-7.4**	**17.6**	**-4.9**
Computer, Electronics & Optical	13.80	5.8	5.9	8.7	-7.5	18.0	-6.0
Electrical Equipment	1.19	5.1	3.7	3.9	-3.7	15.9	1.7
Machinery & Equipment n.e.c	1.59	6.7	2.8	3.6	-8.9	14.5	1.2
Transport Equipment and Other Manufacturers	**3.63**	**1.3**	**3.6**	**-7.5**	**3.8**	**12.0**	**-6.1**

Source: DOS

Weak start for manufacturing GDP in 2Q16

April's IPI growth of 3% remains below the five-year historical trend of 4.0%. A closer look at the IPI showed that the overall growth has been partly supported by unusually strong growth in electricity output, which averaged at 8.8% in Jan-April 2016, compared to a five year historical of 4% (2.4% in 2015 and 4.8% in 2014). We believe higher electricity production could be due to the higher usage by households as a result of the dry and hot El Niño weather. As El Niño conditions ended in May, electricity production growth may start to normalise to a lower growth trend, unless there are signs of stronger improvement in manufacturing output and the factories' usage of electricity were to pick up to sustain the growth momentum in the months ahead.

On economic growth, the slowdown in manufacturing production points to a weaker start for manufacturing GDP in 2Q16 (4.5% in 1Q16), which was due to slower growth in domestic-oriented industries. However, growth in domestic demand, which slowed to a six-year low of 3.6% yoy in 1Q16 on slower investment growth, was supported by higher consumption growth. Going forward, we believe domestic demand bottomed out in 1Q16, as households would have fully adjusted to the impact of Goods and Services Tax (GST) in Malaysia after one year of introduction since April last year. We expect economic growth to stabilise and improve in the months ahead, as reflected in improvement in the MIER consumer confidence and business conditions indices. We maintain our full-year GDP growth at 4.5% for 2016 (5% in 2015), with growth expected to improve from 4.3% in 1H16 to 4.7% in 2H16, but note there are downside risks to our projection.

Focus Charts

Chart 1: IPI by industry

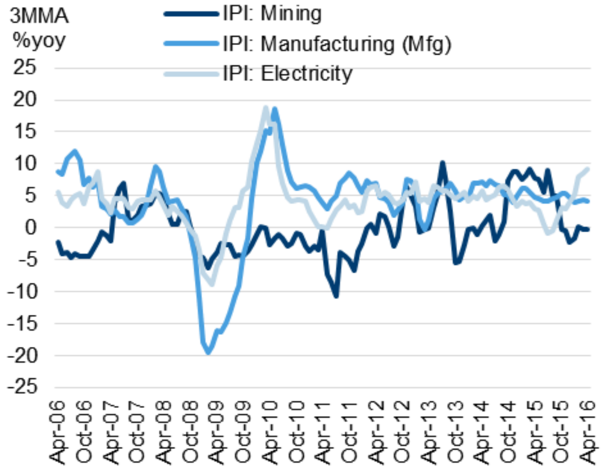


Chart 2: IPI, exports and manufacturing PMI

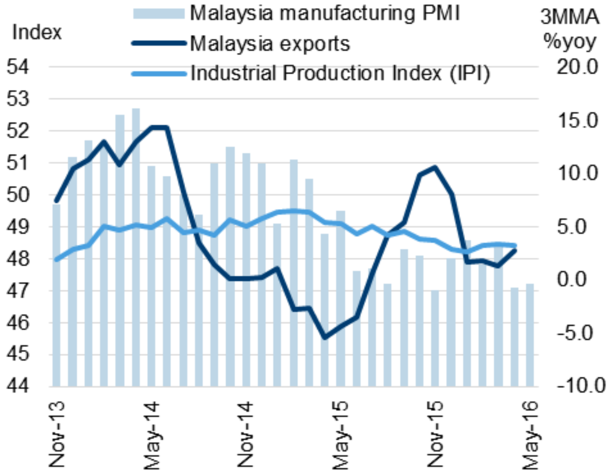


Chart 3: Malaysia's leading index

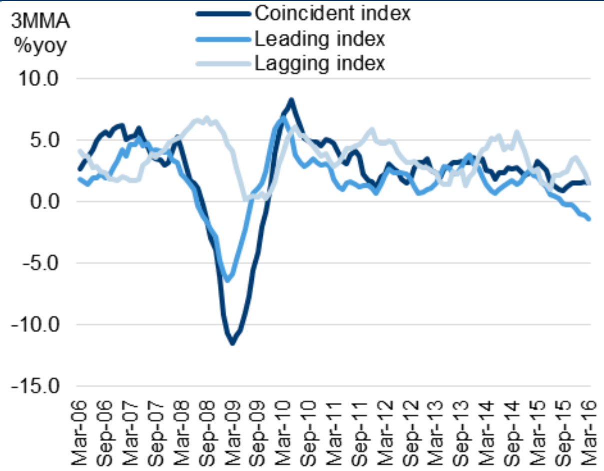


Chart 4: Breakdown of mining output

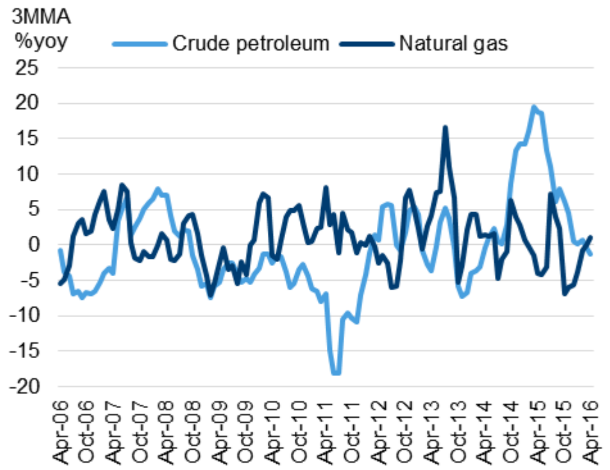


Chart 5: IPI manufacturing and manufacturing sales

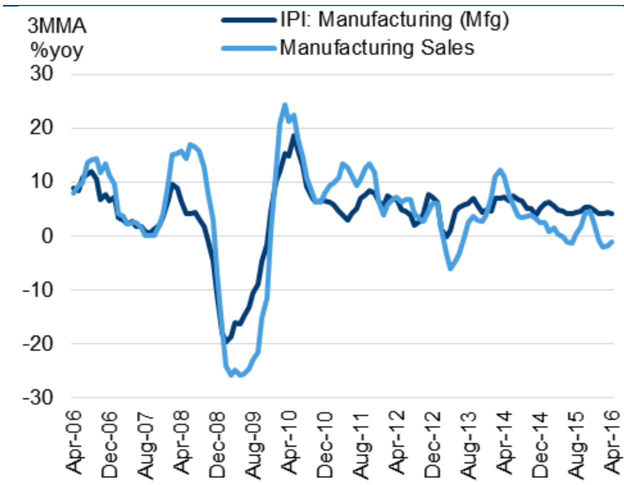
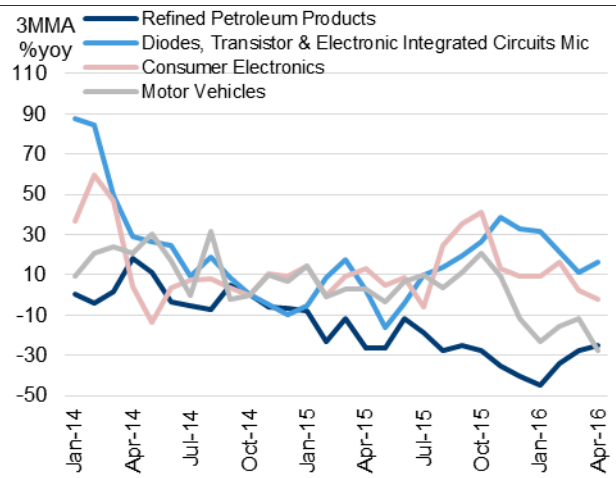


Chart 6: Manufacturing sales by components



Source: All data for charts sourced from CEIC and DoS

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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Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
A Participating Organisation of Bursa Malaysia Securities Bhd
Chulan Tower Branch,
3rd Floor, Chulan Tower,
No 3, Jalan Conlay,
50450 Kuala Lumpur.
www.affinhwang.com
Email : research@affinhwang.com
Tel : + 603 2143 8668
Fax : + 603 2145 3005