Securities

AFFIN HWANG CAPITAL

Daiwa Capital Markets

Finding a firmer footing

Over the past 12 months, Malaysia has navigated strong macro headwinds in an orderly and resilient manner. The adjustment to the new reality is still ongoing but as long as major macro parameters do not deteriorate further, we believe that Malaysia is looking attractive as we step into 2016. International agencies (IMF, EIA, USDA, Fed) are corroborative in their views of global growth for 2016. Domestic macro conditions are also supportive. Taken together, we believe conditions are conducive for EPS rebounding in 2016. Valuation at 16.5x 2016E looks attractive too. Thus, we turn cautiously optimistic on Malaysia and upgrade our 2016 outlook to Overweight.

Getting a firm grip

We have identified various factors conspiring to drive the KLCI down 12% from its high of 1,893 in 2014 to 1,664 now. Ultimately, it boils down to threats to global growth in 2015 and overhang surrounding the Fed rate hike. As we approach 2016, the improvement of macro parameters is not a prerequisite; we are instead looking for stability in the current reality. These include global growth, a Fed rate hike and steady Brent and CPO prices.

Corroboration from IMF to Fed

The IMF forecasts global GDP growth of 3.1% in 2015 but crucially rising to 3.6% in 2016. The Fed sees sustained economic growth in the US with a resilient jobs market, while we also show that rate hikes are not always bad for stocks. EIA envisages crude oil demand picking up and the USDA sees higher vegetable oil demand next year. We find some comfort in that, although from diverse sources and industries, most international agencies' 2016 outlooks corroborate each other. Meanwhile, our top-down assessment of China is that there seem to be adequate policy tools such as interest rate cuts and a reduction in its elevated RRR – not forgetting that China remains a net saver with a large trade surplus.

Domestic macro conditions conducive

The Malaysia Government forecasts GDP growth of 4.5-5.5% in 2015 and 4-5% in 2016. This looks unexciting on the surface. However, we look deeper and find that the government expects domestic demand to grow at 5.9% in 2015 and 5.5% in 2016, which is still healthy and supportive of domestic activity. We forecast 5% GDP growth both for this year and next, and look for domestic demand growth of 6% and 5.8%, respectively.

Fully diluted EPS set to rebound in 2016; valuation attractive

External and domestic conditions, if they materialise, seem conducive for earnings growth. We forecast a fully diluted EPS contraction of 2.7% in 2015 but a rebound to 7.4% growth in 2016. As such, we believe the market is trading at an attractive 16.6x 12-month-forward fully diluted PE.

Introducing KLCI 2016 year-end target

We introduce our 2016 year-end target of 1,793 based on a fully diluted PE of 17.8x. This is premised on a reversion to the mean PE in 2016 on an earnings recovery.

Short-term risks do exist

We have taken a very objective view of the market by looking 12 months ahead, but are not under any delusion about potential short-term risks that may render our 2016 outlook unachievable by pushing back the earnings recovery into 2017. Chief among these is if there is a major external-led recession, likely driven by China. Under this scenario, we anticipate KLCI downside risk to 1,449 points, based on the 2008 GFC trough 14.9x PE.

Strategy

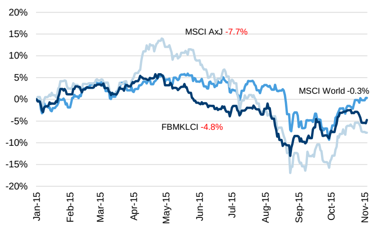
Malaysia Strategy

KLCI 1,664
@ 2 November 2015

OVERWEIGHT (upgrade)

2015 KLCI Target: 1,670 (↑)
2016 KLCI Target: 1,793

KLCI vs MSCI World vs MSCI AxJ (YTD)



Source: Bloomberg

Key market statistics

	2015E	2016E
GDP growth (%)	5	5
KLCI EPS growth (%)	-2.7	7.4

Source: Affin Hwang

Top calls for 2016

Stock	Rating	Price (RM)	TP (RM)
Top Buys			
AEON CREDIT	BUY	12.68	14.80
AFG	BUY	3.48	4.50
CIMB	BUY	4.59	5.90
E&O	BUY	1.60	2.54
GAMUDA	BUY	4.51	5.84
GENTING	BUY	7.48	9.15
IGB REIT	BUY	1.35	1.60
IJM CORP	BUY	3.35	3.76
INARI	BUY	3.54	3.89
JAKS RESOURCES	BUY	1.20	1.60
KPJ	BUY	4.25	4.75
MBMR	BUY	2.70	3.45
PUBLIC BANK	BUY	18.08	21.80
PAVILION REIT	BUY	1.51	1.88
TA ANN	BUY	3.88	4.46
UOA DEVELOPMENT	BUY	2.12	2.25
WCT	BUY	1.36	1.84
WTK	BUY	1.12	1.26
Stocks to Avoid			
FELDA	SELL	1.78	1.32
MAXIS	HOLD	6.56	6.70
MCIL	SELL	0.58	0.48
MMHE	SELL	1.11	0.97
MEDIA PRIMA	SELL	1.40	1.07
TELEKOM	HOLD	6.58	6.60
UMW-OG	SELL	1.20	0.78
UNISEM	SELL	2.33	1.55

Source: Affin Hwang, pricing as of 2 November 2015

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Executive summary

Preamble

The KLCI has been battered by formidable macro headwinds throughout 2015. Despite this, Malaysia has emerged relatively unscathed. The economy is likely on track to grow by 5% in 2015, and the government expects it to expand by 4-5% in 2016. Meanwhile, the federal government is forecasting for its fiscal deficit to fall from 3.4% of GDP in 2014 to 3.2% in 2015 and further to 3.1% in 2016.

In this report, we begin by discussing the headwinds that took the KLCI 12% lower from a high of 1,893 on 24 June 2014 to a trough of 1,532 on 24 August 2015 before rebounding by 9% to 1,664 now. Then we identify potential turning points as we peer into 2016, which is the main focus of this report.

We look at the facts objectively and methodologically, and we find that the external environment and domestic economy in 2016 seems to be conducive for a rebound in market earnings, which corroborates international agency findings. We envisage fully diluted EPS to decline by 2.7% this year but to rebound by 7.4% next year. One key point to make is that it is not a prerequisite for major macro parameters such as crude oil or the Ringgit to revisit previous highs. On the contrary, we believe stability in these parameters at current levels is enough to achieve market growth. Valuation looks attractive if our 7.4% fully diluted EPS growth materialises next year. We set our 2016 year-end index target at 1,793 points.

Lastly, we identify the risks that may derail earnings growth next year. Chief among these could be irreversible short-term factors that could push the recovery into 2017 and beyond. Under an external-led recession scenario, we see the KLCI going to 1,449 points.

Getting a firm grip

We identify nine key issues that conspired against the KLCI in 2015. These are the correction in the Brent crude oil price, the CPO price decline, the sharp devaluation in the Ringgit, the implementation of GST on 1 April 2015 hurting domestic sentiment, international stock volatility – particularly in China – the devaluation of the Renminbi triggering further weakness in the Ringgit, concerns about the degree of China's economic slowdown, the postponement of the interest rate hike by the Fed, and finally weak KLCI earnings momentum.

Looking at the list, each of these is a formidable force with the ability to significantly affect the KLCI, let alone the confluence of all factors. If we further collapse these, then we find the concerns about global growth led by China, the interest rate hike in the US and GST implementation to be the root causes.

Using the right framework for 2016

As we enter 2016, we find that the IMF is looking at global growth to rise from 3.1% in 2015 to 3.6% in 2016. The Fed was widely expected to raise rates from zero-bound interest rates back in September, but its decision to stand pat seems to have raised the spectre of uncertainty about the US economy. Nonetheless, we find that the Fed's internal expectation for the US is positive for 2016. The employment market remains strong and leading indicators do not point to an economy in duress. We also believe that an eventual interest rate hike by the Fed, hopefully in December, would be good for markets.

Figure 1: Fed's economic projections

Variable	Median				
	2015E	2016E	2017E	2018E	Longer Run
Change in real GDP	2.1	2.3	2.2	2.0	2.0
June projection	1.9	2.5	2.3	na	2.0
Unemployment rate	5.0	4.8	4.8	4.8	4.9
June projection	5.3	5.1	5.0	na	5.0
PCE inflation	0.4	1.7	1.9	2.0	2.0
June projection	0.7	1.8	2.0	na	2.0
Core PCE inflation	1.4	1.7	1.9	2.0	
June projection	1.3	1.8	2.0	na	
Memo: Projected appropriate policy path					
Federal funds rate	0.4	1.4	2.6	3.4	3.5
June projection	0.6	1.6	2.9	na	3.8

Source: US Fed

Meanwhile, the US Energy Information Administration (EIA) expects world consumption of petroleum and other liquids to rise 1.4% in 2015 but at a higher rate of 1.5% in 2016 to 95.2m b/d. It sees average Brent crude oil price of US$54/b in 2015 rising to US$59 in 2016. Similarly, the US Department of Agriculture (USDA) is forecasting global consumption of vegetable oils to rise 2.8% in 2015 and by a higher 4% in 2016 to 178.17m tonnes. The forecasts by these international agencies, though diverse in industry and areas of expertise, do corroborate expectations of a better external environment in 2016.

China is a risk, but taking a top-down assessment logically we find that the government still has many policy tools at its disposal, which hopefully would avert a hard landing as the world's second-largest economy rebalances the structure of its economy away from investment to one that is more consumption-based. In particular, there is still room to cut interest rates where its one-year benchmark lending rate is at 4.35% while its deposit rate is 1.5%. Secondly, the required reserve ratio by the People's Bank of China is very high, at 17.5%, with a lot of room for reduction. Bank Negara Malaysia (BNM) has a 4% statutory reserve requirement, while the Fed's is 10%. Lastly, China is still a net exporter, and, coupled with capital controls, would retain a large proportion of liquidity in its economy.

Daiwa's Kevin Lai, Chief economist for Asia ex-Japan, has a more cautious view on China (see *Crowded entry, jammed exit*, 9 September 2015). He expects the end game to be debt deflation, currency crisis, or something in between. We note that most of the companies under our coverage have very little direct exposure to China. However, if China were to face further challenges, this would likely have a negative impact on crude-oil and CPO prices, which would then impact Malaysia's trade position, balance of payments, fiscal deficit, fund flows and the Ringgit, causing an indirect hit on the companies in our stock universe.

Domestic economy looks conducive

We are forecasting GDP growth of 5% in 2015 and another 5% in 2016. One difference between our forecast and the official target is the government's incorporation of a large slowdown in the external environment, singling out China in particular. In fact, we anticipate domestic demand to remain resilient at 6% in 2015 and 5.8% in 2016, while the government is also forecasting 5.9% and 5.5%, respectively. These are by no means weak numbers and hopefully would be supportive of the KLCI's earnings in 2016.

The resilience of Malaysia is courtesy of the structure of its economy that has broadened over the years from being over-reliant on commodities and manufacturing. Hence we are entering 2016 from a position of strength: the economy has good diversified growth drivers, the banking system remains sound, unemployment is low, and there is reasonable wage growth. This puts the economy in good stead for 2016, in our view.

Figure 2: Malaysia's GDP growth projections

	2013	2014	2015F	2016F	2013	2014	2015F	2016F	2013	2014	2015F	2016F
	%yoy				Share of GDP				% points to GDP			
GDP by Expenditure Components												
Total Consumption	7.0	6.4	5.7	5.8	65.2	65.4	65.9	66.4	4.4	4.2	3.7	3.8
Private consumption expenditure	7.2	7.0	6.2	6.5	51.4	51.8	52.4	53.2	3.6	3.6	3.2	3.4
Public consumption expenditure	5.9	4.4	3.8	3.0	13.8	13.6	13.4	13.2	0.8	0.6	0.5	0.4
Total Investment	8.2	4.8	6.7	5.9	26.4	26.1	26.5	26.8	2.1	1.3	1.7	1.6
Private investment expenditure	12.8	11.0	10.0	8.0	15.9	16.6	17.4	17.9	1.9	1.8	1.7	1.4
Public investment expenditure	1.9	-4.7	1.0	2.0	10.5	9.5	9.1	8.8	0.2	-0.5	0.1	0.2
Domestic Demand	7.3	5.9	6.0	5.8	91.6	91.5	92.4	93.1	6.5	5.4	5.5	5.4
Net exports	-9.8	12.8	-11.3	-1.0	8.8	9.3	7.9	7.4	-1.0	1.1	-1.1	-0.1
Exports	0.3	5.1	-2.0	3.0	76.7	76.1	71.0	69.7	0.2	3.9	-1.5	2.1
Imports	1.7	4.2	-0.7	3.5	68.0	66.8	63.2	62.3	1.2	2.8	-0.5	2.2
GDP (2010 real prices)	**4.7**	**6.0**	**5.0**	**5.0**	**100.0**	**100.0**	**100.0**	**100.0**	**4.7**	**6.0**	**5.0**	**5.0**
GDP By Kind of Economic Activity												
Agriculture, Forestry and Fishing	1.9	2.1	-2.0	1.0	9.5	9.2	8.6	8.2	0.2	0.2	-0.2	0.1
Mining and Quarrying	1.2	3.3	8.0	4.0	9.2	9.0	9.2	9.1	0.1	0.3	0.7	0.4
Manufacturing	3.4	6.2	5.0	5.5	22.9	23.0	23.0	23.1	0.8	1.4	1.1	1.3
Construction	10.8	11.8	9.0	7.5	4.0	4.3	4.4	4.5	0.4	0.5	0.4	0.3
Services	6.0	6.5	5.5	5.3	53.2	53.5	53.6	53.9	3.1	3.5	2.9	2.8
GDP (2010 real prices)	**4.7**	**6.0**	**5.0**	**5.0**	**100.0**	**100.0**	**99.9**	**100.0**	**4.7**	**6.0**	**5.0**	**5.0**

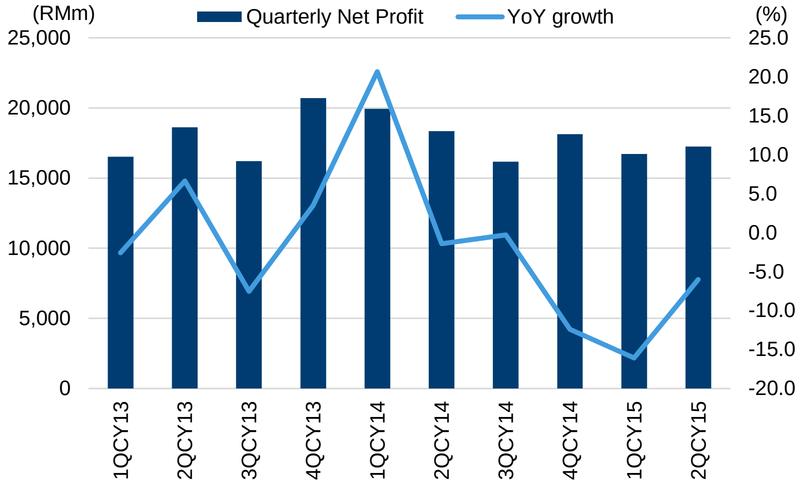
Source: MOF, Affin Hwang

Earnings recovery

We use our 98 stocks under coverage as a proxy for the KLCI and find that net profit has fallen for five consecutive quarters since 2QCY14. The contraction accelerated to 12.4% YoY in 4QCY14 and hit a trough of a 16.1% YoY contraction in 1QCY15. In 2QCY15, net profit contracted by 6% YoY. Hence we see a high probability for a net profit turnaround in 4QCY15 (corresponding to February 2016 results season); otherwise 2QCY16 (May 2016 season) looks promising due to the low base.

Meanwhile, we are anticipating a 2.7% fully diluted EPS contraction in 2015 but a rebound to 7.4% growth in 2016.

Fig 3: Quarterly net profit trend for our stock universe



Source: Affin Hwang

Sector and stock strategy

We present below our sector positioning for 2016.

Fig 4: Summary of sector valuations

Sector	Rating	Market Cap (RMm)	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PE (x) 2015E	PE (x) 2016E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	Yield (%) 2015E	Yield (%) 2016E	P/BV (x) 2015E	P/BV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E
Banks & Financial Services	OW	261,216.9	(4.2)	6.4	13.2	12.4			3.6	3.7	1.8	1.7	10.9	11.0
Auto & Autoparts	N	11,359.4	(10.9)	19.6	15.4	12.9	8.0	9.8	4.4	5.6	1.1	1.2	7.0	8.7
Building Materials	UW	8,127.5	21.5	6.6	25.1	23.6	12.8	11.0	3.1	3.2	1.0	1.0	7.2	9.0
Construction & Infrastructure	OW	28,245.6	6.0	(3.1)	14.6	15.1	13.1	12.9	3.6	3.8	1.1	1.0	8.9	7.9
Consumer	N	52,089.6	4.6	2.8	23.1	22.4	11.9	11.3	4.1	4.2	8.2	7.9	25.7	25.7
Gaming	OW	57,941.8	16.0	5.5	16.1	15.3	6.1	5.7	3.0	3.0	2.7	2.5	4.9	4.8
Healthcare & Pharma.	OW	57,355.8	23.3	18.1	52.7	44.6	24.3	21.3	1.0	1.2	2.9	2.7	5.0	5.6
Media	N	19,175.6	33.1	20.5	19.9	16.5	7.9	7.5	6.2	6.5	5.3	4.4	23.5	25.1
MREIT	OW	23,698.5	32.2	2.6	17.1	16.7	15.6	15.0	5.7	6.1	1.2	1.2	6.5	6.8
Oil & Gas	UW	82,606.9	(2.2)	15.8	20.2	17.4	10.7	10.5	1.2	1.4	1.3	1.2	7.7	8.4
Plantation	N	123,020.0	(15.3)	33.2	24.8	18.6	16.3	13.1	2.1	3.2	2.2	2.1	8.0	11.0
Property	OW	29,371.9	(2.5)	(1.6)	10.3	10.5	9.8	9.7	3.5	4.1	0.9	0.9	8.5	8.2
Rubber Gloves	N	23,500.7	36.4	21.7	20.9	17.2	18.3	13.5	1.6	2.6	4.4	3.9	15.3	18.9
Technology	OW	9,163.9	29.4	9.5	16.9	15.4	8.1	7.8	3.2	3.7	4.5	4.0	18.0	17.7
Telecoms	N	169,004.8	3.7	2.4	23.5	22.9	10.5	10.3	4.0	4.1	19.0	19.0	20.9	21.1
Timber	OW	3,155.7	17.6	18.4	13.1	11.0	7.5	6.7	2.6	2.8	0.8	0.7	5.1	6.1
Transports & Logistics	N	54,210.2	(2.2)	6.8	19.4	18.1	12.5	12.5	1.0	1.1	2.2	0.2	5.3	5.9
Utilities	N	165,837.2	(1.5)	3.2	14.5	14.0	8.7	8.4	3.6	3.8	1.5	1.4	11.1	10.7
Coverage		**1,179,081.9**	**(2.7)**	**7.4**	**17.7**	**16.5**	**12.8**	**12.0**	**3.3**	**3.5**	**2.2**	**2.1**	**9.7**	**10.1**

Source: Affin Hwang, Bloomberg, pricing as of 2 Nov 2015

Fig 4a: Sector positioning for 2016

Overweight	Neutral	Underweight
Banks (↑)	Auto & Autoparts	Building Materials
Construction	Consumer	Oil & Gas (↓)
Gaming (↑)	Media	
Healthcare	Plantation	
MREIT	Rubber Products (↓)	
Property (↑)	Telecommunication	
Technology	Transport & Logistics	
Timber (↑)	Utilities (↓)	

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

The following table lists our top buys and stocks to avoid in 2016.

Fig 5: Top buys and stocks to avoid

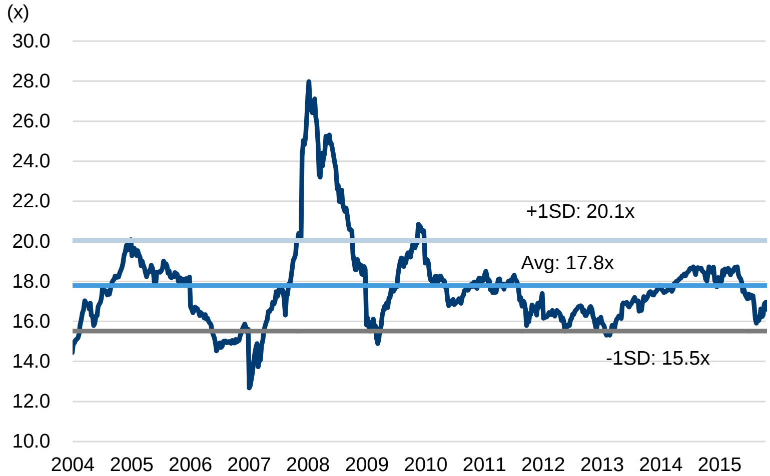
Stock	Rating	Price (RM)	TP (RM)	Upside (%)	MktCap (RMm)
Top Buys					
AEON CREDIT	BUY	12.68	14.80	16.7	1,826
AFG	BUY	3.48	4.50	29.3	5,387
CIMB	BUY	4.59	5.90	28.5	39,140
E&O	BUY	1.60	2.54	58.8	2,051
GAMUDA	BUY	4.51	5.84	29.5	10,851
GENTING	BUY	7.48	9.15	22.3	27,991
IGB REIT	BUY	1.35	1.60	18.5	4,679
IJM CORP	BUY	3.35	3.76	12.2	11,969
INARI	BUY	3.54	3.89	9.9	2,586
JAKS RESOURCES	BUY	1.20	1.60	33.3	526
KPJ	BUY	4.25	4.75	11.8	4,480
MBMR	BUY	2.70	3.45	27.8	1,055
PUBLIC BANK	BUY	18.08	21.80	20.6	70,189
PAVILION REIT	BUY	1.51	1.88	24.5	4,557
TA ANN	BUY	3.88	4.46	14.9	1,438
UOA DEVELOPMENT	BUY	2.12	2.25	6.1	3,223
WCT	BUY	1.36	1.84	35.3	1,645
WTK	BUY	1.12	1.26	12.5	539
Stocks to Avoid					
FELDA	SELL	1.78	1.32	(25.8)	6,494
MAXIS	HOLD	6.56	6.70	2.1	49,264
MCIL	SELL	0.58	0.48	(17.2)	979
MMHE	SELL	1.11	0.97	(12.6)	1,776
MEDIA PRIMA	SELL	1.40	1.07	(23.6)	1,553
TELEKOM	HOLD	6.58	6.60	0.3	24,727
UMW-OG	SELL	1.20	0.78	(35.0)	2,594
UNISEM	SELL	2.33	1.55	(33.5)	1,710

Source: Affin Hwang, Bloomberg; pricing as of 2 Nov 2015

Entry valuation reasonable

We estimate that the KLCI is currently trading at static fully diluted PE of 17.7x for 2015E and 16.5x for 2016E, based on the 98 stocks in our coverage universe. On a 12-month moving average basis, the KLCI is trading at a fully diluted PE of 16.6x. It has rebounded off its lows at close to one standard deviation below, but it is still below its long-term average of 17.8x.

Fig 6: Fully diluted PE trend



Source: Bloomberg, Affin Hwang

Moreover, we find that the net profit of the stocks under our coverage as a proportion of nominal GDP has dropped from 8% in 4Q12 to 6.1% in 2Q15 versus the average of 6.5% over the past 22 quarters. This indicates that firms have fallen behind in terms of their share of the economy. In particular, we believe that more economic value has been transferred from firms to households. For instance, average wages have gone up from RM4,585 in 2Q13 to RM4,973 in 2Q15, or up 8.5% over the span of two years. Part of this is due to implementation of minimum wage in 2014. Another reason is the high inflationary expectation in 2015 due to the implementation of the GST, as the government was expecting 4-5% inflation for 2015 during the tabling of the budget in 2014. Lastly, as the GST implementation took hold, poor consumer sentiment prompted a proportion of firms to absorb GST and higher import costs for the time being. These have also manifested in the KLCI's net profit margin that has fallen from a peak of 16.8% in 4QCY13 to 13.4% in 2QCY15, with an average margin of 14.2% over the past 22 quarters.

For next year, global growth looks benign while domestic activity seems stable. The government expects inflation to be steady at 2-3% in 2016. Hence the environment seems conducive for firms to recoup some of the value from households by raising selling prices, though partly tempered by a moderate rise in the minimum wage level. If this happens, we believe it would be good for company earnings and the KLCI next year.

We introduce our 2016 year-end KLCI target of 1,793 points. This is based on the assumption that a recovery in EPS next year would prompt a reversion to the mean for the KLCI. Hence we peg our KLCI target at 17.8x PE for 2016E fully diluted EPS. As for 2015, we increase our year-end target from 1,600 points to 1,670 points, based on 17.8x our 2015E fully diluted EPS.

Fig 7: KLCI target

	2015E	2016E
Current KLCI (pts)	1,664.07	1,664.07
Current market EPS (pts)	93.80	100.71
Fully diluted PE (x)	17.7	16.5
Index target computation		
Average fully diluted PE (x)	17.8	17.8
Current market EPS (pts)	93.80	100.71
KLCI target (pts)	1,669.70	1,792.61
% change	0.3%	7.7%

Source: Affin Hwang, Bloomberg

A closer look at risks

We acknowledge the negative assessment shrouding Malaysia now. Our main concern is if a prolonged downbeat sentiment could affect consumption patterns, investment decisions and ultimately take a toll on the economy. In particular, we are worried about short-term developments, which, if severe enough, could impair the trajectory of an earnings recovery into 2016. We have identified a few major threats, such as a further weakening of the Ringgit, continued foreign outflows from the KLCI, outflows from not just the KLCI but the repatriation of wealth overseas, rise in inflationary pressure, if the banking system weakens due to asset quality, and an external-led global slowdown.

For most of these, we could either classify them as internal-led or externally caused recessions. Generally, internally-led recessions are usually structural issues that would have deep and severe impacts on Malaysia, such as that seen during the 1998 Asian Crisis. External-led recessions are milder on domestic activity, as they are not specific to Malaysia with contagion effects on the country. The most recent example is the 2009 Global Financial Crisis.

We do not see both happening, but the bigger risk seems to be tilted towards a global-led recession given the uncertainty in China. If this were to happen, we believe that the KLCI could de-rate to a 14.9x fully diluted PE, judging from the experience in 2009. Under this scenario, we believe that the downside risk to the KLCI is 1,449 points.

Fig 8: Downside risk to KLCI

	2015E	2016E
Current KLCI (pts)	1,664.07	1,664.07
Current market EPS (pts)	93.80	100.71
Fully diluted PE (x)	17.7	16.5
Index downside risk computation		
Average fully diluted PE (x)	14.9	14.9
Current market EPS (pts)	93.80	100.71
KLCI downside (pts)	1,397.67	1,500.55
Average KLCI downside risk (pts)		1,449.11
% change		-12.9%

Source: Affin Hwang, Bloomberg

Getting a firm grip

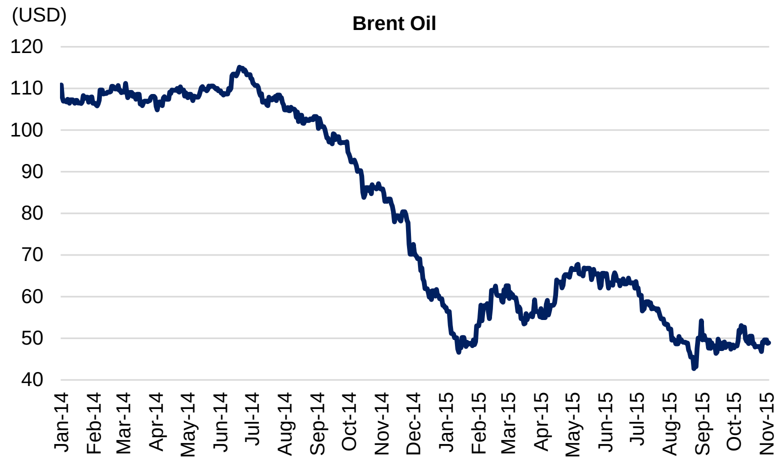
Pinpointing the cause of KLCI's dismal performance

We start by examining the forces conspiring against the market this year. Understanding the cause of the market weakness is very useful to provide a context for the current situation, but more importantly, it allows us to filter the noise and isolate the true factors behind KLCI's dismal performance.

Crude oil decline

In 2014, 9% of Malaysia's real GDP came from the mining sector, and oil & gas constituted 11.5% of total exports. Hence the sharp decline in the Brent crude oil price from US$115/b on 19 June 2014 to a low of US$43 had a significant impact on Malaysia's economy. The Brent price is now US$49.

Fig 9: Brent crude oil prices have fallen sharply

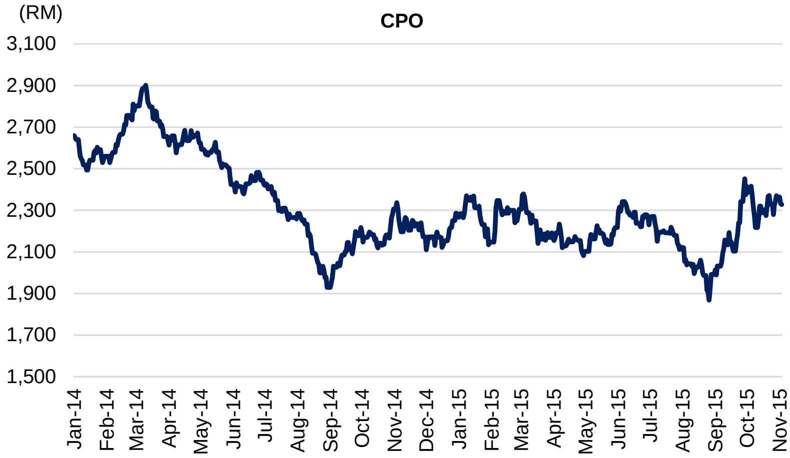


Source: Bloomberg

Crude palm oil

Another major commodity is crude palm oil (CPO). Like crude oil, CPO prices moved against Malaysia as well. The agriculture sector constituted 9.2% of Malaysia's real GDP and made up 8.4% of total exports in 2014. The CPO price moved from RM2,901 per tonne on 10 March 2014 to a low of RM1,867 on 26 August 2015. The price has rebounded since then and is RM2,331 now.

Fig 10: Crude palm oil price has hit new low since 2014

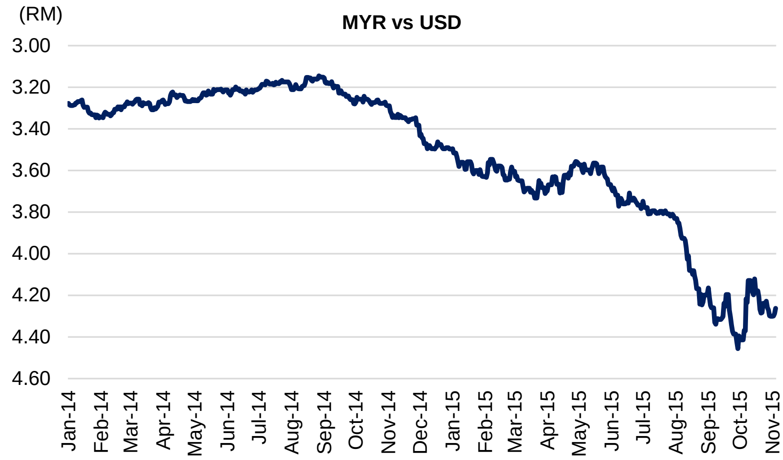


Source: Bloomberg

Currency weakness

Investor angst was compounded by the Ringgit weakness against the US Dollar. The Ringgit went from RM3.15 to the US Dollar to a low of RM4.46 on 29 September 2015, and it is now RM4.30. The 37% drop in the Ringgit value against the US Dollar (measured as USD/RM) hit foreign investors the hardest when measuring their portfolio in US Dollar terms. This in turn triggered the sell-down of KLCI as foreign investors pulled money out of Malaysia in anticipation of further Ringgit weakness, causing a vicious spiral.

Fig 11: Ringgit has weakened substantially against US Dollar

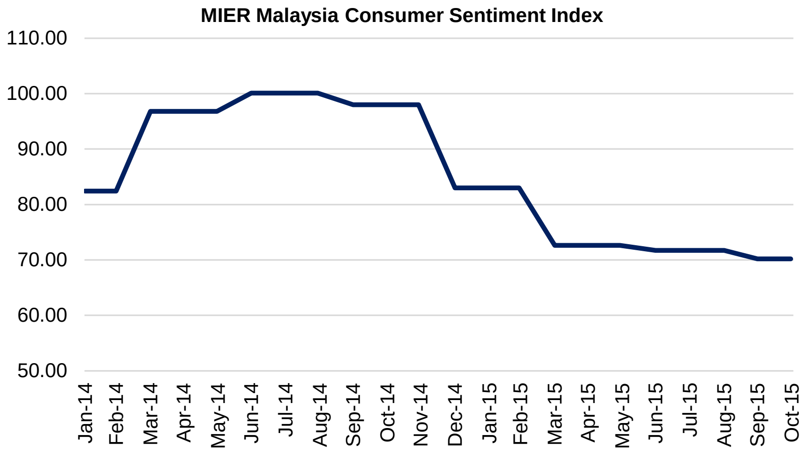


Source: Bloomberg

Goods and Services Tax

The GST came into effect on 1 April 2015 and raises goods and services by 6%. It is a fair taxation system and is beneficial to the country, in our view. It also has been widely adopted in other countries and, just as with the experience of other nations, the introduction of the GST had an immediate knee-jerk negative reaction on consumer sentiment as people adjusted their spending patterns. Poorer sentiment also had an effect on the KLCI.

Fig 12: Consumer sentiment takes a hit



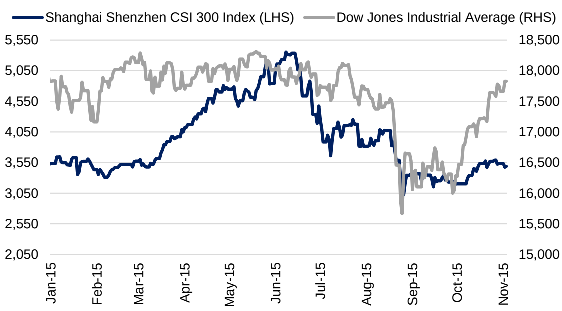
Source: MIER

International stock market volatility

The China stock markets have been a rollercoaster. The Shanghai Shenzhen CSI 300 Index saw a huge 130% rise from the start of 2014 to June 2015. However, the correction was also sharp and deep, down 43% over 3 months. Nevertheless, investors are still up 69.3%, if measured from the trough on 20 March 2014 to now.

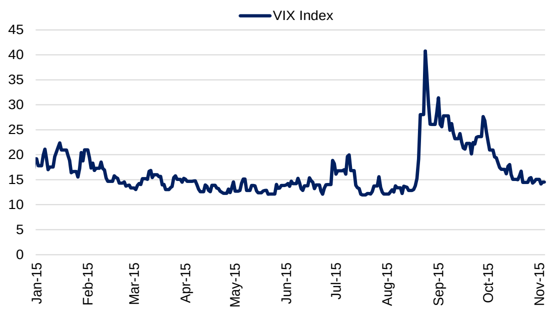
The sharp descent in China stock markets reverberated in the global financial markets. The US stock markets were not spared. The Dow Industrial Average, which was riding on a record run, suddenly found itself descending into correction territory. The VIX Index spiked from a steady state of 15.3 before the China financial market rut to a high of 40.7 and remained in elevated territory for some time. The Malaysian stock market, as part of the global financial system, was not spared either.

Fig 13: China and US markets



Source: Bloomberg

Fig 14: VIX Index

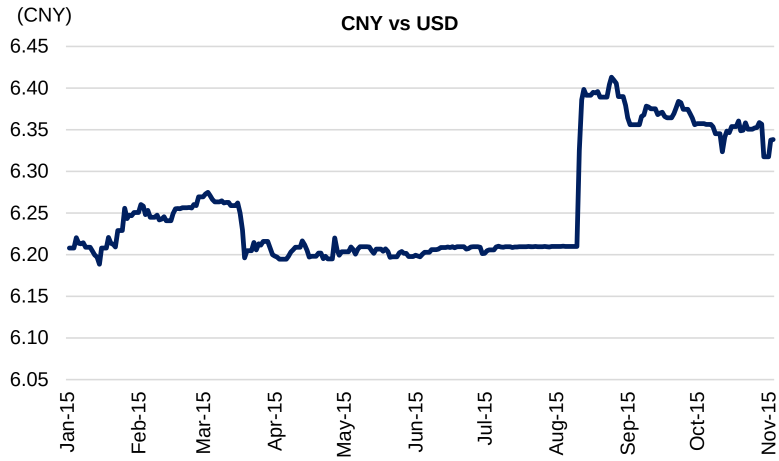


Source: Bloomberg

Devaluation of China's currency

Right on the heels of the increased stock market volatility was China's decision to widen the trading band on the Yuan on 10 August 2015. The resulting effect was a maximum de-rating in the Yuan the next day. This spooked currency markets with concerns of China triggering a currency devaluation war. Unsurprisingly, emerging market currencies, including the Ringgit, weakened further against the US Dollar. This in turn probably expedited the KLCI sell-off, with foreigners repatriating more money back home.

Fig 15: Devaluation of the Renminbi



Source: Bloomberg

China economic slowdown

Global markets viewed the combination of China's stock market turmoil and the Yuan devaluation suspiciously. In particular, it was seen as the litmus test for a weakening China economy. Global financial markets reacted. So did soft and hard commodity prices. Brent crude and CPO came under renewed pressure, which also boded ill for the KLCI.

Fig 16: China quarterly GDP

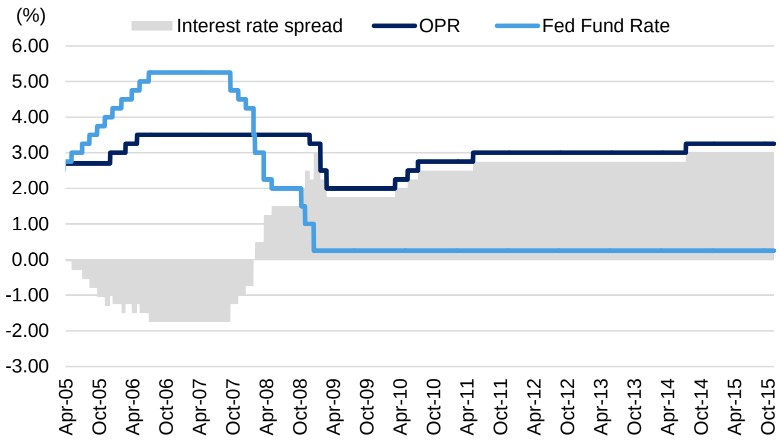
Source: Bloomberg

Fed interest hike

Market watchers have been expecting a Fed rate hike from its zero-bound level sometime this year. Expectations keep getting pushed back, with the Fed standing pat again at the recent October FOMC after a widely anticipated increase at the September meeting. Although widely expected, the actual timing remains uncertain and so does the quantum of the increase. Also, there is the actual event itself, which could influence global money flows thereafter.

In Malaysia's case, higher US interest rates mean that the spread between Malaysia and US would narrow, potentially driving away marginal investors who think that the spread is inadequate to compensate for the country risks. This means liquidation of Malaysian holdings and repatriation back to the US or overseas, thus also affecting the Ringgit.

Fig 17: Interest rate spread between OPR and Fed fund rate

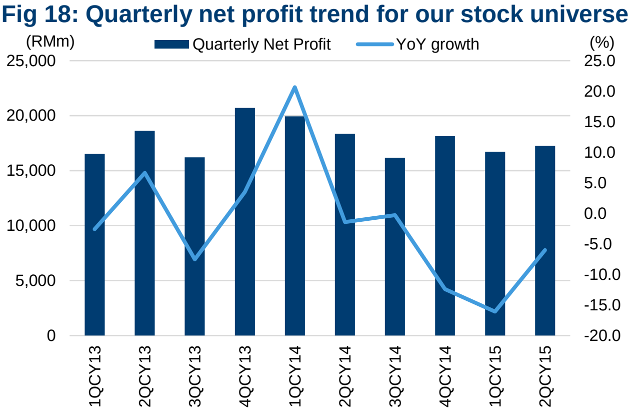


Source: Bloomberg

KLCI's net profit momentum

At the start of the year, net profit growth for our coverage universe stood at 8.8%. However, after a series of downgrades we are expecting a 5.3% contraction for 2015. Thus far, 1H15 results have delivered an 11.3% YoY decline in net profit.

Fig 18: Quarterly net profit trend for our stock universe



Source: Affin Hwang, Bloomberg

But what does it boil down to?

We have identified nine main items that have adversely affected the KLCI. It is not always common for so many events to conspire against the market at the same time, but it did transpire in 2015. Each item in and of itself could have had a discernible impact on the market; taken together, the items provide a formidable downward force.

In fact, we argue that most of these items are somewhat linked. Concerns of a China-led global growth slowdown have triggered international stock market volatility. Weaker China growth also has had an impact on Brent oil prices, the CPO price level, Yuan weakness, and ultimately on the Ringgit relative to the US Dollar. Perhaps the more independent factor affecting the KLCI is interest rate hike in the US. Another standalone impact is GST implementation in Malaysia, though the impact is transitory in nature.

Ultimately, we believe that all of the related factors, from the China-led global growth slowdown to standalone items such as the US interest rate cycle and GST implementation in Malaysia, translate into weaker earnings growth, thus providing more fuel for a market sell-off.

Building the right framework

Our approach

We believe that we have now firmly established the forces influencing the market's poor performance. We have identified nine factors, but as we showed in the previous section, we could really isolate it to global growth and interest rate cycle in the US. Hence we dedicate this segment to examining these two factors.

Having said that, oil & gas is an important component of Malaysia's economy, exports and the KLCI. Hence we feel it is necessary to examine this in a bit more detail beyond just on a big picture perspective alongside global growth. The same applies for CPO. However, we do not believe that the GST will be a major influence going forward, as it is transitory; hence we ignore it as a consideration. In other words, we believe it had a bigger impact in the past six months than it will have over the next six months, and we expect it to quickly diminish in importance thereafter.

Looking through the facts objectively leads us to believe that with patience the risk-reward points towards profitable returns from the KLCI. This is because earnings growth should return if the conditions implied by our assessment framework come true. Just to give a bit more colour, we are looking at earnings growth to drive share prices and ultimately KLCI performance. For earnings growth to return to KLCI, global growth needs to be conducive. For the rest of the factors, such as Brent and CPO, these are not required to revisit previous highs; stability at current levels would be adequate as the market is already reflecting these price levels. Hence it is the change from existing levels for Brent and CPO that is more important for the market, and not necessarily their absolute price levels.

China's economy

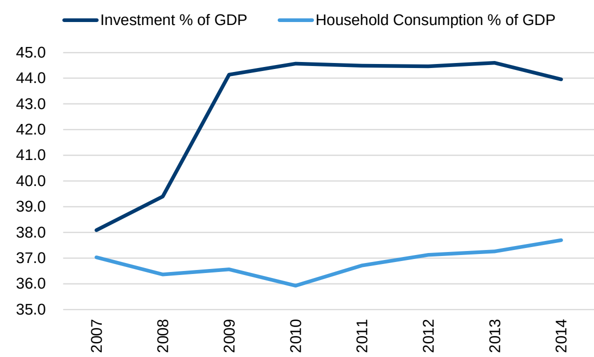
China's economy has grown significantly in the past 15 years. Over this period, the slowest pace of real GDP quarterly growth was 6.2%. In 2014, it grew by 7.3% annually, while in the latest 3Q15 quarter it rose by 6.9% YoY, hardly snail's pace for the world's second-largest economy.

Such rapid and continuous growth is bound to cause imbalances in any economy. In fact, China's real GDP numbers suggest that adjustment in the economy has been well underway since 2010.

Fig 19: China's GDP growth is slowing

Source: Bloomberg

Fig 20: Rebalancing in the economy



Source: CEIC

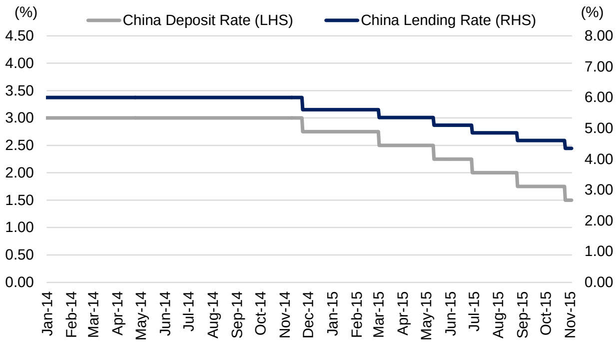
For such a large economy, a large 44% proportion is investment. This outweighs private consumption at 38% in 2014. We believe this is clearly unsustainable, and as China develops, the proportion of investment must slow drastically with economic growth driven by consumption. As we pointed out earlier, this rebalancing is already taking place.

At this juncture, we would like to highlight that we are not experts on the China economy. However, from a macro perspective, we do see a lot of room for the Chinese regulators to boost the economy in the event of sagging activity. We are hopeful that the government will be able to offset any micro issues it may be facing. We look at a few major parameters.

The first is the current benchmark one-year lending rate of 4.35% and the one-year deposit rate of 1.5%. These have been cut six times since 2014, but clearly there is still room for interest rates to come down to boost liquidity and economic activity.

The second is the People's Bank of China's wield on the banks. Banks are forced to keep 17.5% of deposits as a required reserve ratio at the central bank. In contrast, the Federal Reserve has a reserve requirement of 10%, while Bank Negara Malaysia's statutory reserve requirement is set at 4%. Hence we see plenty of room to reduce the RRR and boost the money base in the economy.

Fig 21: China's one-year benchmark rates



Source: Bloomberg

Fig 22: PBOC's statutory reserve requirement

Source: Bloomberg

Thirdly, China still runs a large trade surplus. The figure expanded by 89% YoY for the first 9 months of 2015 and it stands at 4% of GNI (2014). The country continues to save and raise its capital stock. In addition, capital flows are controlled, which means that net liquidity that flows into China has a high retention rate in the country. The liquidity in the country allows the government flexibility in boosting demand. At the same time, the foreign exchange reserves at the central bank increase as well.

Hopefully these factors could cushion China's economy and sustain demand for commodities. It may not necessarily raise the prices of commodities like crude oil and CPO. Nonetheless, we are in fact looking for just steady prices. Higher commodity prices are not prerequisites for earnings growth, but they do help the cause for the KLCI.

US interest rates

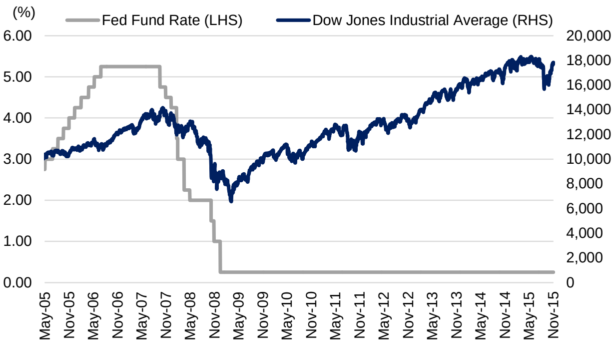
The Fed decided to stand pat on interest rates at the September policy committee meeting and took the same decision in October. Higher interest rates reduce the supply of money and aggregate demand, hence slowing the economy. Stock markets like growth but higher interest rates moderate growth and in theory are bad. Hence the delay in the interest rate increase is in theory positive for markets.

In reality, equity markets also look at sustainability of growth. Investors much prefer a lower but sustainable growth rate than unstable high growth that is followed by a bust. Essentially, investors are giving up some growth today for future market stability.

Therefore, interest rate increases are not necessarily bad. More specifically, it depends on the cause of the rate rise. There are many instances that require interest rate movements, but we highlight broadly two reasons for interest rate hikes. The first is if economic growth is above its optimal level, which would eventually cause high inflation. The rate hike in this instance would be pre-emptive to temper economic growth to a sustainable level and lessen inflationary pressure in the future. The second reason for rate hike would be if high inflationary pressure already existed in the economy and higher interest rates were necessary in order to prevent unbridled inflation.

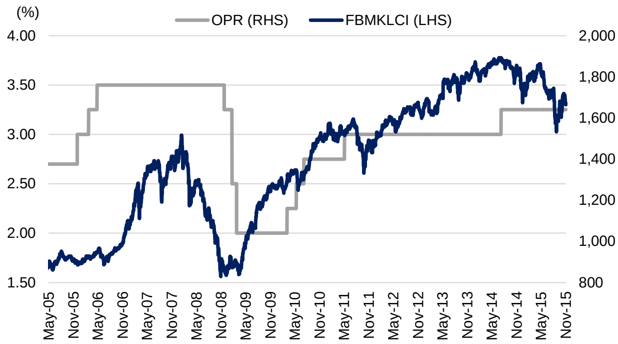
Hence it becomes clear that a rate hike in the first instance would be acceptable while the second would be unsavoury to investors. We have plotted the Fed fund rate against the Dow and BNM's OPR against the KLCI. Both show empirical evidence that rate hikes do not always translate into a fall in the stock market. In particular, we point to the persistent rise in Fed fund rate in 2005-06 and the same for BNM's OPR and the KLCI in 2005-06 and again in 2009-14.

Fig 23: Fed fund rate and Dow



Source: Bloomberg

Fig 24: BNM's OPR and KLCI



Source: Bloomberg

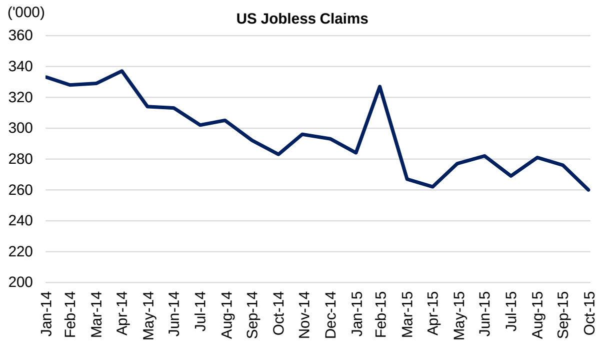
The current US Fed fund rate is hovering at 0.08%, a legacy from the Global Financial Crisis in 2009 where the policy rate was brought down to between 0% and 0.25%. In this instance, the expectation of a Fed fund rate increase is for the normalisation of monetary policy where it is imprudent to keep interest rates at near zero over an extended period of time. Over time, this would promote and magnify imbalances in the economy and exert inflationary pressure on prices.

However, the Fed wants normalisation of interest rates without damaging the economy. Therefore, the rate hike could be done only when economic growth is sufficiently strong. Therefore, the expected hike in interest rates is seen as a barometer of economic conditions. In fact, the US stock markets fell immediately after the Fed's decision to maintain the interest rate at the September meeting instead of welcoming the outcome, precisely because of this reason. The Dow fell 290 points or 1.7% on the day of the Fed decision.

Once again, we are not experts on the US economy, but we look at a few parameters that continue to be very reasonable and suggest sustained economic growth into 2016.

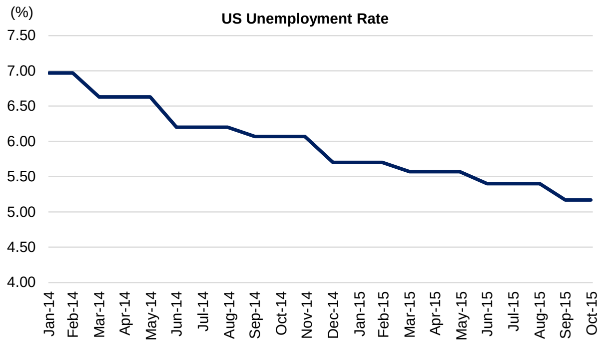
Firstly, the US labour market is strong. Jobless claims remain fairly stable, ranging between 262,000 and 282,000 over the past seven months, with the latest figure of 277,000 in September 2015. The unemployment rate is also steady at 5.1% in September from the same figure in August 2015, in keeping with the stable jobless claims number. One development that jolted the US market post the FOMC meeting was the non-farm payroll figure. It came in at 142,000 in September 2015, and at the time of announcement the US market was pointing to the fact that it was a sharp drop from the August 173,000 figure but that was subsequently revised to 136,000. Hence it still showed an improvement from the lowered August figure. Of particular note is the drop below 200,000 for the second time in five months, which also riled the market.

Fig 25: US jobless claims are steady…



Source: Bloomberg

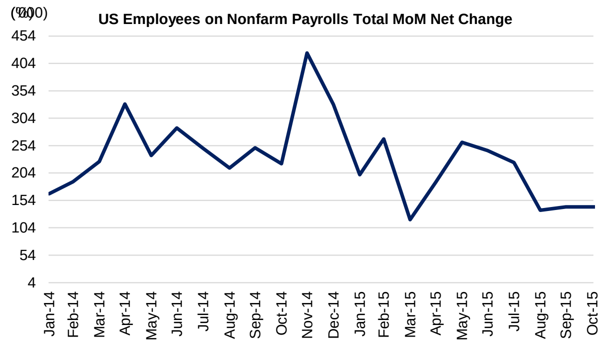
Fig 26: …so is unemployment rate



Source: Bloomberg

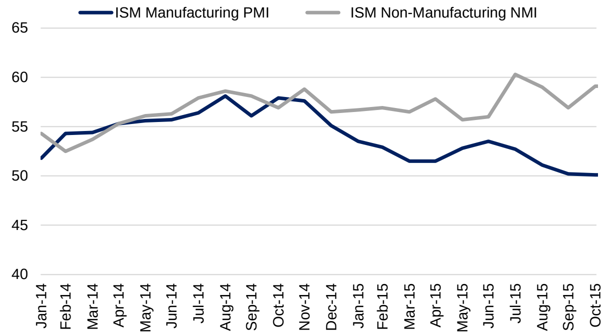
Secondly, leading indicators for the US economy are not suggesting an economy in duress. Undoubtedly, some of them have moderated, but they are still healthy nonetheless. The ISM manufacturing data has dropped to the lowest level of 50.1 this year. This has naturally raised some concerns on a slowing US economy, as it indicates stalling for October. However, the US ISM non-manufacturing index continued to expand at 59.1 in October from 56.9 in August. The figure is the second highest on record since 2014.

Fig 27: Change in payroll in the US



Source: Bloomberg

Fig 28: US ISM manufacturing and non-manufacturing



Source: Bloomberg

Thirdly, the decision to delay rate hike by the Fed has more to do with benign inflationary conditions than US economic risks, in our view. A key tenet of the Federal Reserve is to conduct the '*nation's monetary policy by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, price stability, and moderate long-term interest rates*'. Essentially, the Fed has a dual mandate of fostering maximum employment and price stability.

The Federal Reserve has released its economic projections in conjunction with the FOMC policy decision. We can see that the median real GDP number for 2015 has been revised upwards to 2.1% from 1.9% in June. The median unemployment rate has also been revised to 5% from 5.3%. Hence the improvements in GDP and labour are supportive of a rate hike, in our view.

However, inflation has been revised down to an anaemic 0.4% from 0.7%; herein lies the problem for the Fed, in our view. If we look at the longer-run projections, the Fed is expecting real GDP of 2%, an unemployment rate of 4.9% and PCE inflation of 2%. It becomes clear that the Fed sees real GDP and labour market as tracking its longer-term rate but inflation is significantly below. We suspect the low inflation is due to sharp drop in commodity prices and the strong US Dollar. Also, the trajectory of inflation is probably worrying the Fed, as the closer it falls to zero, the higher the risk of deflation. As such, we believe that the decision has more to do with allowing some potential imbalances in GDP and the labour market as trade-offs for reversing the trajectory of PCE inflation before taking the first step in normalising interest rates.

Figure 29: Fed's economic projections

Variable	Median				
	2015E	2016E	2017E	2018E	Longer Run
Change in real GDP	2.1	2.3	2.2	2.0	2.0
June projection	1.9	2.5	2.3	na	2.0
Unemployment rate	5.0	4.8	4.8	4.8	4.9
June projection	5.3	5.1	5.0	na	5.0
PCE inflation	0.4	1.7	1.9	2.0	2.0
June projection	0.7	1.8	2.0	na	2.0
Core PCE inflation	1.4	1.7	1.9	2.0	
June projection	1.3	1.8	2.0	na	
Memo: Projected appropriate policy path					
Federal funds rate	0.4	1.4	2.6	3.4	3.5
June projection	0.6	1.6	2.9	na	3.8

Source: US Fed

Hopefully the economic momentum in the US is strong enough to carry growth. The next FOMC policy meeting is the final one for the year on 15-16 December. Expectations of a rate hike were pushed to 2016 subsequent to the September policy meeting but have swung back to a December 2015 rate hike now, following the October FOMC policy meeting. Based on current market behaviour, it is clear to us that the concern is on growth. Hence an eventual Fed rate hike, rather than unnerving investors should be welcome, as it signals confidence in the economic trajectory.

Lastly, it is worth highlighting that, in her only major engagement post the FOMC meeting on 16-17 September, Janet Yellen, Chairwoman of the Federal Reserve, made the following statement as part of her speech at the University of Massachusetts:

'*To conclude, let me emphasize that, following the dual mandate established by the Congress, the Federal Reserve is committed to the achievement of maximum employment and price stability. To this end, we have maintained a highly accommodative monetary policy since the financial crisis; that policy has fostered a marked improvement in labor market conditions and helped check undesirable disinflationary pressures. However, we have not yet fully attained our objectives under the dual mandate: Some slack remains in labor markets, and the effects of this slack and the influence of lower energy prices and past dollar appreciation have been significant factors keeping inflation below our goal. But I expect that inflation will return to 2 percent over the next few years as the temporary factors that are currently weighing on inflation wane, provided that economic growth continues to be strong enough to complete the return to maximum employment and long-run inflation expectations remain well anchored. Most FOMC participants, including myself, currently anticipate that achieving these conditions will likely entail an initial increase in the federal funds rate later this year, followed by a gradual pace of tightening thereafter. But if the economy surprises us, our judgments about appropriate monetary policy will change.*'

We prefer an increase of the Fed fund rate as soon as possible. This would remove lingering speculation on the timing and also signal more confidence in the US and global economy. It should not damage the US and world economies, as the pace of tightening should be gradual thereafter, as stated by Janet Yellen. In fact, the projected policy path as released by the Fed shows a fed fund rate of 1.4% in 2016.

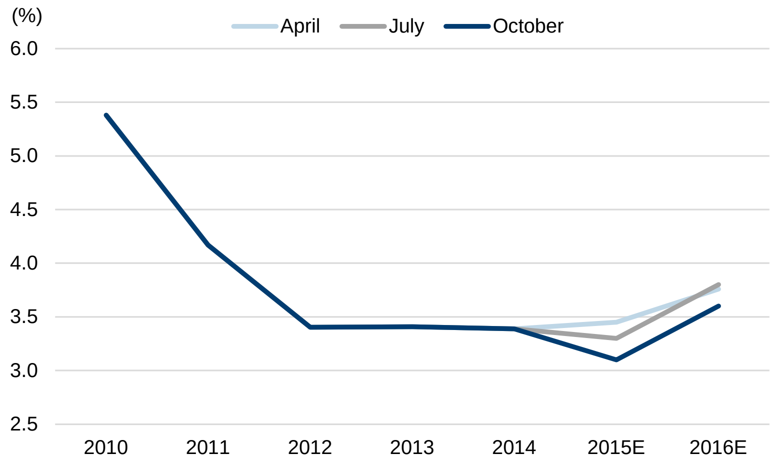
Easing by major economies

At the same time, global liquidity is aplenty. The Bank of Japan is still buying long-term bonds at a rate of 80 trillion yen a year (equivalent to about US$660bn). At the same time, the European Central Bank (ECB) is in the middle of its Euro 60bn (about US$68bn) debt purchase per month until at least September 2016. However, in its most recent press event, the ECB hinted that it could be expanding the programme in the future due to stubbornly low inflation. As a note, the Fed at its peak was buying US$85bn worth of bonds a month.

IMF sees better global growth in 2016

In its April 2015 World Economic Outlook (WEO) release, the IMF forecasted global GDP growth of 3.5% in 2015 and 3.8% in 2016. However, the 2015 world growth was revised down to 3.3% in July and further to 3.1% in its latest October 2015 WEO release. Meanwhile, 2016 global growth is now at 3.6% (from 3.8% previously).

Fig 30: IMF global growth forecasts



Source: IMF

The IMF said the key reason for cutting its 2015 world growth figure was that developed economies are seeing economic recovery, albeit modestly, while emerging markets have displayed slowing growth for five consecutive years. In particular, it pointed out that certain large emerging economies are weighing on emerging market growth. We read this to mean China, which is undergoing a rebalancing of its GDP structure from one that is investment-led to private consumption-led.

While looking at 3.1% in 2015 and 3.6% in 2016, the IMF pointed out that risks to global growth look biased to the downside. In particular, it pointed to four risks applicable to emerging markets:

- Persistent low commodity prices
- Reduced capital flows to emerging markets, due to uneven growth between advanced and emerging economies
- Currency pressure
- Financial market volatility

Brent crude oil

From a big-picture perspective, sustainable growth in the US, adequate policy instruments in China, and ongoing quantitative easing in Japan and Europe could hopefully provide a conducive global economic environment. Under such a scenario, demand for commodities such as crude oil could be sustained at current levels. Yet we believe it is prudent for a more in-depth assessment of crude oil given the outsize influence of Brent prices on the KLCI.

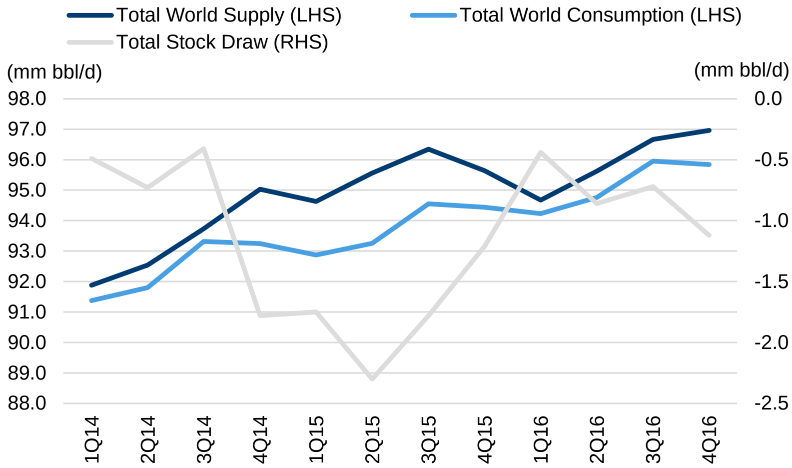
Indeed, the US Energy Information Administration (EIA) projects total world consumption of petroleum and other liquids to rise 1.4% in 2015 to 93.79m b/d. This is followed by a slightly higher 1.5% rise in 2016 to 95.2m b/d. Hence the demand projection is in line with the big-picture view that global economic growth would have a positive impact on crude oil demand.

The bigger issue is supply, as production of crude oil has remained stubbornly high despite the sharp correction in prices. In fact, the EIA is forecasting 2.4% rise in 2015 to 95.55m b/d. The good news is that this is expected to slow significantly to 95.98m or 0.5% growth. This makes sense from a qualitative perspective as production levels take a longer time to adjust to prices given the operational complexities in dialling down output.

Consequently, inventory build is expected to rise from 0.86m b/d in 2014 to 1.76m in 2015, as demand falls off at a quicker pace than supply but nearly halves to 0.79m in 2016 due to a combination of rising demand and slowing supply growth. Under this scenario, the EIA projects an average Brent crude oil price of US$54/b in 2015 and US$59 in 2016. The spot price for Brent is currently US$49/b.

Clearly, US$59/b is still a far cry from the highs of above US$100/b that we became so accustomed to in the past. Again, it is worth restating that our framework looks at changes in oil prices rather than the absolute level. For the market to perform, we require the Brent oil price to stabilise and not decline further, but it does not entail a sharp rise to previous levels. Hence any rise in prices is a bonus for the market, in our view.

Fig 31: Global supply-demand dynamics for crude oil



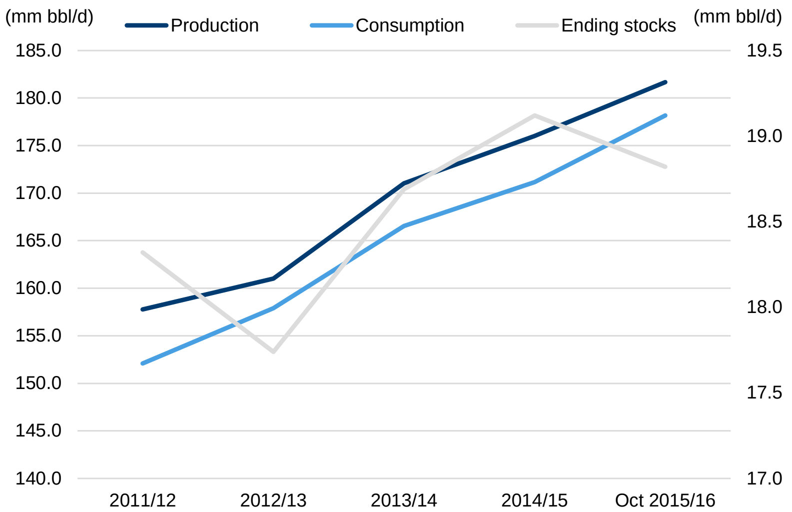
Source: EIA

CPO prices looking better too

According to the US Department of Agriculture (USDA), global edible oil production rose 2.9% to 176.01m tonnes in 2014/15 (September), and the USDA is projecting a further expansion of 3.2% to 181.66m tonnes in 2015/16. It sees production growth coming from palm oil as well as soybean oil.

Meanwhile, global consumption of vegetable oil grew 2.8% to 171.16m tonnes in 2014/15. However, it expects demand growth to pick up to 4% in the 2015/16 period to 178.17m tonnes. The stronger demand forecast is likely in part due to lower vegetable oil prices and to global economic growth.

Fig 32: Vegetable oil supply and demand over the years



Source: US Department of Agriculture

Consequently, the USDA foresees vegetable oil stocks ending down 1.6% to 18.82m tonnes in 2015/16 following a surge of 2.3% to a recent record high of 19.12m tonnes last year.

Hence things seem to be looking better for CPO if the USDA's projections come through. In fact, CPO prices are better, having recovered to RM2,331/tonne from a low of RM1,867 then.

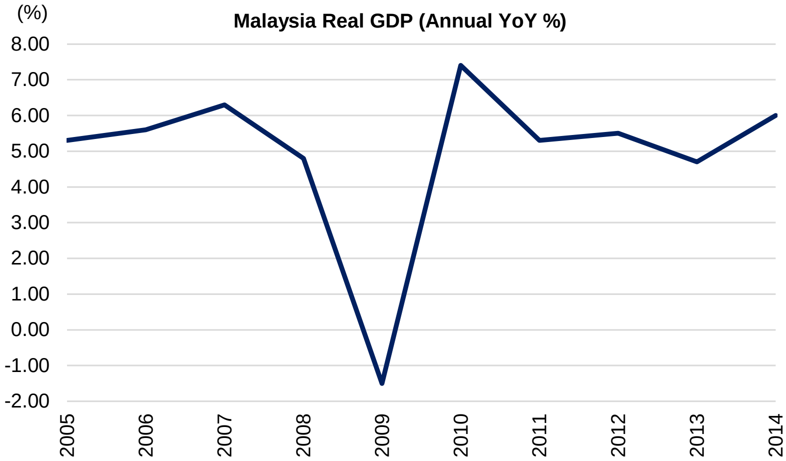
However, there are still risks associated with demand growth as 4% for 2015/16 is sharply higher than the previous year but it does not mean that it is unachievable. For instance, demand growth in 2013/14 was 5.4%. Hence consumption growth would ultimately depend on global economic growth. The other risk is if the annual soybean crop planting in Brazil is expanded, as farmers are incentivised by higher crop value due to the sharp devaluation of the Real.

Conducive macro picture

Position of macroeconomic strength

The structure of the Malaysian economy has evolved from being over-dependent on commodities and manufacturing to one that is broader and more resilient. The benefits have clearly manifested in the overall GDP numbers that have become more stable and sustainable, with economic growth of between 4.7% and 6% over the past four years.

Fig 33: Malaysia's real GDP growth



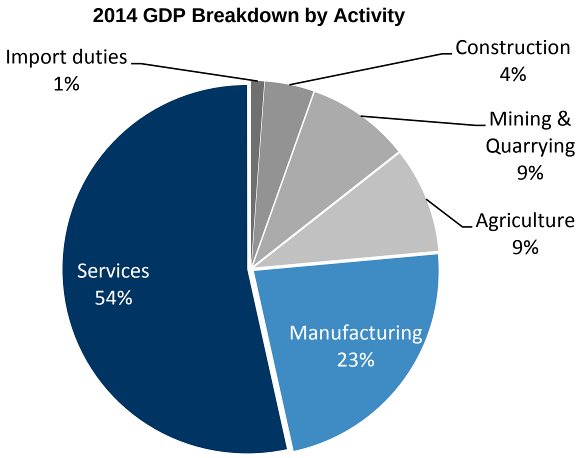
Source: Bloomberg

We begin by looking at Malaysia's growth over the past four years as an indication of broadening of GDP that has given stronger and more diversity now. We then present our GDP growth outlook for 2015 and 2016, as well as comparing it to the government's outlook.

Judging Malaysia's GDP performance over the years

One major driver is the Services sector. It has been growing steadily between 6% and 7% over the past four years. This is despite constituting the largest sector of the economy, as it benefits from the strength in domestic consumption. The manufacturing sector has shown a wider growth range of 3.4-6.2% over the same period. Manufacturing is partly supported by strong domestic activity. Up until recently, the better external environment also helped export-oriented manufacturing, especially in the electrical & electronics category.

Fig 34: Composition of real GDP, 2014



Source: MOF

The commodities-driven component of GDP is undoubtedly the most volatile part of the economy. The agriculture sector's real GDP growth ranged between 1% and 6.8%, mostly reflecting palm oil activity. The Mining & Quarrying sector ranged from a 4.9% contraction to 3.3% growth, with influence from the oil & gas industry.

The strongest growth has come from the construction sector. It delivered 4.8% to 18.1%, leaning towards mid- to high-teens territory for most of the past four years. The expansion was driven by strong property formation and new infrastructure investments with Malaysia building capacity for sustainable growth as it pushes towards 2020.

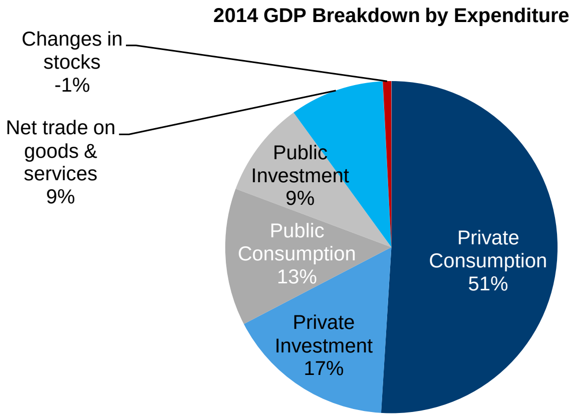
Figure 35: GDP by activity growth trends in past four years

Growth Trends from 2011-2014	
GDP	4.7-6.0%
Services	6.0-7.0%
Manufacturing	3.4-6.2%
Agriculture	1.0-6.8%
Mining & Quarrying	4.9-3.3%
Construction	4.8-18.1%

Source: Department of Statistics Malaysia

On the expenditure side, aggregate domestic demand has led the strength in the economy. It made up 91.5% of GDP in 2014. It is widely regarded that Malaysia is a trade nation, given its high exports constituting 76.1% of GDP in 2014. At the same time, imports are 66.8% of the economy, hence with net trade contributing 9.3%. Therefore, domestic demand remains key for economic growth. Its growth ranges between 5.9% and 10.7% over the past four years. It is a major reason for Malaysia's economic resilience despite the volatility in the external sector.

Fig 36: Breakdown of GDP by expenditure, 2014



Source: MOF

Anchoring economic growth is private investment that has been providing the fastest growth clip at 9.5-21.4% over the past four years. The prolonged under-investment in the economy post the 1998 Asian Crisis has created an urgent need to build private-sector capacity throughout the economy. The Economic Transformation Programme (ETP) was instrumental in kick-starting the return of investment. The entry-point projects funded by the government under the ETP provided the impetus for the quick pace of growth over the past four years.

The large multiplier effect from private investment, the low unemployment rate, stable wage growth, and the emergence of a growing middle class all support strong private consumption activity. It grew steadily between 6.9% and 8.3% annually in 2010-14.

On the other hand, government expenditure has been more volatile. Public consumption growth has gone from a high of 14.2% in 2011 to just 4.4% in 2014. Meanwhile, public investment sits between a wide range of a 4.7% contraction and 15.9% growth.

Net trade is naturally volatile, ebbing and flowing to the rhythm of the external environment. In 2014, our biggest trading partners as measured by exports were Singapore, China, Japan and the US. The four biggest countries for imports were China, Singapore, Japan and the US. Of these, Malaysia runs a trade surplus with Japan, Singapore and the US (in descending order of size) but a trade deficit with China. Overall exports have ranged from a 1.7% contraction to 5.1% growth, while imports saw 1.7% to 6.3% expansion in 2011-14.

Figure 37: GDP growth trends by expenditure over past four years

Growth Trends from 2011-2014	
Private investment	9.5-21.4%
Private consumption	6.9-8.3%
Public consumption	4.4-14.2%
Public investment	-4.7-15.9%
Exports	-1.7-5.1%
Imports	1.7-6.3%

Source: Department of Statistics Malaysia

Our GDP outlook for 2015 and 2016

We are forecasting 5.0% real GDP growth in 2015 and another 5.0% in 2016. Driving the growth is aggregate domestic demand, which we expect to rise 6% in 2015 but moderate slightly to 5.8% in 2016.

Within aggregate domestic demand, private consumption is expected to hit the lowest rate of growth in recent years in 2015 of 6.2%, before picking up to 6.5% next year. This is due to moderating consumer sentiment and knee-jerk reaction coinciding with the GST implementation in 2015. Private investment remains the fastest-growing component, due to the roll out of infrastructure projects and rising home ownership. Nonetheless, we do expect private investment to moderate from 10% in 2015 to 8% in 2016.

Public consumption growth should moderate to 3.8% in 2015 and 3% growth in 2016, as we model in better fiscal discipline in operating expenditure. Already, there are encouraging signs. The government in October announced toll-rate increases across 15 expressways in one brush, thus bringing toll rates toward the schedule in the respective concession agreements. The move reduces subsidies by the government, as it has to compensate toll operators for the difference between gazetted toll rates and those stipulated in the concession agreements. The savings could be partly redirected to development expenditure, while some could be saved. Hence we have also modelled in moderate rises in public investment of 1% in 2015, accelerating to 2% in 2016, especially as the higher development expenditure allocation kicks in.

Lastly, we expect trade to pick up, with exports turning around from a 2% contraction in 2015 to 3% expansion in 2016, while we see imports contracting 0.7% in 2015 but growing 3.5% the following year.

Figure 38: Malaysia's GDP growth projections

	2013	2014	2015F	2016F	2013	2014	2015F	2016F	2013	2014	2015F	2016F
	%yoy				Share of GDP				% points to GDP			
GDP by Expenditure Components												
Total Consumption	7.0	6.4	5.7	5.8	65.2	65.4	65.9	66.4	4.4	4.2	3.7	3.8
Private consumption expenditure	7.2	7.0	6.2	6.5	51.4	51.8	52.4	53.2	3.6	3.6	3.2	3.4
Public consumption expenditure	5.9	4.4	3.8	3.0	13.8	13.6	13.4	13.2	0.8	0.6	0.5	0.4
Total Investment	8.2	4.8	6.7	5.9	26.4	26.1	26.5	26.8	2.1	1.3	1.7	1.6
Private investment expenditure	12.8	11.0	10.0	8.0	15.9	16.6	17.4	17.9	1.9	1.8	1.7	1.4
Public investment expenditure	1.9	-4.7	1.0	2.0	10.5	9.5	9.1	8.8	0.2	-0.5	0.1	0.2
Domestic Demand	7.3	5.9	6.0	5.8	91.6	91.5	92.4	93.1	6.5	5.4	5.5	5.4
Net exports	-9.8	12.8	-11.3	-1.0	8.8	9.3	7.9	7.4	-1.0	1.1	-1.1	-0.1
Exports	0.3	5.1	-2.0	3.0	76.7	76.1	71.0	69.7	0.2	3.9	-1.5	2.1
Imports	1.7	4.2	-0.7	3.5	68.0	66.8	63.2	62.3	1.2	2.8	-0.5	2.2
GDP (2010 real prices)	**4.7**	**6.0**	**5.0**	**5.0**	**100.0**	**100.0**	**100.0**	**100.0**	**4.7**	**6.0**	**5.0**	**5.0**
GDP By Kind of Economic Activity												
Agriculture, Forestry and Fishing	1.9	2.1	-2.0	1.0	9.5	9.2	8.6	8.2	0.2	0.2	-0.2	0.1
Mining and Quarrying	1.2	3.3	8.0	4.0	9.2	9.0	9.2	9.1	0.1	0.3	0.7	0.4
Manufacturing	3.4	6.2	5.0	5.5	22.9	23.0	23.0	23.1	0.8	1.4	1.1	1.3
Construction	10.8	11.8	9.0	7.5	4.0	4.3	4.4	4.5	0.4	0.5	0.4	0.3
Services	6.0	6.5	5.5	5.3	53.2	53.5	53.6	53.9	3.1	3.5	2.9	2.8
GDP (2010 real prices)	**4.7**	**6.0**	**5.0**	**5.0**	**100.0**	**100.0**	**99.9**	**100.0**	**4.7**	**6.0**	**5.0**	**5.0**

Source: MOF, Affin Hwang

The services sector is expected to remain healthy, although we see the growth rate slowing moderately from 5.5% in 2015 to 5.3% in 2016, which ties in with the slightly lower expansion in aggregate domestic demand. We see manufacturing picking up from 5% growth in 2015 to 5.5% in 2016, in line with better trade, partly driven by improved global growth and the weaker Ringgit. Construction growth should decline to 9% in 2015 and 7.5% the next year, after growing rapidly over the past few years. We see mining growth halving from 8% this year to 4% in 2016, due to a high base with new oil production from new fields this year. Lastly, agriculture should turnaround from a 2% decline in 2015 to a 1% rise next year.

Federal Government GDP projections for 2015

In its latest Economic Report, the Federal Government is projecting an unchanged GDP growth range of 4.5% to 5.5% in 2015, versus the 6% achieved in 2014. Anchoring the growth would be domestic demand, which is expected to grow 5.9% or at the same level as 2014. Within domestic demand, private expenditure is projected to post the strongest rate of 6.9%, though a slowdown from the 7.9% last year.

The government anticipates private consumption to remain robust at 6.8% (2014: 7%) despite the introduction of the GST this year. On the one hand, GST increases the cost of goods and services, but on the other, lower fuel costs have dampened inflationary pressure. A strong labour market with a low unemployment rate and wage growth is also supportive of private consumption. Transfers by the government in the form of Bantuan Rakyat 1Malaysia (BR1M) should also help sustain consumption.

Private investment growth is expected to moderate to 7.3% in 2015 (2014: 11%), partly due to adjustments to new global and domestic economic conditions. However, the government expects strong domestic demand to continue drawing investments into the services (for consumer-related activities) and manufacturing (export-oriented) sectors. High approved investments and capital allocations for economic corridors should also be supportive.

It further sees public expenditure on target for a 2.8% YoY rise in 2015 (2014: +0.4%). Public consumption is expected to moderate to 3.6% (2014: 4.4%) with fiscal consolidation efforts targeted at rationalising operating expenditure. It sees public investment rebounding to 1.6% growth (2014: -4.7%) due to higher spending by the government and public corporations. Net exports are expected to decline by 12.3% this year (2014: +12.8%) due to the vagaries of the external environment.

The government sees all sectors growing for GDP by supply in 2015. Services sector is expected to witness 5.7% growth (2014: 6.5%) with reasonable strength in domestic demand. Manufacturing should slow to 4.5% in 2015 (2014: 6.2%) due to both domestic and export-oriented industries. It expects the Agriculture sector to grow 1.3% in 2015 (2014: 2.1%) on higher food commodity and crude palm oil production. Mining growth is likely to be 3.5%, accelerating from 3.3% in 2014, due to higher production of crude and natural gas despite the lower prices. Construction should rise 8.8% (2014: 11.8%) with the implementation of large infrastructure projects, though the slowdown is partly due to a high base after multi-year double-digit growth.

Federal Government GDP projections for 2016

What we are more interested in is growth in 2016. Here, the government expects a lower range of 4-5% GDP expansion, which takes into account the growth slowdown in emerging markets, particularly China. It sees domestic demand rising by 5.5% (2015: 5.9%) with private expenditure driving the improvement at 6.4% (2015: 6.9%) compared to public expenditure at 2.7% (2015: 2.8%). A net trade contraction of 4.4% would be an improvement from the previous year (2015: -12.3%).

It expects private consumption to remain resilient at 6.4% growth, though a slowdown from the anticipated 6.8% in 2015. The reasons given are: stable employment prospects, favourable wage growth, easy access to credit, BR1M transfer, accommodative interest rates and benign inflation.

Private investment expansion of 6.7% in 2016E (2015E: 7.3%) is expected to come from the manufacturing and services sectors, as the government continues to promote domestic investment, particularly among SMEs. We have already seen the government announcing in September an additional RM2bn allocation for SMEs for all sectors, as part of the working capital guarantee scheme besides an existing RM5bn set aside specifically for the services sector. This is in addition to the Budget 2016 initiative to subsidise financing profit for Shariah-compliant SMEs to the tune of RM1bn.

Public consumption growth is expected to slow to 3% in 2016 (2015: 3.6%) as the government rationalises spending in favour of some expansion in fiscal spending via higher development expenditure. As a result, public investment growth is expected to rise to 2.3% (2015: 1.6%). Ongoing large infrastructure projects should also contribute to its higher growth rate. Lastly, it expects net exports to decline 4.4% in 2016, taking into account the weaker external environment, though an improvement from the 12.3% expected in 2015.

The Federal Government expects all sectors of the economy to post growth in 2016. It sees the services sector at 5.4% (2015: 5.7%), supported by ongoing domestic consumption activity and better tourism receipts due to the implementation of the Malaysia Tourism Transformation Plan. It sees the manufacturing sector rising 4.3% (2015: 4.5%), courtesy of both export-oriented industries benefiting from improvements in advanced economics and domestic-oriented industries supported by local economic activities. Lastly, construction sector growth is expected to moderate to 8.4% (2015: 8.8%), due to the high base and continued build-out of large-scale infrastructure projects.

On the commodities front, it expects the agriculture sector to sustain growth at 1.3% (2015: 1.3%), due to higher production of palm oil, rubber and food commodities. Mining sector growth of 4% (2015: 3.5%) would be due to higher production of crude oil, condensate, and natural gas production.

Fig 39: Our GDP growth projections versus MOF

%yoy	2012	2013	2014	2015F	2016F	2015E MOF	2016F MOF
GDP by Expenditure Components							
Total Consumption	7.7	7.0	6.4	5.7	5.8	6.1	5.7
Private consumption expenditure	8.3	7.2	7.0	6.2	6.5	6.8	6.4
Public consumption expenditure	5.4	5.9	4.4	3.8	3.0	3.6	3.0
Total Investment	19.0	8.2	4.8	6.7	5.9	5.2	5.1
Private investment expenditure	21.4	12.8	11.0	10.0	8.0	7.3	6.7
Public investment expenditure	15.9	1.9	-4.7	1.0	2.0	1.6	2.3
Domestic Demand	10.7	7.3	5.9	6.0	5.8	5.9	5.5
Net exports	-25.1	-9.8	12.8	-11.3	-1.0	-12.3	-4.4
Exports	-1.7	0.3	5.1	-2.0	3.0	-0.8	0.9
Imports	2.9	1.7	4.2	-0.7	3.5	0.8	1.5
GDP (2010 real prices)	**5.5**	**4.7**	**6.0**	**5.0**	**5.0**	**4.5-5.5**	**4.0-5.0**
GDP By Kind of Economic Activity							
Agriculture, Forestry and Fishing	1.0	1.9	2.1	-2.0	1.0	1.3	1.3
Mining and Quarrying	1.6	1.2	3.3	8.0	4.0	3.5	4.0
Manufacturing	4.4	3.4	6.2	5.0	5.5	4.5	4.3
Construction	18.1	10.8	11.8	9.0	7.5	8.8	8.4
Services	6.5	6.0	6.5	5.5	5.3	5.7	5.4
GDP (2010 real prices)	**5.5**	**4.7**	**6.0**	**5.0**	**5.0**	**4.5-5.5**	**4.0-5.0**

Source: MOF, Affin Hwang

Government vs. our forecasts

On the surface, the government's GDP growth target for 2016 is unexciting, at a lower range of 4-5% for 2016, versus 4.5-5.5% for 2015. However, closer examination reveals that the government is expecting reasonably resilient domestic demand, with a bigger drag from net trade. It does seem like the government has factored in a more prudent picture on external trade, given the concerns on emerging-market growth this year.

Just to give a sense, we are estimating domestic demand to grow 6% in 2015, while the government is looking at about the same, at 5.9%. The difference is that we see net trade contracting 11.3% versus 12.3% by the government. As for 2016, we are looking at 5.8% domestic demand, with a net trade decline of 1%, but the government is forecasting 5.5% and 4.4% drops, respectively. That largely explains the 4-5% GDP growth range for the government.

The key point to make here is that although our GDP forecast is at the top end of the government's range, the underlying resilience of the domestic economy is supportive of earnings growth, in our view. The importance of domestic economy is apparent, constituting 92.3% of GDP in 2015, up from 91.5% in 2014.

Resilient economic structure apparent

Overall, the key observation as we run through the structure of the GDP is the breadth of the Malaysian economy. Private consumption activity has been the cornerstone of the economy. Taken together with buoyant investment activity, we believe it becomes a formidable combination to support economic growth.

The analysis on GDP by supply tells a similar story. The structure of the economy is quite well balanced, with large services and manufacturing sectors. It also has large natural resources such as palm oil that get captured under the agriculture sector, as well as oil & gas in mining. Construction is the smallest, but is nonetheless an important sector to build capacity catering to growth.

Malaysia is blessed with commodities and natural resources, an advantage that many other countries do not possess. The clear benefit is that it allows domestic sourcing of these materials instead of importing, while any production in excess of domestic requirement can be sold to generate export income.

Clearly, the presence of commodities and natural resources without an overarching reliance on it strengthens the structure of the economy. On the other hand, Malaysia will need to contend with the volatile nature of commodities and manage their impact on the economy. The agriculture sector's performance would depend on output and weather patterns.

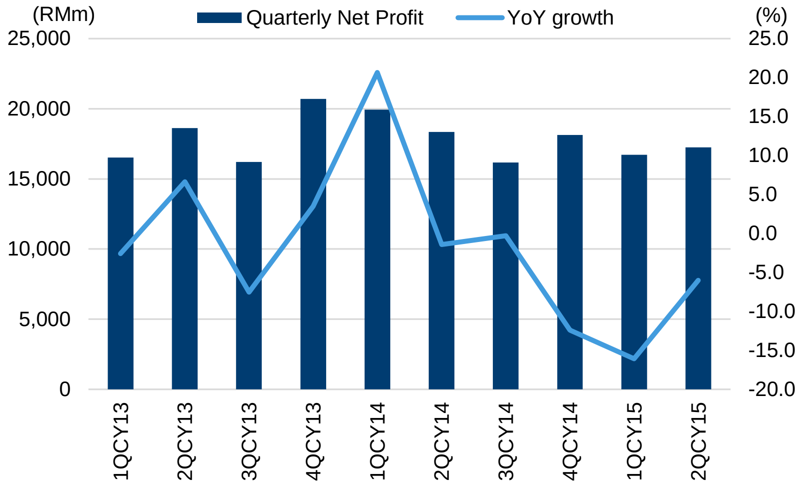
Lastly, the resilience of domestic demand is very important because the KLCI is highly dependent on the domestic economy. We believe that conditions would be conducive for earnings growth if the anticipated domestic demand growth comes through with a cooperative external environment.

Earnings trajectory

Quarterly trend

After growing by 20.6% YoY in 1QCY14, net profit for our universe of 98 stocks under coverage contracted by 1.4% in 2QCY14, signalling the start of five consecutive quarters of decline to 2QCY15. The fall accelerated to 12.4% in 4QCY14, and at its worst hit a 16.1% YoY fall in 1QCY15. It dropped by a further 6.0% YoY in 2QCY15. The good news is that the rate of decline is moderating, with 1QCY15 perhaps representing the worst.

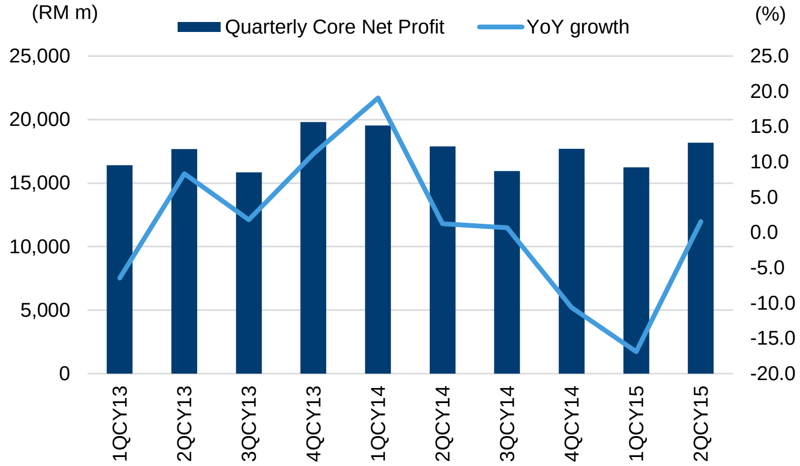
Fig 40: Quarterly net profit trend of our stock universe



Source: Affin Hwang

In addition, we look at core net profit trajectory for stocks in our coverage universe. We use core net profit as a proxy for the operating profitability of the stocks. The main difference is that it excludes exceptional items that are usually related to forex movements, write-downs of assets and other one-off items, thus giving insight into profitability of operations. On this measure, core net profit growth was strong at 19.1% YoY in 1QCY14 and started to slow in 2QCY14 to 1.2% YoY and further to 0.7% in 3QCY14. But unlike net profit, core net profit was volatile over the next four quarters. It declined by 10.6% YoY in 4QCY14, accelerating to 16.9% YoY in 1QCY15 but was up 1.5% YoY in 2QCY15 (vs five quarters of consecutive declines in net profit).

Fig 41: Quarterly core net profit trend of our stock universe



Source: Affin Hwang

Core net profit implies that, at the operating level, companies are doing not as badly as net profit is suggesting. It also indicates that companies are being hit by non-operating items that are nonetheless shrouding the current market, such as the weak Ringgit (forex losses for those carrying USD loans or deals in USD) and low Brent crude oil prices (oil & gas companies making impairments on assets).

A final note is that net profit measurement is more appropriate than core net profit under the current environment, in our view. This is because it encompasses items such as forex, which is clearly a major market concern at this point of time given its large movements over the past few months. Also, certain provisions on asset impairment means that depreciation rates should decline in the future; hence we think it is unfair to look at core net profit that strips asset impairments out but does not adjust for the fact that depreciation is due to come down in the future. We will be discussing market earnings appropriately based on net profit rather than core net profit. We use our coverage universe as a proxy for the KLCI.

Looking for that inflection point

At this juncture, market net profit has declined by five consecutive quarters and the latest 2QCY15 results season demonstrated a 6% YoY fall. It is possible, and in fact many are expecting that market net profit will continue to fall in 3QCY15, given further currency weakness even if operating profit remains in positive growth territory.

Fundamentally, the market cannot outperform if market participants are still expecting net profit to fall. Therefore, we believe earnings inflection is important and it will be useful as a gauge of when the market could turnaround.

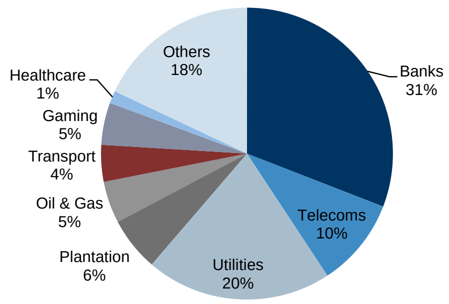
The easiest approach is to first look at the market net profit base. As we pointed out earlier, 2QFY14 was the first of five consecutive quarters of net profit declines, at 1.4% YoY. The net profit contraction accelerated in 4QCY14 to 12.4% and worsened to 16.1% in 1QCY15, before narrowing to a 6% YoY decline in 2QCY15. We hope that 1QCY15 is the peak contraction. If we look at this trajectory, there is a possibility that 4Q of this year could see a return to growth. If that does not happen then 1QCY16 looks promising given the lowered base. For 4QCY15, the results season will be February 2016, while for 1QCY16 it will be announced in May 2016.

What can push back the inflection point?

Undoubtedly there are still risks lurking around the corner, especially over the short term, which could derail or push back the quarter that market net profit returns to growth. It is therefore prudent to examine the factors that may do so in a bit more detail.

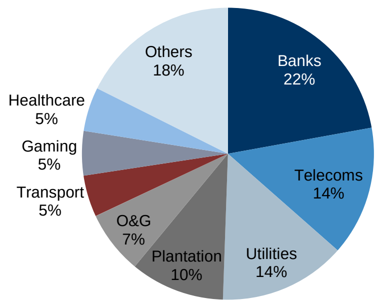
We take a bigger picture approach in doing so. Looking at 1HCY15 market net profit, the banking sector is the largest constituent at 31% of total. This is followed by utilities at 20%, telcos at 10%, plantations at 6% and oil & gas at 5%. In other words, the top 5 sectors make up 72% of the market earnings.

Fig 42: Breakdown of 1HCY15 earnings contribution



Source: Affin Hwang

Fig 43: Breakdown of market cap by sector



Source: Affin Hwang

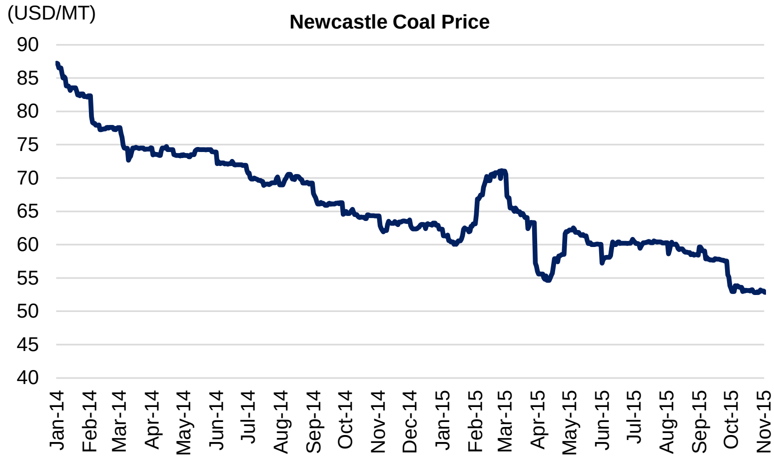
Similarly, we look at the breakdown by market cap. Banks contribute 22% of our coverage, utilities make up 14%, telcos constitute 15% of total market cap, plantations make up 10% and oil & gas is 7% of the total. From a market cap perspective, the top 5 sectors make up 68% of our coverage universe.

If we put the two side by side, we can see that banks punch above their weight in terms of contribution to net profit (31%) relative to market cap composition (22%). The other sector that contributes more net profit than its market value is utilities, while telcos, plantations and oil & gas have higher market values than their share of net profit. Overall, the top 5 sectors contribute more net profit (72%) than their market cap share (68%) of our total coverage universe.

It follows that it makes most sense by examining these five sectors as they make up more than two-thirds of the market. In particular, we look at potential factors that could cause earnings to fall further for these five major sectors.

Banks: Sector net profit has been on a downward trajectory since hitting a high in 3QCY14. Hence 3QCY15 could still be challenging due to a high base. Unexpected impairments, normalisation of credit cost, larger-than-expected NIM compression and higher funding cost are potential risks to quarterly earnings. In particular, there could be still unexpected impairment of loans at CIMB's Indonesia operation over the next few quarters. This is especially so when coal prices have fallen further from about US$60/MT throughout much of 3QCY15 to US$53/MT now.

Fig 44: COAL PRICES



Source: Bloomberg

Utilities: There could be continual losses at Kapar power plant that drags down profitability at Tenaga and Malakoff. Apart from that, Tenaga could face lower over recovery of fuel pass-through given that the US Dollar has strengthened, thus reducing the over-recovery for the coal portion. Meanwhile, YTL Power could be a risk if it continues to lose market share at Power Seraya.

Telcos: Sector net profit has been relatively resilient in the past. However, recently it has become more susceptible due to competition and cost pressure. The potential entry of Telekom Malaysia into the full cellular mobility space could also disrupt sector earnings.

Plantations: Pressure on plantation sector earnings has abated a bit as CPO prices have rebounded from a low of U$1,867/t towards the latter part of August 2015 to RM2,331 now. However, the price now is still lower than the first half of 2015; hence as we enter next year, there could be some base effect on earnings if the CPO price stays the same. Some risk on CPO could also come from the annual crop planting in Brazil, which is having its soybean production numbers being revised up.

Oil & Gas: Ongoing cutbacks at oil majors could mean more pain at oil & gas services companies. Sector earnings likely still going through adjustments and further asset impairments could hit earnings.

Affin Hwang's earnings forecasts

Based on our stock universe, we are forecasting a 2.7% fully diluted EPS contraction in 2015, followed by a 7.4% rise in 2016. Sectors that should grow above the average 7.4% in 2016E and be the fastest-growing are plantations, rubber products, media, autos, timber and healthcare. Below is a summary of the sectors that are growing above, in line and below our 2016E market average.

Fig 45: Average 2016E sector EPS growth vs KLCI average of 7.4%

Below	%	In line	%	Above	%
Construction	-3.1	Banks	6.4	Auto& Autoparts	19.6
Consumer	2.8	Building Materials	6.6	Healthcare	18.1
Gaming	5.5	Transport	6.8	Media	20.5
MREIT	2.6			Oil & Gas	15.8
Property	-1.6			Plantation	33.2
Telecommunications	2.4			Integrated Rubber Products	21.7
Utilities	3.2			Technology	9.5
				Timber	18.4

Source: Affin Hwang

Sector and stock strategy

Conducive backdrop

Thus far, we have identified the confluence of factors roiling the Malaysian market and condensed it into two root causes – concerns on global growth and the timing of the expected increase from the zero-bound Fed fund rate in the US. We have looked at a few parameters and conclude that there is enough policy headroom in China to counter the slowdown. In addition, we believe interest rate normalisation in the US, when it happens, would be good for KLCI. In fact, the IMF in its latest WEO, is projecting global growth to rise from 3.1% in 2015 to 3.6% in 2016. Meanwhile, the EIA expects the Brent crude oil price to be stable to higher next year, while CPO prices have strengthened.

The Malaysian economy and financial markets are clearly undergoing an adjustment to the sharp decline in crude oil prices, currency weakness, slower global growth, abrupt capital flows, poorer sentiment on emerging markets and volatile global financial markets. Despite all these, we believe the Malaysian economy has weathered the headwinds well. The economy is still growing at a reasonable clip; the banking sector is a sturdy testament, based on low impaired loans, high loan loss cover and healthy capital ratios; fund flows have weakened the Ringgit but international reserves are still high; and companies have manageable gearing positions.

We believe that this backdrop is conducive to earnings growth. There is a misconception that the Ringgit has to return to sub-RM3.50 to the US Dollar, Brent crude oil has to revisit the US$100/b level, CPO prices have to recover sharply, and global growth has to improve significantly.

That is untrue, in our view.

The current earnings base that we have is adjusting to these changes and the market price should be reflecting the current realities given that the market is efficient. As long as these parameters remain stable, GDP growth in 2016 should translate into growth of this earnings base. Of course, if these parameters recover, then it should be an added bonus to market earnings, and likewise the risk is if we have a deteriorating environment.

Therefore, we have turned more aggressive in our sector recommendation as we look 12 months ahead. There could be further short-term fluctuations due to sentiment, but they would likely contribute to the noise rather than the actual reflection of fundamentals. It is difficult, and some would argue that it is even impossible, to navigate the short-term noise; hence our stock strategy is based on fundamentally sound sectors, as follows.

Fig 46: Sector positioning for 2016

Overweight	Neutral	Underweight
Banks (↑)	Auto & Autoparts	Building Materials
Construction	Consumer	Oil & Gas (↓)
Gaming (↑)	Media	
Healthcare	Plantation	
MREIT	Rubber Products (↓)	
Property (↑)	Telecommunication	
Technology	Transport & Logistics	
Timber (↑)	Utilities (↓)	

Source: Affin Hwang; note: sectors upgraded (↑), *sectors downgraded* (↓)

Overweight sectors

We give our reasons for the Overweight classifications from a sector strategy perspective over a 12-month period below.

Banks: We upgrade the sector from Neutral. We believe poor sentiment surrounding the state of Malaysia's economic growth, compounded by the effects of the global slowdown, have battered banks. However, as the dust settles, we find that the macro environment is actually quite supportive of growth. Banks are leveraged to GDP growth and should benefit if Malaysia continues to show decent economic activities in 2016, especially with normalising sentiment. Valuation is cheap, with the banks trading at a 12x 2016E PE and at a range of 0.7-1.3x P/B, excluding Public Bank's 2.1x multiple.

Construction: Remains an Overweight call. The sector is a prime beneficiary of various infrastructure projects that are being implemented in Malaysia. The government is pushing ahead with investment in infrastructure as Malaysia pushes towards developed-nation status in 2020. We expect major news flow, tenders and project awards next year for the MRT Line 2, LRT Line 3, West Coast Expressway, Tun Razak Exchange, Kwasa Land, and much more in the pipeline. In fact, the recent Budget 2016 has a tally of RM85bn of projects to be implemented over the next few years with many expected to be kick-started in 2016.

Gaming: We upgrade the sector from Neutral. It provides consumption exposure through the leisure & hospitality segment, where the structure of Malaysia's GDP should increasingly skew towards private consumption with higher demand for leisure activities. The industry is also investing in capacity expansion for the future.

Healthcare: Although valuation is at a premium, we maintain our Overweight on the sector as we like the growth in healthcare demand as Malaysia transforms into a developed-income nation. With higher disposable income, demand for better healthcare via the private sector should grow. Also, Malaysia has a well-developed insurance industry, which should be supportive of private healthcare demand.

Malaysian REIT: We retain MREIT as Overweight. It provides a good balance of property appreciation plays, consumption exposure, and attractive yields. The major malls in Kuala Lumpur could also benefit from tourism, courtesy of the weak Ringgit on top of existing patronage by locals.

Property: We upgrade property from Neutral. Young demographics, with 63% of the population below 35 years of age, with strong household formation should ensure structural demand for homes. A good banking system and high savings rates are other supportive factors. Urbanisation through migration to city centres is also good for the sector.

Technology: Global growth is anticipated to pick up in 2016 and should benefit the sector. In particular, strong growth in smartphones and Internet of Things should continue to support companies that cater to these segments. We retain technology as an Overweight.

Timber: We upgrade the sector from Neutral. A large portion of the timber companies have young and growing oil palm estates that should provide FFB production growth. This is a huge benefit and should provide downside support if CPO prices fall but magnify profitability if prices rise.

Neutral sectors

We explain reasons for our Neutral call on the sectors below but also give a sense of the factors that could tip them to Overweight or Underweight.

Autos: While we believe that car sales, especially for the bread and butter mass-market volume marques, should continue to see strong demand, UMW remains a drag, not so much from its car segment but from its oil & gas division. We would need to see a bottoming of its oil & gas business if we were to consider an upgrade of the sector. Meanwhile, we maintain autos as Neutral.

Consumer: We are in a quandary over this sector. A key concern has been GST, where consumer sentiment has been hit. However, we see GST as transitory in nature, with its impact quickly diminishing with each month as consumers adjust to the new tax. Meanwhile, we believe that, in next 12 months, prospects will improve, but that consumer stocks under coverage are mostly MNCs that have held up rather well. Hence valuation is demanding. We retain our Neutral stance on the sector.

Media: The media sector is a tale of two extremes. On one hand, we do not like the traditional media stocks, given structural shifts in advertising spending in keeping with changes in consumer behaviour. Hence newspaper and FTA companies are suffering. On the other hand, we like Astro, which is a play on household formation and a beneficiary of winning adex market share from the FTA segment. It is a sector that we maintain as Neutral.

Plantations: Again we are in a quandary. We expect a higher average CPO price of RM2,400/t in 2016 relative to RM2,150 in 2015, due to better demand. In fact, the CPO price has adjusted upwards recently to RM2,330/tonne. However, the large-cap stocks hardly moved when CPO prices fell, and those that did due to market volatility quickly rebounded. Hence valuation is still quite lofty. At this juncture, we maintain plantations as Neutral.

Rubber products: The sector is enjoying the rare combination of low natural rubber latex and nitrile butadiene input costs and higher revenue due to USD-denominated selling prices. Hence margins have expanded. However, the market likely has priced these in. More specifically, we worry that the market is pricing in sustainable margin levels over the next 12-15 months. Raw material prices may stay low for a longer time, but over the next 12 months we believe that the bias is for the Ringgit to strengthen. Hence there could be downside from these elevated levels. As such, we downgrade the sector from Overweight and will keep a close eye on downside risk factors.

Telco: Structurally significant data demand and increasing connectivity to the web via Internet of Things should bode well for telcos. However, subscriber penetration rates are high and competition is gradually eroding data rates. Also, new entrants offering a full suite of mobility services by the end of this year could destabilise the cellular segment. We retain our Neutral weighting on the sector but with a downward bias, especially if the new entrant proves to be a destabilising force.

Transport & Logistics: The sector should benefit if global economic activity picks up. However, we maintain our Neutral stance on the sector mainly because of our Hold call on MISC, which is the largest stock in the group.

Utilities: Earnings growth remains stable for the sector and should remain so, even under a better GDP environment. Furthermore, we had downgraded Tenaga from Buy to Hold, and being a heavyweight in the sector, it has also prompted us to downgrade the sector from Overweight.

Underweight sectors

Lastly, we have two sectors that we Underweight.

Building materials: The infrastructure investment boom in Malaysia is positive for the sector. However, weaker global prices and new domestic capacity are putting pressure on local prices. Valuation for some stocks under coverage is also demanding. Hence we reiterate our Underweight.

Oil & gas: The global environment for oil & gas services remains challenging, as global oil majors continue to adjust their operating and capital expenditures on lower crude oil price baseline assumptions. Stock prices have fallen but valuation for many is still lofty relative to the KLCI. The primary worry is if oil & gas stocks enter a period of de-rating, where share prices could stay flat even if earnings growth, albeit tepid, comes through.

Fig 47: Summary of sector valuations

Sector	Rating	Market Cap (RMm)	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PE (x) 2015E	PE (x) 2016E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	Yield (%) 2015E	Yield (%) 2016E	P/BV (x) 2015E	P/BV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E
Banks & Financial Services	OW	261,216.9	(4.2)	6.4	13.2	12.4			3.6	3.7	1.8	1.7	10.9	11.0
Auto & Autoparts	N	11,359.4	(10.9)	19.6	15.4	12.9	8.0	9.8	4.4	5.6	1.1	1.2	7.0	8.7
Building Materials	UW	8,127.5	21.5	6.6	25.1	23.6	12.8	11.0	3.1	3.2	1.0	1.0	7.2	9.0
Construction & Infrastructure	OW	28,245.6	6.0	(3.1)	14.6	15.1	13.1	12.9	3.6	3.8	1.1	1.0	8.9	7.9
Consumer	N	52,089.6	4.6	2.8	23.1	22.4	11.9	11.3	4.1	4.2	8.2	7.9	25.7	25.7
Gaming	OW	57,941.8	16.0	5.5	16.1	15.3	6.1	5.7	3.0	3.0	2.7	2.5	4.9	4.8
Healthcare & Pharma.	OW	57,355.8	23.3	18.1	52.7	44.6	24.3	21.3	1.0	1.2	2.9	2.7	5.0	5.6
Media	N	19,175.6	33.1	20.5	19.9	16.5	7.9	7.5	6.2	6.5	5.3	4.4	23.5	25.1
MREIT	OW	23,698.5	32.2	2.6	17.1	16.7	15.6	15.0	5.7	6.1	1.2	1.2	6.5	6.8
Oil & Gas	UW	82,606.9	(2.2)	15.8	20.2	17.4	10.7	10.5	1.2	1.4	1.3	1.2	7.7	8.4
Plantation	N	123,020.0	(15.3)	33.2	24.8	18.6	16.3	13.1	2.1	3.2	2.2	2.1	8.0	11.0
Property	OW	29,371.9	(2.5)	(1.6)	10.3	10.5	9.8	9.7	3.5	4.1	0.9	0.9	8.5	8.2
Rubber Gloves	N	23,500.7	36.4	21.7	20.9	17.2	18.3	13.5	1.6	2.6	4.4	3.9	15.3	18.9
Technology	OW	9,163.9	29.4	9.5	16.9	15.4	8.1	7.8	3.2	3.7	4.5	4.0	18.0	17.7
Telecoms	N	169,004.8	3.7	2.4	23.5	22.9	10.5	10.3	4.0	4.1	19.0	19.0	20.9	21.1
Timber	OW	3,155.7	17.6	18.4	13.1	11.0	7.5	6.7	2.6	2.8	0.8	0.7	5.1	6.1
Transports & Logistics	N	54,210.2	(2.2)	6.8	19.4	18.1	12.5	12.5	1.0	1.1	2.2	0.2	5.3	5.9
Utilities	N	165,837.2	(1.5)	3.2	14.5	14.0	8.7	8.4	3.6	3.8	1.5	1.4	11.1	10.7
Coverage		**1,179,081.9**	**(2.7)**	**7.4**	**17.7**	**16.5**	**12.8**	**12.0**	**3.3**	**3.5**	**2.2**	**2.1**	**9.7**	**10.1**

Source: Affin Hwang, Bloomberg, pricing as of 2 Nov 2015

Stock picks for 2016

Against the backdrop of a stable operating environment, we believe that GDP growth could provide the impetus for growth. Hence our stock picks are naturally geared towards this bias. We have expanded our buy list to 18 stocks from ten previously. The bigger challenge for us is to find our list of stocks to avoid given that many have corrected, which we have managed to expand to 8 from 5 previously. Snapshots of the companies that we have chosen are as follows.

Fig 48: Top buys and stocks to avoid

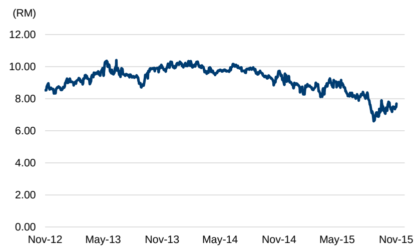
Stock	Rating	Price (RM)	TP (RM)	Upside (%)	Mkt Cap (RMm)	Core net profit (RMm) FY15	FY16	Core PE (x) CY15	CY16	EPS growth (%) CY15	CY16	PBV CY15	CY16	DPS FY15	FY16	Div. Yield (%) FY15	FY16	ROE (%) FY15	FY16
Top Buys																			
AEON CREDIT	BUY	12.68	14.80	16.7	1,826	231.7	256.6	8.5	7.7	1.5	1.6	2.3	1.9	0.6	0.6	4.5	4.9	29.4	27.4
AFG	BUY	3.48	4.50	29.3	5,387	526.0	537.6	10.3	10.0	0.3	0.3	1.1	1.1	0.1	0.1	4.1	4.2	11.1	10.7
CIMB	BUY	4.59	5.90	28.5	39,140	3,380.4	4,430.2	9.6	8.7	0.5	0.5	1.0	0.9	0.2	0.2	3.5	4.6	8.6	10.5
E&O	BUY	1.60	2.54	58.8	2,051	145.7	148.3	15.6	14.6	0.1	0.1	1.4	1.3	0.0	0.0	1.4	1.9	8.6	8.2
GAMUDA	BUY	4.51	5.84	29.5	10,851	670.4	678.6	16.2	15.9	0.3	0.3	1.7	1.6	0.1	0.1	2.7	2.7	10.3	9.9
GENTING	BUY	7.48	9.15	22.3	27,991	1,826.2	1,952.0	15.2	14.2	0.5	0.5	0.5	0.5	0.1	0.1	1.1	1.2	3.4	3.4
IGB REIT	BUY	1.35	1.60	18.5	4,679	276.9	293.5	16.8	16.0	0.1	0.1	1.3	1.3	0.1	0.1	6.6	6.9	7.6	8.0
IJM CORP	BUY	3.35	3.76	12.2	11,969	828.4	847.2	22.3	18.8	0.2	0.2	1.1	1.0	0.1	0.1	3.4	3.2	7.9	7.4
INARI	BUY	3.54	3.89	9.9	2,586	169.2	198.5	15.8	12.6	0.2	0.3	4.3	3.6	0.1	0.1	2.7	3.2	28.5	27.5
JAKS RESOURCES	BUY	1.20	1.60	33.3	526	22.5	67.7	23.5	7.8	0.1	0.2	0.9	0.7	-	-	-	-	3.8	9.4
KPJ	BUY	4.25	4.75	11.8	4,480	166.1	183.4	30.8	27.8	0.1	0.2	3.2	3.0	0.1	0.1	1.4	1.8	11.3	11.5
MBMR	BUY	2.70	3.45	27.8	1,055	120.0	149.8	8.8	7.0	0.3	0.4	0.5	0.5	0.1	0.1	4.1	4.4	5.9	6.9
PUBLIC BANK	BUY	18.08	21.80	20.6	70,189	4,537.2	4,724.3	15.5	14.9	1.2	1.2	2.3	2.1	0.6	0.6	3.0	3.2	14.9	14.3
PAVILION REIT	BUY	1.51	1.88	24.5	4,557	242.6	262.3	18.8	17.4	0.1	0.1	1.2	1.2	0.1	0.1	5.7	6.2	6.4	6.8
TA ANN	BUY	3.88	4.46	14.9	1,438	119.5	134.6	12.0	10.7	0.3	0.4	1.2	1.2	0.2	0.2	5.2	5.2	10.1	10.9
UOA DEVELOPMENT	BUY	2.12	2.25	6.1	3,223	287.2	351.6	9.9	8.1	0.2	0.3	1.2	1.1	0.1	0.1	5.2	6.1	10.6	12.2
WCT	BUY	1.36	1.84	35.3	1,645	125.4	145.9	22.3	13.2	0.1	0.1	1.0	0.9	0.1	0.1	4.4	4.4	5.4	6.1
WTK	BUY	1.12	1.26	12.5	539	47.0	53.9	11.4	9.9	0.1	0.1	0.4	0.4	0.0	0.0	1.4	1.6	3.4	3.8
Stocks to Avoid																			
FELDA	SELL	1.78	1.32	(25.8)	6,494	89.2	401.7	74.2	16.2	0.0	0.1	1.0	1.0	0.0	0.1	1.1	4.5	1.4	6.2
MAXIS	HOLD	6.56	6.70	2.1	49,264	1,902.3	1,923.3	25.9	25.6	0.3	0.3	10.5	10.7	0.3	0.3	4.0	4.1	40.5	41.9
MCIL	SELL	0.58	0.48	(17.2)	979	127.5	134.8	7.5	7.2	0.1	0.1	1.2	1.0	0.0	0.0	5.9	6.2	15.1	14.4
MMHE	SELL	1.11	0.97	(12.6)	1,776	129.6	135.2	13.7	13.1	0.1	0.1	0.6	0.6	-	0.0	-	1.8	4.7	4.7
MEDIA PRIMA	SELL	1.40	1.07	(23.6)	1,553	136.6	132.1	11.4	11.8	0.1	0.1	0.9	0.9	0.1	0.1	6.9	6.6	8.3	7.6
TELEKOM	HOLD	6.58	6.60	0.3	24,727	885.6	927.8	27.6	26.4	0.2	0.2	3.3	3.3	0.2	0.2	3.6	3.8	11.7	12.3
UMW-OG	SELL	1.20	0.78	(35.0)	2,594	84.9	137.7	30.8	18.8	0.0	0.1	0.8	0.8	-	-	-	-	2.6	4.0
UNISEM	SELL	2.33	1.55	(33.5)	1,710	141.7	105.7	11.7	16.2	0.2	0.1	1.6	1.5	0.1	0.1	5.0	3.7	13.0	9.5

Source: Affin Hwang estimates, pricing as of 2 Nov 2015, Core PE, EPS growth and Core ROE are based on calendarised number

We have also detailed below for each company the reasons behind our top buys and key stocks to avoid.

Top BUY	Rating	Comments
AEON CREDIT (ACSM MK) Target Price : RM14.80 Share Price as at : RM12.68 2 November 2015 	BUY	Our BUY rating on AEONCS, with a PT 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 15-17% on its robust receivable portfolio growth (above 20-21% p.a.), which will be funded by a low cost-of-debt averaging 4.2%. Despite concerns of slower 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 : RM3.48 2 November 2015 	BUY	Our BUY rating on AFG, with a PT of RM4.50, is based on a 1.36x CY16E P/BV target on CY16 ROE of 11%. 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 returns' model to improve its margins and ROE by focusing more on SME, 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 intact – gross impaired loan ratio at 1.0% while loan loss cover at 105.4%.
CIMB Group (CIMB MK) Target Price : RM5.90 Share Price as at : RM4.59 2 November 2015 	BUY	We maintain a BUY rating on CIMB Group, at a price target of RM5.90 (based on an implied 2016E P/BV target of 1.17x and ROE of 10.9%). Taking a 12-month view of the stock, we believe that the current share price weakness is unjustified. In our view, CIMB has the potential to outperform, as we expect a gradual recovery in group earnings from 2016 onwards, driven by: (i) a normalized level of credit provisioning given the absence of hefty provisions at CIMB Niaga; (ii) cost synergies arising from the staff MSS (mutual separation scheme) exercise, with cost savings of RM500m p.a.; and (iii) initiatives under Target18 (T18) to reposition the CIMB Group in the face of increased challenges.

Source: Bloomberg, Affin Hwang

Top BUY	Rating	Comments
E&O (EAST MK) Target Price : RM2.54 Share Price as at 2 November 2015 : RM1.60 	BUY	E&O is one of our top BUYs among the Malaysian property stocks with a target price of RM2.54. The appointment of reputable China Communications & Construction Co. as the reclamation contractor for its Seri Tanjung Pinang Phase 2 (STP2) project will kick-start its largest property development project with potential gross development value of RM25bn. This locks in the land reclamation cost at about RM110 psf, substantially lower than the developed land price of over RM500 psf. We believe the current share price does not give any value to its STP2 project. E&O is targeting to secure a strategic financial partner to jointly develop the first 253-acre package of STP2. This will partially unlock the value of STP2 land reclamation rights.
GAMUDA (GAM MK) Target Price : RM5.84 Share Price as at 2 November 2015 : RM4.51 	BUY	Gamuda is our top BUY among the Malaysian construction stocks with a RNAV-based target price of RM5.84. Gamuda together with its partners have been appointed as the project delivery partner for the RM28bn Klang Valley Mass Rapid Transit Line 2 (MRT2) and RM27bn Penang Transport Master Plan (PTMP). It is also the frontrunner to be appointed the main contractor for the underground portion of MRT2 by mid-2016. The two projects will likely spur long-term 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 (GENT MK) Target Price : RM9.15 Share Price as at 2 November 2015 : RM7.48 	BUY	Our BUY rating on Genting with a TP of RM9.15 is based on RNAV valuation. Genting's valuation looks attractive, as it trades at a 2016E PE of 14x (vs. a past 5-year forward PE of 16x). We also like Genting as a cheaper proxy to Genting Malaysia (trading at a 2016E PE of 18x). Besides that, we see potential signs of bottoming out for its subsidiary Genting Singapore (GENS), which is seeing sequential growth in the mass market. While the VIP segment in GENS has continued to underperform, this has largely been expected given the prevailing weak gross gaming revenue trends in Macau. Management remains hopeful the Japan casino bill will be passed by year end.
IGB REIT (IGBREIT MK) Target Price : RM1.60 Share Price as at 2 November 2015 : RM1.35 	BUY	We have a BUY rating on IGB REIT with a DDM-derived 12-month price target of RM1.60 (based on 8.2% cost of equity, 6% equity risk premium and 3.0% terminal growth rate). In our view, despite weaker consumer sentiment (due to repercussions of the GST and higher cost of living), IGBREIT's earnings are expected to remain resilient on the back of: (i) stable occupancy rates of c. 100%; (ii) an additional 40,000 sq ft in Net Lettable Area in 2015; and (iii) more efficient cost management. 2015-17E DPU yields remain attractive at 6.8-7.7%. Longer-term key catalysts include asset injections, such as the Southkey Megamall and 18@Medini (in IDR) by 2020.

Source: Bloomberg, Affin Hwang

Top BUY	Rating	Comments
IJM (IJM MK) Target Price : RM3.76 Share Price as at : RM3.35 2 November 2015 	BUY	IJM Corp is one of our top BUYs with a RNAV-based target price of RM3.76. IJM has a record construction order book of RM7bn. It has good prospects for replenishing its order book as it is in a strong position to bid for the remaining works for the RM5bn West Coast Expressway and above-ground packages for the MRT2. The sale of its Indian highways will lift its earnings and it could pay a special dividend to reward shareholders. Our FY16 DPS forecast of RM0.125 (net yield of 3%) is attractive for a growth stock.
INARI AMERTRON (INRI MK) Target Price : RM3.89 Share Price as at : RM3.54 2 November 2015 	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 Avago, also a leader in the RF industry. We project that Inari will achieve a 3-year forward EPS CAGR of 21% over 2015-18E, which 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 2016E EPS, 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 : RM1.20 2 November 2015 	BUY	Our BUY rating on JAKS Resources with a TP of RM1.60 is based on a discount of 20% to our RNAV (realisable net asset value) valuation of RM2.00. We remain positive on JAKS' US$1.87bn coal-fired power plant in Vietnam despite some loose ends to tie up in relation to the project's financial close, and still expect construction of the project to begin in 1Q16. Additional water-related infrastructure project wins and positive earnings surprises from the construction of non-technical work on the Vietnam project are key rerating catalysts for JAKS.

Source: Bloomberg, Affin Hwang

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

Target Price : RM4.75
Share Price as at 2 November 2015 : RM4.25
</td><td>BUY</td><td>Given that we expect demand for private healthcare in Malaysia to continue being robust, we believe that KPJ is set to capitalise on this demand with its ongoing expansion plans. We understand that the group is looking to open two new hospitals every year. Furthermore, KPJ's valuations are attractive vs. its peers given the unwarranted discount, in our view, as the group's earnings and margins have shown a good turnaround. Maintain BUY rating on KPJ with TP of RM 4.75.</td></tr>
<tr><td>MBM Resources (MBM MK)

Target Price : RM3.45
Share Price as at 2 November 2015 : RM2.70
</td><td>BUY</td><td>We continue to like MBMR for its potential earnings growth which will likely be driven by: i) robust sales growth for Perodua's car models; ii) narrowing losses from its OMI wheel plant (with break-even expected in 2016 as production ramps up); and iii) higher contribution from its after-sales service (which has higher margins) to mitigate the slower auto retailing environment. Our BUY rating on MBMR, with a TP of RM3.45, is based on an unchanged 9x 2016E EPS.</td></tr>
<tr><td>Pavilion REIT (PREIT MK)

Target Price : RM1.88
Share Price as at 2 November 2015 : RM1.51
</td><td>BUY</td><td>We have a BUY rating on PavREIT with a price target of RM1.88 (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 700,000 sq ft in NLA; and iii) high occupancy rates, ability to attract new tenants and sustainability of existing tenancies.</td></tr>
<tr><td>Public Bank (PBK MK)

Target Price : RM21.80
Share Price as at 2 November 2015 : RM18.08
</td><td>BUY</td><td>Our BUY rating on PBB is based on a target price of RM21.80 at a 2.6x P/BV target on a 2016E ROE of 14.9%. Public Bank's operations remained intact throughout 3Q15 and we do not believe that its share price weakness is an indication of a potential deterioration in earnings quality. This is a highly defensive stock in nature, supported by a well-established franchise in the retail market, above-industry loans and deposit growth track records, sound asset quality (backed by lowest GIL of 0.53% and high LLC of 130.8%), a well-capitalised balance sheet (CET 1 at 10.2%) and well-contained overheads, with the lowest CIR at 30.7% vs. industry at 51%.</td></tr>
</table>

Source: Bloomberg, Affin Hwang

<table>
<tr><th>Top BUY</th><th>Rating</th><th>Comments</th></tr>
<tr><td>Ta Ann (TAH MK)

Target Price : RM4.46
Share Price as at : RM3.88
2 November 2015

</td><td>BUY</td><td>Our BUY rating on Ta Ann, with a SOTP-derived 12-month target price of RM4.46 is based on a 10x 2016E EPS for its timber division, 12x for its plantation division, and 1x BV for its forest plantation. We continue to like Ta Ann for: 1) its decent growth of 11-13% in 2016-17E on the back of firm timber product ASPs coupled with improving plantation earnings given the rising matured areas, increasing FFB and CPO production; and 2) its 5.2% 2016E dividend yield.</td></tr>
<tr><td>UOA Development (UOAD MK)

Target Price : RM2.25
Share Price as at : RM2.12
2 November 2015

</td><td>BUY</td><td>We like UOA Development for its strong management, good product branding as well as net cash position. As at end-June 2015, it had a net cash position of RM265m. Being a niche property player focusing on the greater KL segment as well as mid-to-high income products, it is partially sheltered from the slowdown in the Johor property segment, as well as the tight credit approval process. Next key catalyst will be its Jalan Ipoh development, which is expected to mirror success of Bangsar South Development. Our target price is based on a 30% discount to RNAV.</td></tr>
<tr><td>WCT (WCTHG MK)

Target Price : RM1.84
Share Price as at : RM1.36
2 November 2015

</td><td>BUY</td><td>WCT is our top BUY among the mid-cap construction stocks with a target price of RM1.84, based on a 20% discount to RNAV. After a slow start, WCT's prospects to secure more local contracts have improved after it was pre-qualified to bid for the MRT2 above-ground packages. It is also in the running for the WCE and RAPID infrastructure works. The potential REIT listing of its retail mall assets in 2016 will likely unlock values and reduce its gearing. FY16E PER of 13x is attractive considering its 2-year EPS CAGR of 27% in FY16-17E.</td></tr>
<tr><td>WTK (WTKH MK)

Target Price : RM1.26
Share Price as at : RM1.12
2 November 2015

</td><td>BUY</td><td>We maintain our BUY recommendation on WTK, with a SOTP-derived 12-month target price of RM1.26. This is based on a 10x 2016E EPS for WTK's timber division, and a 1x BV for its forest plantation and palm oil. We like the stock on the back of our 2015-17E EPS CAGR of 20%, based on firm timber product ASPs, a favourable US$ against the RM and rising palm-oil plantation matured areas.</td></tr>
</table>

Source: Bloomberg, Affin Hwang

Key Stocks To Avoid	Rating	Comments
FELDA GLOBAL (FGV MK) Target Price : RM1.32 Share Price as at : RM1.78 2 November 2015 	SELL	The proposed BWPT acquisition should help to expand planted areas (+31%) and lower the overall average age profile (from around 15 years to 13 years). However, the premium over market price has widened after the recent US$ appreciation, implied acquisition EV per ha has increased and gearing will be higher. Potentially, 2017E-18E EPS may be diluted by 12%-20%. Lack of management control is another major concern.
MAXIS (MAXIS MK) Target Price : RM6.70 Share Price as at : RM6.56 2 November 2015 	HOLD	Our HOLD rating on Maxis is based on a DCF-derived TP of RM6.70 (WACC: 6.0%, LT growth: 1.0%). While we see positives in Maxis' turnaround efforts, in particular with prepaid, the ongoing intense competitive environment suggests that positive earnings surprises are unlikely. We also note that competition remains very stiff in postpaid given the very aggressive short-term promotional data-led pricing in the market. Besides that, Maxis' higher capex guidance for 2015 would likely dampen how much management may declare in special dividends.
Media Prima (MPR MK) Target Price : RM1.07 Share Price as at : RM1.40 2 November 2015 	SELL	We still do not prefer Media Prima (TP: RM1.07) due to: 1) the unfavourable shift in broadcast adex towards the pay TV segment; 2) potentially cautious ad spending given the GST implementation and 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's preference for reading on mobile or over the Internet.
MCIL (MCIL MK) Target Price : RM0.48 Share Price as at : RM0.58 2 November 2015 	SELL	We remain cautious on Media Chinese International Limited (MCIL) largely due to: 1) weakness in its core print division; 2) potentially more cautious ad spending in the Malaysia operations (53% of revenue) given the GST implementation and uncertainties in the market; and 3) negative effects on hard copy circulation due to the continual shift in reader's preference for reading on mobile or over the Internet. Our SELL call on MCIL, with a 12-month target price of RM0.48, is based on 6x 2016E EPS (1 SD below the 5-year average mean).

Source: Bloomberg, Affin Hwang

<table>
<tr><th>Key Stocks To Avoid</th><th>Rating</th><th>Comments</th></tr>
<tr><td>MMHE (MMHE MK)

Target Price : RM0.97
Share Price as at : RM1.11
2 November 2015
</td><td>SELL</td><td>Operating loss arising from depletion of order book backlog and additional cost provisions are operational risks for its Offshore unit. Services and EPCC providers will continue to be impacted by weak crude oil prices and cutbacks in capital expenditures. Order book backlog as at end-Sept 2015 remained low at RM955m.</td></tr>
<tr><td>TM (T MK)

Target Price : RM6.60
Share Price as at : RM6.58
2 November 2015
</td><td>HOLD</td><td>Our HOLD rating on TM is based on a DCF-derived TP of RM6.60 (WACC: 7.5%, LT growth: 0.5%). While TM is still seeing decent revenue growth momentum, we are cautious over execution risk in turning around P1 in the medium term. Since consolidating P1 in 4Q14, TM's EBITDA margin has been slightly squeezed by losses at P1 and we believe TM would likely continue to see short-term pressure on margin as it ramps up P1's network. We do not expect P1's losses to narrow until P1 revamps its wireless business with new products, which would likely begin to appear only by year-end. TM has commenced expanding P1's physical network since 2Q15 but P1's population coverage at this juncture remains low at c.40%.</td></tr>
<tr><td>UMWOG (UMWOG MK)

Target Price : RM0.78
Share Price as at : RM1.20
2 November 2015
</td><td>SELL</td><td>6M15 core net profit fell sharply YoY due to lower time charter rates, a lower utilisation rate, additional operating expenses and higher depreciation. With the crude oil price remaining weak, the outlook remains dim. Our valuation multiple of 0.5x price to book reflects our expectation that the downturn in the regional jack-up rig market will be prolonged.</td></tr>
<tr><td>UNISEM (UNI MK)

Target Price : RM1.55
Share Price as at : RM2.33
2 November 2015
</td><td>SELL</td><td>We are contrarian on Unisem as we hold the view that its earnings cycle will peak 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. Target price is based on mid-cycle valuations and at 1x book value.</td></tr>
</table>

Source: Bloomberg, Affin Hwang

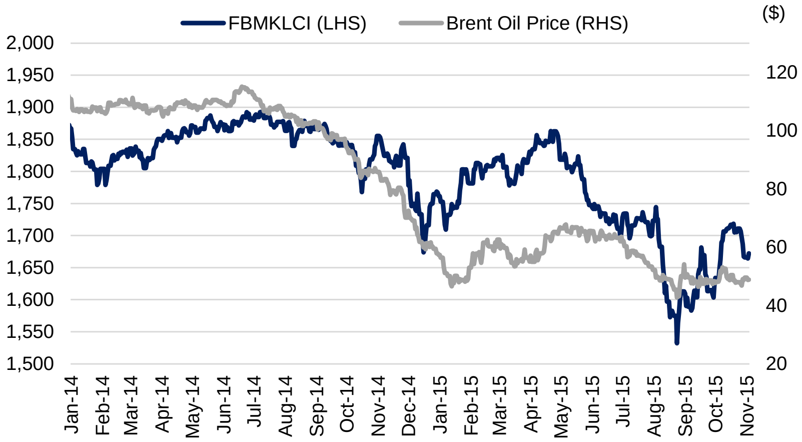
Entry valuation

Market has corrected

If we look back at 2014, the KLCI was on track to a very promising year with the market hitting a high of 1,893 points on 8 July 2014. This was in line with Brent crude oil prices, which hovered above US$100/b up until the early part of September 2014, having hit a high of US$115/b on 19 June 2014.

That was as good as it got. Brent prices could not hold above US$100 in September 2014 and fell very sharply to a low of under US$47 on 13 January 2015. It took the KLCI with it and the market corrected 12% to 1,674 points on 16 December 2014.

Fig 49: KLCI dragged down by Brent crude oil prices

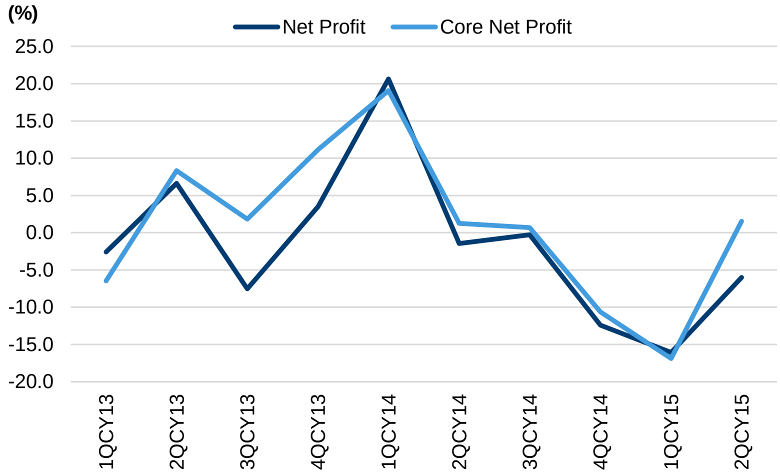


Source: Bloomberg

The sharp fall in crude oil prices opened up various complications for the stock market. Oil & gas is part of the mining sector of GDP hence the sharp correction will hit this sector as well as the private investment component of GDP by expenditure. The stock market has a large representation of oil & gas stocks too. Besides that, there is concern that the decline from exports will plunge Malaysia's current account into deficit. The federal government fiscal position also came under scrutiny as Malaysia derives a discernible portion of revenue from Petronas. This in turn prompted the rating agencies to review Malaysia's credit standing. All these ultimately led to foreign investors exiting the stock market with fear of losses from falling stock prices magnified by a weakening Ringgit, essentially kick-starting a vicious cycle.

The volatility in crude oil prices and the Ringgit found its way into corporate earnings. Corporate net profit was marginally lower in 2Q14 and 3Q14, but plunged by 12% YoY in 4Q14 and accelerated to a 16% YoY decline in 1Q15, followed by another 6% in 2Q15. As earnings fell, downgrades gathered pace and pressured the market further.

Fig 50: Market earnings got battered



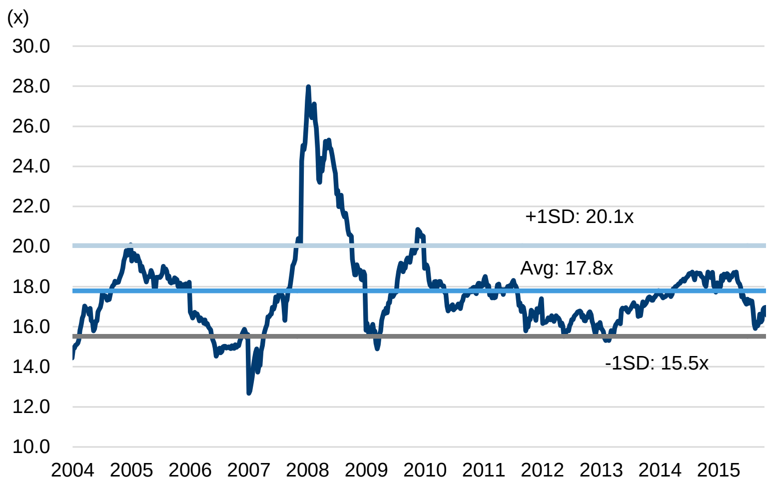
Source: Affin Hwang

The weakest point in the KLCI was 1,532 points on 24 August 2015, also coinciding with the Brent oil price low at below US$43. Similarly, Ringgit fell to its weakest at RM4.46 to the US Dollar on 29 September 2015.

Entry at what price?

We estimate that the KLCI is currently trading at a fully diluted PE of 17.7x 2015E and 16.5x 2016E, based on the 98 stocks in our coverage universe that we take as a proxy of the KLCI. On a moving average basis, the KLCI is trading at 16.6x fully diluted one-year forward EPS. It may seem expensive on an absolute basis but it is below the long-term fully diluted average PE of 17.8x.

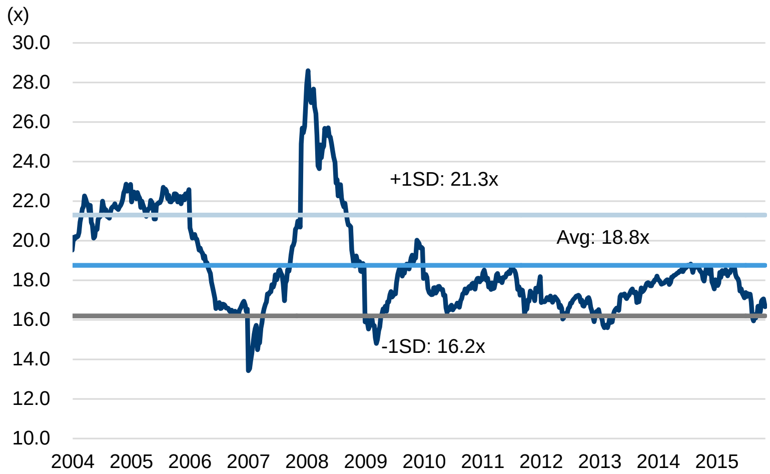
Fig 51: Fully diluted PE trend



Source: Bloomberg, Affin Hwang

At the same time, we also examine the fully diluted PE based on core EPS. The difference between fully diluted core EPS and fully diluted EPS is adjustments made to exclude exceptional items. Unlike headline EPS, one issue with core EPS is the definition of exceptional items, which could be arbitrary. In order to overcome this issue, we have taken historical core EPS from Bloomberg, which is independent and more likely to have a standardised approach for the adjustments. Even in this case, we find that the KLCI is trading at 16.7x one-year forward PE while the long-term average is even higher at 18.8x.

Fig 52: Fully diluted core PE trend



Source: Bloomberg, Affin Hwang

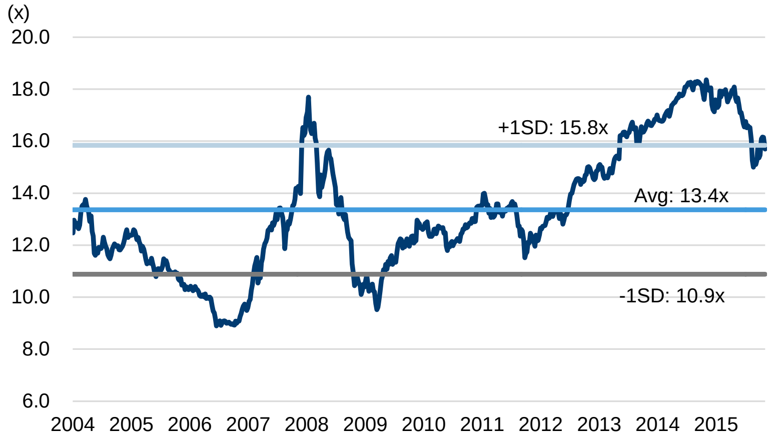
We measure the long-term average fully diluted PE and core PE starting from 2004 to date. It may seem strange that we begin from 2004 but this is only because at the moment Bloomberg provides core EPS back to 2004.

In both instances, we find that value has emerged due to a combination of share price weakness throughout 2015 and expectation of EPS growth as we look twelve months forward. Of course, the key risk here is if earnings growth fails to materialise next year. However, we are cautious but optimistic that our 7.4% earnings growth in 2016E is achievable as long as the major macro parameters remain stable subsequent to the difficult adjustments that had to be made this year.

Difference between fully diluted and non-diluted

At this juncture, it is worth making a point on the difference between fully diluted and non-diluted PEs. We have indicated earlier the treatment for fully diluted PE of the market, which we show to be 16.6x one-year forward with a long-term average of 17.8x. If we calculate it on a non-diluted basis, the market is trading at 15.7x one-year forward with an average of 13.4x (also measured from the start of 2004 to be consistent with our earlier treatment) using total market cap divided by absolute net profit.

Fig 53: Non-diluted market PE trend



Source: Bloomberg, Affin Hwang

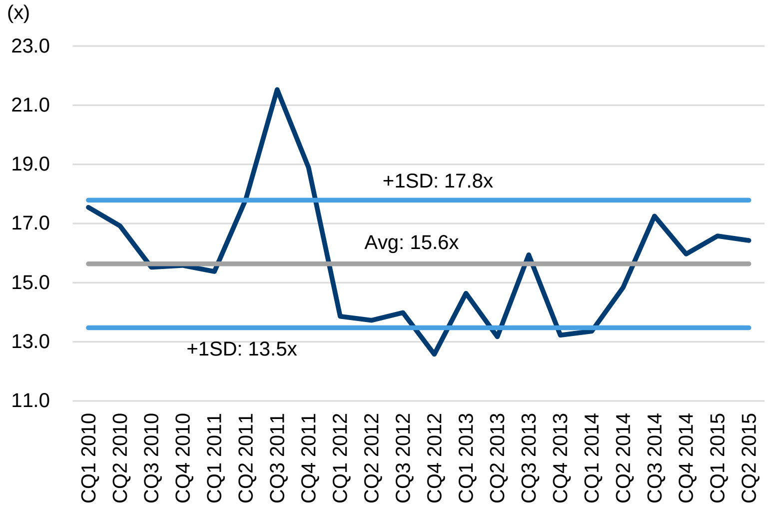
If we extend the long-term average to encapsulate the global recession in 2001 by starting from 2000, then the average PE rises to 14.1x, on a non-diluted basis. Extending this back to 1995 to incorporate the 1998 Asian Financial Crisis yields an average PE of 15.6x.

Firms have fallen behind

In 2014, market EPS grew by just 0.8% despite the economy growing strongly at 6%. We believe one reason for this was expectation of high inflation at that time due to the anticipated introduction of GST the next year (2015) and on the back of sustained high oil prices. In fact, the government was expecting 4-5% inflation as it tabled its Budget 2015 in October 2014. We believe that there was a larger transfer of firms' profits to employees due to the higher inflation expectation. Subsequently, lower consumer sentiment prompted some firms to absorb higher input costs from the GST without passing them to the end users, hence transferring above-normal value to households.

If we look at the ratio of GDP to net profit, we find that GDP is 16.4x higher in 2Q15, while one year ago, GDP was 14.8x higher than net profit in 2Q14. If we take an average measure from 1Q10 to 2Q15, the GDP is 15.6x higher than net profit. It rose from a low of 12.6x in 4Q12. We use nominal GDP and the total quarterly net profit for the 98 stocks that we cover. What this shows us is that firms' profits have not kept pace with GDP growth.

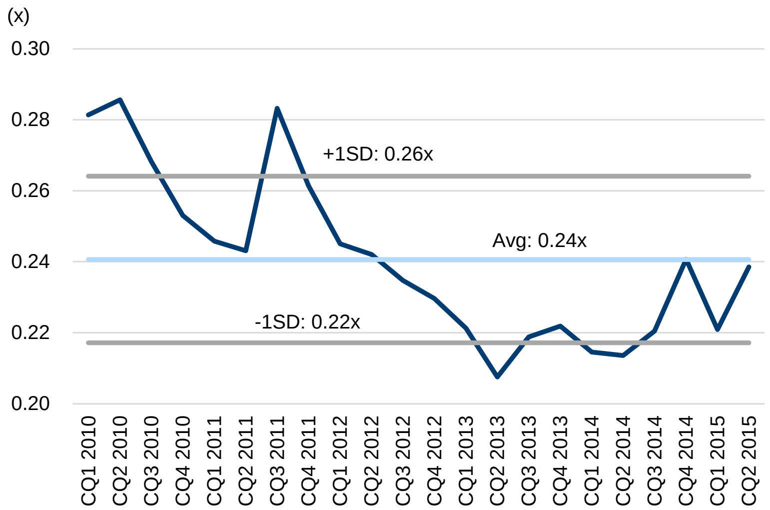
Fig 54: GDP-to-net profit shows firms not keeping pace with economy



Source: Bloomberg

Another useful measure is the GDP to market cap ratio, taking nominal GDP to total market cap of the stocks under our coverage universe. At current market cap, the ratio is 0.24x of 2Q15 nominal GDP. This is from a low of 0.21x in 2Q13, which once again shows that market cap of stocks have trailed the economy.

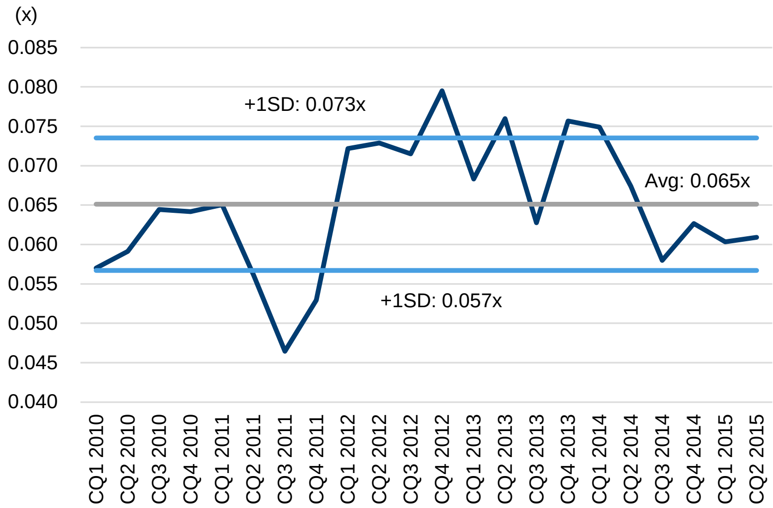
Fig 55: GDP-to-market cap shows economy has pulled ahead of firms



Source: Bloomberg

Additional insight could be gained by just looking at the inverse of these measures. In 2Q15, net profit made up 6.1% of nominal GDP. This is down from 8% of GDP in 4Q12 and the average of 6.5% over the last 22 quarters. Also, the total market cap of stocks under coverage was 4.8x GDP in 2Q13 but it has fallen to 4.2x in 2Q15.

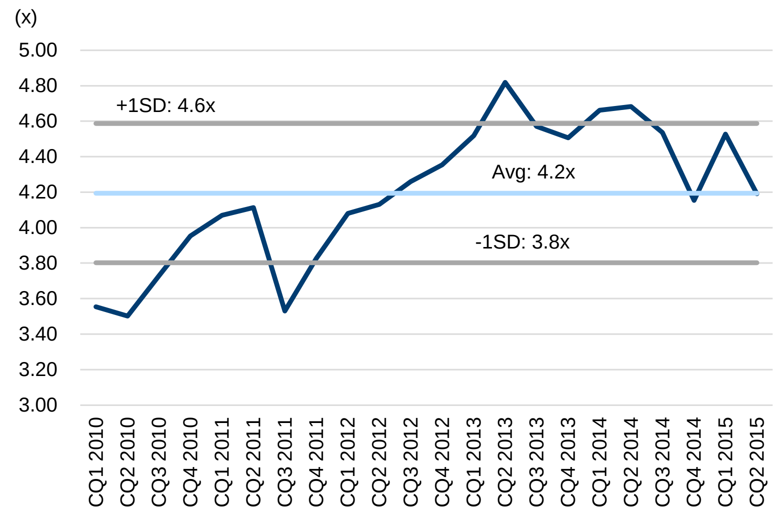
Fig 56: Net profit of firms has fallen as proportion of GDP



Source: Affin Hwang, Bloomberg

All these point to the same thing; firms are lagging the economy. The question is if there is a reversion to mean for firms. We are hopeful that there will be once domestic stability returns.

Fig 57: Market cap-to-GDP

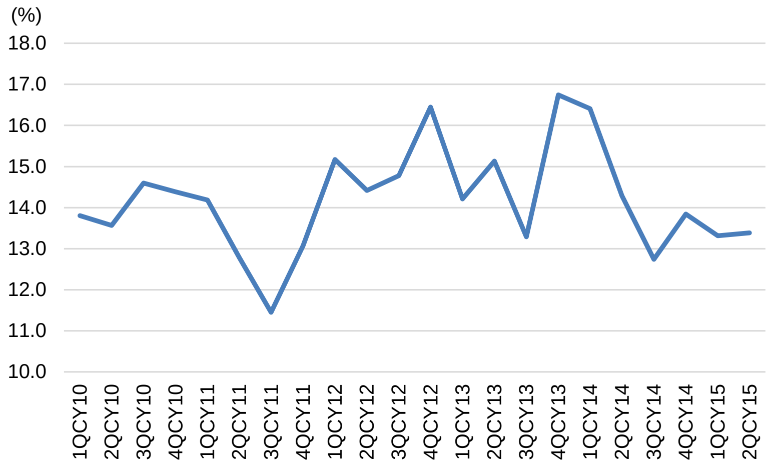


Source: Affin Hwang, Bloomberg

The firms strike back?

Next year looks like a conducive year for firms to address the transfer of economic value to households that they have endured over the past few quarters. Net profit margin has fallen from a peak of 16.8% in 4QCY13 to 13.4% in 2QCY15 versus an average of 14.2% over the past 22 quarters, as firms had to raise wages to compensate employees for the implementation of minimum wages and expected inflation that did not pan out. For instance, the average wage was RM4,585 in 2Q13 but this rose to RM4,973 in 2Q15, or up 8.5% over the course of two years. Part of this was also due to the minimum wage policy that was effective on 1 January 2014. Meanwhile, the introduction of GST during an uncertain economic environment had prompted many firms to partially absorb higher costs.

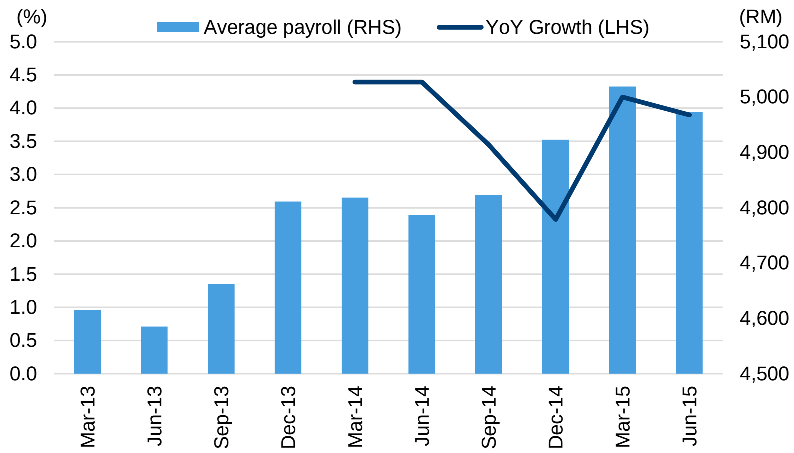
Fig 58: KLCI's net profit margin trend



Source: Affin Hwang

In 2016E, we expect domestic demand to grow by 5.8% versus 5.5% by the Federal government. Inflation expectation is anchored at 2%-3% by the government. The steady growth and inflation level is very conducive for firms to start raising prices, in our view. If this happens, firms' share of profit would rise thus benefiting the stock market.

Fig 59: Wages are growing



Source: Department of Statistics Malaysia

Index target of 1,793 points for end-2016

The KLCI moving average PE chart is compelling, in our view. It is trading at 16.6x one-year forward PE, having rebounded off its low at one standard deviation below its mean. History has shown time and again that the KLCI's valuation has the resilience to revert to mean from such a position. We believe the situation should not be different this time around once market conditions stabilise.

As such, we peg the 2016E fully diluted EPS at the KLCI's average PE of 17.8x to arrive at 1,793 points for the 2016 year-end target, taking the view that valuation will revert to mean. Similarly, we have revised up our 2015E KLCI year-end target from 1,600 to 1,670 points by applying 17.8x PE on our 2015E fully diluted EPS.

Fig 60: KLCI index target calculation

	2015E	2016E
Current KLCI (pts)	1,664.07	1,664.07
Current market EPS (pts)	93.80	100.71
Fully diluted PE (x)	17.7	16.5
Index target computation		
Average fully diluted PE (x)	17.8	17.8
Current market EPS (pts)	93.80	100.71
KLCI target (pts)	1,669.70	1,792.61
% change	0.3%	7.7%

Source: Affin Hwang, Bloomberg

A closer look at risks

Short-term threats exist

Our view is premised on a conducive global environment. This does not mean that we expect a rapid acceleration in global economic growth or a sharp recovery in oil prices. We are looking for ongoing domestic economic growth, sustained Brent crude oil prices, reasonable CPO price levels, no deterioration in the banking system, no further depreciation in the Ringgit against the USD, and stability in global economic growth.

While we are confident that all these factors will gradually trend towards a conducive and more stable equilibrium over the next 12-15 months, we acknowledge that there are risks.

The biggest risk is not in the long run, but rather short term uncertainty. For instance, short-term shocks such as a rapid deceleration of China's economy or a plunge in crude oil prices would likely push back the recovery to equilibrium beyond the 12-15 months that we have based our views on, thus affecting our recommendation over that time frame.

We think about the short-term risks lurking around a recovery along internal and external lines. Internal risks, if they materialise, are more threatening because 92% of Malaysia's GDP is aggregate domestic demand. External risks should be less severe in the absence of any catastrophic global meltdown, though any external weakness would likely have a contagion effect on domestic sentiment, which in turn would affect certain sectors of Malaysia's domestic economy.

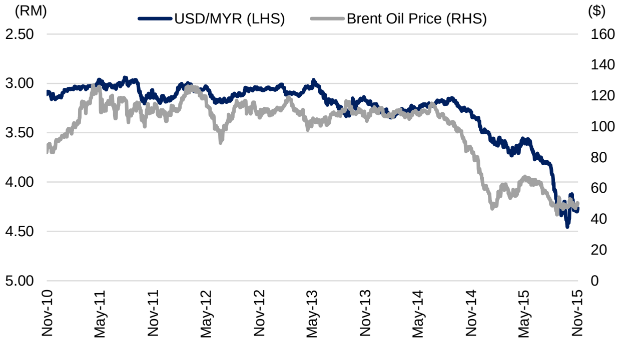
Further weakness in the Ringgit

One major threat to the domestic economy, in our view, is if the Ringgit weakens further. We look at the Ringgit as it embodies not just Malaysia's economic condition but also the forward sentiment within the country. Poor sentiment would affect private consumption, which is 52% of GDP in addition to private investment, which is another 17% of the economy. The services sector at 54% of GDP by activity is also closely linked to domestic sentiment.

Meanwhile, the manufacturing sector should benefit from a weaker Ringgit as export-led industries become more competitive. This should also show up in the net trade figure for GDP by expenditure. However, there comes a point where the higher cost of doing business from a volatile Ringgit outweighs the benefits from export competitiveness.

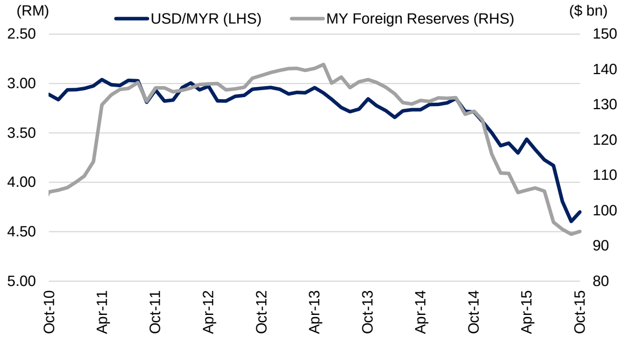
The devaluation of the Ringgit started in August 2014 alongside the sharp fall in Brent crude oil prices. It gathered pace in December 2014 in tandem with the abrupt price decline in crude oil. The sell-down continued into much of 2015 with an acceleration of the decline in August 2015, reaching a trough of RM4.46 per US Dollar. At that point, the market seemed to have oversold the Ringgit, which had a rapid rebound to RM4.30 now or up 3.6% from its trough. For now, the pressure on the Ringgit has eased. However, it is still impossible to know for sure if the Ringgit has seen the worst as its movement over the short term is very much driven by sentiment.

Fig 61: Ringgit falls with Brent crude oil price



Source: Bloomberg

Fig 62: Ringgit drags down foreign currency reserves



Source: Bloomberg

The risk is if the Ringgit falls even more sharply and quickly, damaging confidence in the country and leaving a long-lasting impact on sentiment.

Foreign outflows from the KLCI

Another area that may pressure the Ringgit as well as the KLCI is foreigners exiting the market further. Net foreign outflows from the KLCI extended into September, representing the fifth consecutive month of foreign selling of the KLCI. The good news is that there have been small inflows over the past four weeks, with October showing a net inflow of RM751m. So far this year, net foreign outflow has occurred in eight out of the ten months. Cumulatively, the net outflow stood at a whopping RM17.3bn at end-October. However, we should put this within context; the cumulative outflow in 2015 is still smaller than the RM20bn ValueCap allocation to support the market, which nonetheless was unable to cover the outflow of RM6.9bn in 2014 on top of the RM17.3bn this year. According to news media, the first tranche amounting to RM6bn of the RM20bn fund should be available to ValueCap by end-November 2015. As of end-September, foreign shareholding of the KLCI stood at 22.3%.

Fig 63: Equity inflows and outflows from Malaysia

	Indonesia US$m	India US$m	Korea US$m	Taiwan US$m	Thailand US$m	Philippines US$m	Asia-6 US$m	Malaysia US$m	Malaysia 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	(2,034)	(6,900)
Jan-15	**18.5**	**2,878.8**	**(1,033.3)**	**2,143.4**	**(127.7)**	**529.3**	**4,409.1**	**(670.9)**	**(2,400)**
Feb-15	**830.4**	**1,433.9**	**1,166.2**	**3,198.8**	**(213.1)**	**371.5**	**6,787.7**	**(111.1)**	**(400)**
Mar-15	**(413.1)**	**1,687.1**	**2,487.1**	**(1,113.9)**	**84.2**	**167.2**	**2,898.5**	**(163.2)**	**(600)**
Apr-15	**447.7**	**1,212.4**	**3,966.3**	**3,511.8**	**6.8**	**(203.1)**	**8,941.8**	**55.0**	**200**
May-15	**(263.5)**	**(67.1)**	**1,748.1**	**1,157.7**	**93.9**	**(201.3)**	**2,467.8**	**(694.3)**	**(2,500)**
Jun-15	**(307.4)**	**(961.0)**	**(970.9)**	**(2,619.3)**	**(311.2)**	**(258.4)**	**(5,428.2)**	**(828.9)**	**(3,100)**
Jul-15	**10.2**	**882.4**	**(1,695.5)**	**(1,463.9)**	**(773.2)**	**(192.8)**	**(3,232.7)**	**(789.1)**	**(3,000)**
Aug-15	**(708.5)**	**(2,597.6)**	**(3,626.0)**	**(1,661.2)**	**(1,248.0)**	**(379.7)**	**(10,221.0)**	**(988.5)**	**(4,000)**
7-Aug-15	(66.9)	297.1	(186.3)	(104.6)	(172.2)	(7.0)	(239.9)	(120.5)	(488)
14-Aug-15	(220.9)	(369.1)	(535.4)	(475.6)	(168.0)	(80.3)	(1,849.3)	(350.2)	(1,417)
21-Aug-15	(309.4)	(537.7)	(903.2)	(653.3)	(483.8)	(52.3)	(2,939.7)	(333.4)	(1,349)
28-Aug-15	(133.5)	(1,903.9)	(1,950.1)	(405.6)	(434.9)	(240.1)	(5,068.0)	(201.7)	(816)
Sep-15	**(498.4)**	**(860.6)**	**(1,611.3)**	**(18.3)**	**(583.9)**	**(706.1)**	**(4,278.6)**	**(534.0)**	**(2,300)**
4-Sep-15	(58.6)	(636.2)	(369.9)	(193.3)	(73.9)	(47.6)	(1,379.4)	(146.6)	(632)
11-Sep-15	(127.7)	(359.3)	(791.7)	587.5	(116.6)	(67.5)	(875.2)	(163.9)	(706)
18-Sep-15	(116.1)	575.0	313.9	655.2	61.3	(525.0)	964.3	159.0	685
25-Sep-15	(139.7)	(287.5)	(923.2)	(1,099.9)	(277.2)	(49.9)	(2,777.4)	(294.6)	(1,269)
Oct-15	**(350.2)**	**988.9**	**8.7**	**2,117.1**	**5.3**	**(67.2)**	**2,702.6**	**174.4**	**751**
2-Oct-15	(42.3)	(221.9)	116.8	79.8	(158.1)	(8.4)	(234.2)	(141)	(599)
9-Oct-15	161.8	272.6	303.0	201.1	144.0	(12.3)	1,070.2	184	783
16-Oct-15	(10.4)	268.5	(70.1)	804.4	43.4	(41.7)	994.1	97	412
23-Oct-15	82.1	304.6	(97.7)	856.4	(1.1)	(21.8)	1,122.6	84	359
30-Oct-15	(575.6)	128.5	(134.7)	185.3	(189.5)	0.8	(585.1)	141	600
YTD 2015	**(1,234.5)**	**4,597.1**	**565.0**	**5,252.2**	**(3,066.8)**	**(940.6)**	**5,172.4**	**(4,724.9)**	**(17,349.0)**

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.

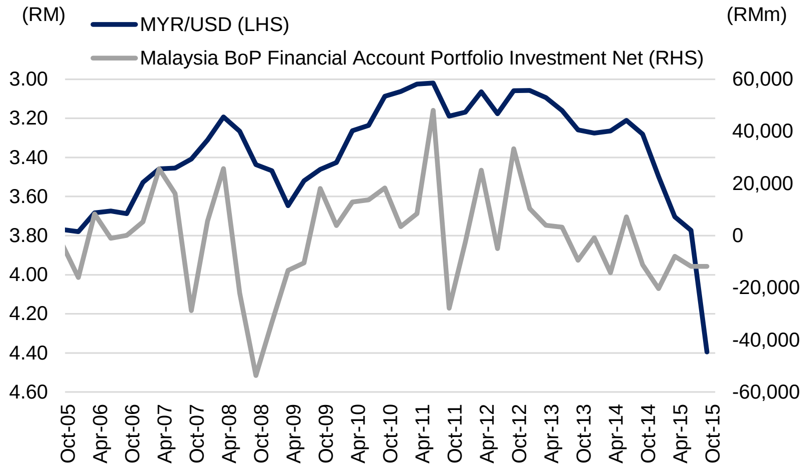
Source: Bloomberg, Bursa, Affin Hwang

Financial Account flows

The other Ringgit-associated risk can be seen from the Balance of Payments. The current account has proven to be resilient with Malaysia still running a surplus despite the shocks that the country has endured from the lower crude oil, LNG and CPO prices while navigating the adjustments to terms of trade from a sharp weakening of the Ringgit.

However, we draw attention to the Portfolio Investment item within the Financial Account segment. There have been large outflows from Malaysia for four consecutive quarters now. The biggest decline was in 4Q14 surmounting RM20.3bn while the latest 2Q15 figure is still high at RM11.8bn. In the past 12 months, RM51.1bn has left Malaysia.

Fig 64: Portfolio Investment flows and the Ringgit



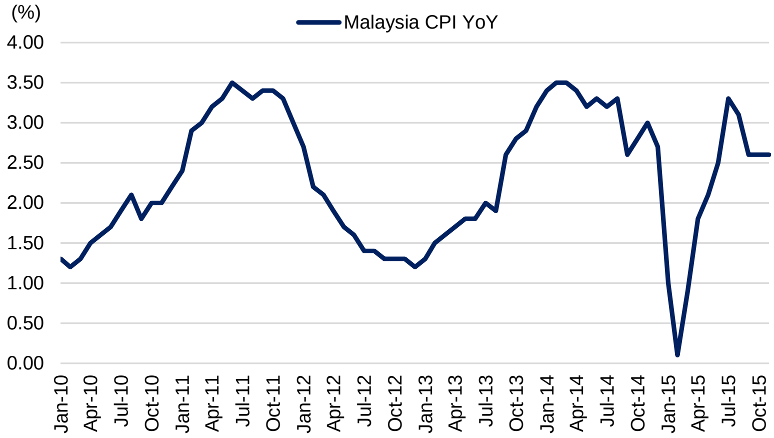
Source: Bloomberg

The risk is if Portfolio Investment in the Balance of Payments sees an acceleration in outflows. Note that there is a difference between net foreign outflows from the KLCI above and Portfolio Investment flows in the Balance of Payments. A foreign investor could exit the domestic stock market but keep the money in Ringgit, either by investing in the bond market or in bank deposits, but the Balance of Payments record actual repatriation from Malaysia.

Inflationary pressure

Inflation stood at 2.6% in September 2015 versus 3.3% in July, which was the highest point for 2015. Part of this was due to GST-led price increases. As the impact of the GST is transitory, the effects should moderate as we enter 2Q of next year, as GST was introduced on 1 April 2015.

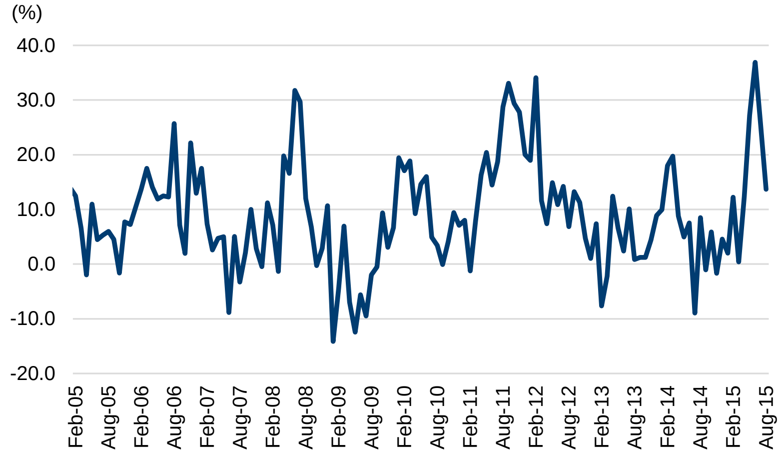
Fig 65: Inflation is moderating



Source: Bloomberg

The other source of inflationary pressure stems from imported inflation due to Ringgit weakness. Our monthly imports of consumption goods have been growing at double-digit figures since April 2015 at 12.4% YoY before touching a peak of 36.9% in June 2015. Since then, it has moderated to 13.7% in August 2015. The delayed drop in imported consumption goods could be due to the lead time required between order and delivery. Hence it is likely going to moderate further in the future given the weak Ringgit.

Fig 66: Imports of consumption goods is slowing



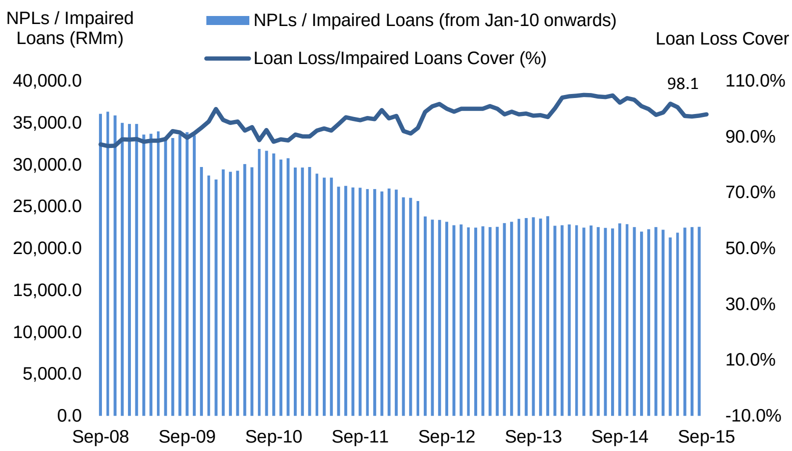
Source: CEIC

Thus far, inflationary pressure has been cost-push and not demand-pull, hence it should moderate in time. Also, we believe that the signs point toward manageable inflationary pressure. The risk that we are trying to highlight, although not pressing, is if inflation is sustained at a high level due to a confluence of factors such as prolonged Ringgit depreciation, rising labour cost, and high inflation expectation. In such an instance, Bank Negara Malaysia may have no choice but to raise interest rates, which will likely damage the current fragile sentiment. This is because household debt is already lurking at 85% of GDP (2014). Hence any rise in interest rates to combat inflation would impact household disposable income.

Possible weakness in the banking sector

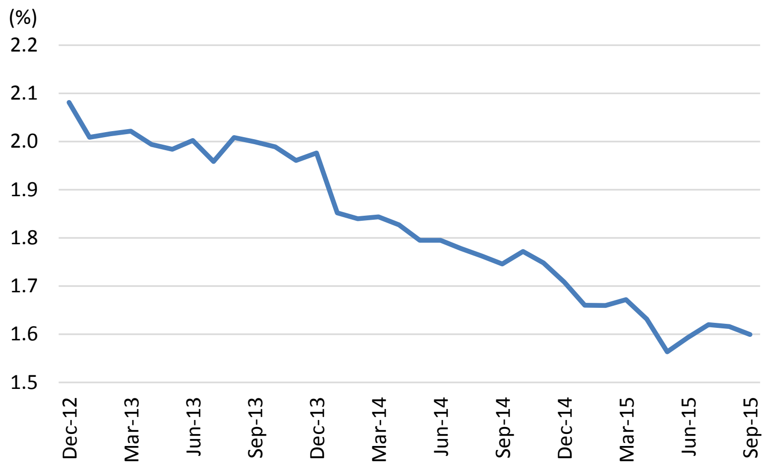
Thus far, the banking sector is not showing signs of stress. Loan loss cover remains comfortable at 98.1% as of September 2015, strengthening further from 97.6% in August 2015. Although below its recent peak of above 100% for the most part of 1H14, it remains very healthy. Gross impaired loan is also under control at 1.62% in September, or flat versus 1.6% in August 2015.

Fig 67: Loan loss cover is healthy



Source: BNM

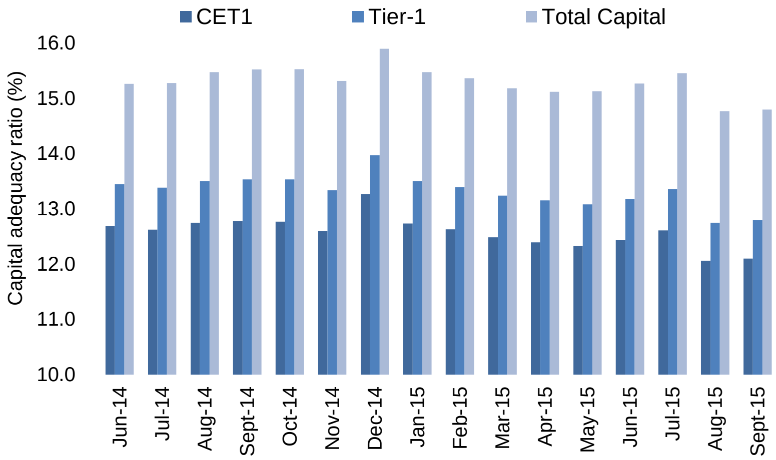
Fig 68: Gross impaired loan ratio



Source: BNM

Besides asset quality, banking system capital is also strong with the common equity tier 1 capital ratio at 12.1% or unchanged from August. The Tier 1 capital ratio has strengthened slightly to 12.8% from 12.7% while the total capital ratio was at 14.8% for both September and August. However, these are down from 13.3%, 14%, and 15.9%, respectively, in December 2014.

Fig 69: Banking system capital strength



Source: BNM

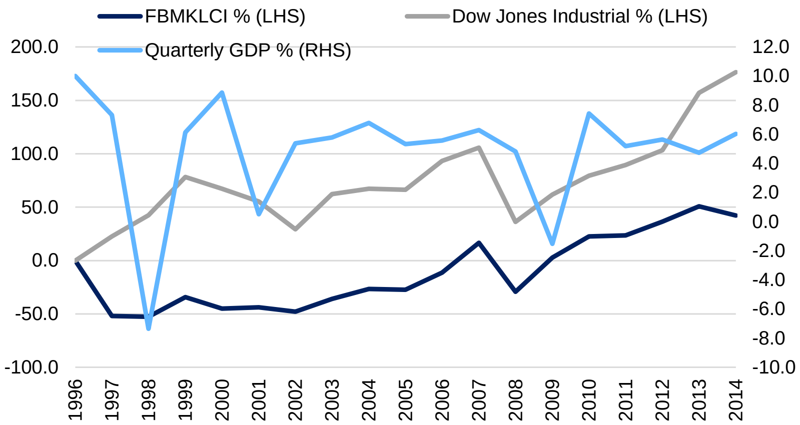
There are concerns that there could be a lag effect on asset quality in the system. Expectation of asset quality deterioration would prompt banks to scale back on lending activities especially when the loan to deposit ratio was high at 90.1% in September 2015 (August 2015: 90.4%), making the financial intermediation less effective and thus slowing down economic activities. Larger asset quality issues would impact capital, exacerbate liquidity constraints as banks refuse to lend, and prompt a financial sector-led economic recession. While the risk is there, the low unemployment rate and sustained wage growth give comfort that the financial sector should remain resilient.

External-led global economic slowdown

Finally, we identify a global slowdown as a broad risk from the external sector. Usually, an external-led slowdown is not as severe on the domestic economy compared to a locally-induced one. Another way to look at it is through the empirical evidence of the 2008/2009 Global Financial Crisis where Malaysia was not spared but the downturn was nowhere near as drastic as during the 1998 Asian Financial Crisis, which revealed some major issues with Malaysia's economy.

For instance, the KLCI fell by 65% from peak to trough in 1998 but by a lower 45% in 2008 with the US-led financial crisis. A similar observation could be made for 2001 with the tech bubble-led recession in the US; during that time, the peak to trough decline was only 24%.

Fig 70: KLCI, Dow and Malaysia's GDP



Source: Bloomberg

Perhaps the bigger implication from a global slowdown is the effect on Brent crude oil prices. The current price equilibrium is premised on better global growth in 2016. If there is a sharp global slowdown, it is likely that oil prices will fall. We just need to look back to the 2008/2009 Global Financial Crisis to see the effects of a global slowdown on crude oil prices. At the time, Brent prices descended to as low as US$41/b on 24 December 2008 from a peak of US$147 on 3 July 2008.

The current Brent price has undergone a sharp rebalancing from a recent peak of US$115/b to US$49 now in order to bring the rising supply of crude into equilibrium with slower demand growth. That adjustment has happened, albeit with some pain for Malaysia, but it has otherwise been relatively orderly.

The risk is if there is a sharp global slowdown or recession, which will undoubtedly force crude oil prices lower to match even lower demand. We have established that sharp falls in the Brent crude oil price will be negative for Malaysia given its impact on GDP, Federal revenue, and fiscal position, and its relatively large proportion of the stock market.

What is the downside to the KLCI?

We believe that we can extrapolate from past lessons to estimate the downside risk to the KLCI if there is an external-led global slowdown. The most recent episode of a global recession was the Global Financial Crisis in 2009. We find that at the time, Malaysia's GDP contracted by 1.5% in 2009. The KLCI de-rated to a fully diluted PE of 14.9x at its trough in 1QCY09. Applying the same valuation to 2015E, we arrive at a KLCI low of 1,398. Meanwhile, using the 2016E fully diluted EPS yields 1,501 points.

If the global environment really heads south in 2016, it is likely that our 7.4% EPS growth forecast would be at risk. Hence a better indication of the downside to the KLCI is 1,449 points, equivalent to the average of 2015E and 2016E at 14.9x PE.

Fig 71: Downside risk to the KLCI

	2015E	2016E
Current KLCI (pts)	1,664.07	1,664.07
Current market EPS (pts)	93.80	100.71
Fully diluted PE (x)	17.7	16.5
Index downside risk computation		
Average fully diluted PE (x)	14.9	14.9
Current market EPS (pts)	93.80	100.71
KLCI downside (pts)	1,397.67	1,500.55
Average KLCI downside risk (pts)		1,449.11
% change		-12.9%

Source: Affin Hwang, Bloomberg

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PE (x) 2015E	PE (x) 2016E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	Yield (%) 2015E	Yield (%) 2016E	P/BV (x) 2015E	P/BV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E
Auto & Autoparts					**11,359**	**(10.9)**	**19.6**	**15.4**	**12.9**	**8.0**	**9.8**	**4.4**	**5.6**	**1.1**	**1.2**	**7.0**	**8.7**
APM AUTOMOTIVE	HOLD	4.06	4.05	(0.25)	817.90	(18.3)	9.5	9.9	9.0	3.3	2.8	4.6	4.8	0.8	0.8	8.5	8.8
MBMR	BUY	2.70	3.45	27.78	1,054.92	7.0	24.8	8.8	7.0	17.5	18.7	4.1	4.4	0.5	0.5	5.9	6.9
UMW	HOLD	8.12	8.94	10.10	9,486.55	(10.4)	20.0	16.2	13.5	8.1	10.3	4.4	5.7	1.1	1.2	7.1	9.2
Banks & Financial Servic					**261,217**	**(4.2)**	**6.4**	**13.2**	**12.4**			**3.6**	**3.7**	**1.8**	**1.7**	**10.9**	**11.0**
AEON CREDIT	BUY	12.68	14.80	16.72	1,825.92	10.9	10.7	7.9	7.1	0	0	4.5	4.9	2.3	1.9	29.4	27.4
AFG	BUY	3.48	4.50	29.31	5,387.41	(2.9)	2.2	10.2	10.0	0	0	4.1	4.2	1.1	1.1	11.1	10.7
AMMB	HOLD	4.72	5.10	8.05	14,226.95	(16.9)	(3.2)	9.1	9.4	0	0	4.6	4.2	0.9	0.9	10.3	9.2
BURSA M'SIA	HOLD	8.49	8.60	1.30	4,538.87	(4.2)	11.3	23.9	21.5	14.4	12.9	3.8	3.8	6.0	5.7	25.1	26.5
CIMB	BUY	4.59	5.90	28.54	39,140.18	6.9	31.2	11.4	8.7	0	0	3.5	4.6	1.0	0.9	8.6	10.5
HONG LEONG BANK	BUY	13.92	16.20	16.38	26,632.88	1.1	4.6	11.2	10.7	0	0	2.9	3.1	1.4	1.3	12.5	12.0
MAYBANK	HOLD	8.27	8.00	(3.26)	78,889.99	(13.5)	4.7	12.9	12.3	0	0	5.9	6.0	1.4	1.3	10.7	10.7
MBSB	HOLD	1.61	1.80	11.80	4,569.98	(59.7)	15.9	10.3	8.8	0	0	2.9	3.4	1.0	0.9	8.5	9.2
PUBLIC BANK	BUY	18.08	21.80	20.58	70,189.06	(5.5)	4.1	15.5	14.9	0	0	3.0	3.2	2.3	2.1	14.9	14.3
RHB CAPITAL	SELL	6.11	6.00	(1.80)	15,815.62	(16.3)	6.4	9.2	8.6	0	0	1.0	-	0.7	0.7	8.1	8.0
Building Materials					**8,127**	**21.5**	**6.6**	**25.1**	**23.6**	**12.8**	**11.0**	**3.1**	**3.2**	**1.0**	**1.0**	**7.2**	**9.0**
CHOO BEE	HOLD	1.57	1.61	2.55	172.54	(9.9)	40.0	15.7	11.2	9.7	8.4	3.8	3.8	0.4	0.4	2.7	3.7
HIAP TECK	SELL	0.31	0.38	22.58	222.70	(30.6)	136.7	10.8	4.6	16.9	6.4	1.9	1.9	0.2	0.4	1.6	8.0
LAFARGE	HOLD	9.10	8.80	(3.30)	7,732.22	19.8	6.1	25.2	23.8	12.6	11.8	3.6	3.8	2.4	2.3	9.5	9.8
Construction & Infrastru					**28,246**	**6.0**	**(3.1)**	**14.6**	**15.1**	**13.1**	**12.9**	**3.6**	**3.8**	**1.1**	**1.0**	**8.9**	**7.9**
BENALEC	HOLD	0.58	0.61	5.17	470.83	419.5	108.4	17.9	8.6	10.0	6.3	5.2	5.2	0.9	0.8	4.9	9.7
EVERSENDAI	BUY	0.78	1.18	51.28	603.64	85.4	11.2	8.8	7.9	7.6	6.7	5.1	5.1	0.6	0.6	7.3	7.7
GABUNGAN AQRS	BUY	0.84	1.14	35.71	330.15	(24.6)	88.0	11.2	6.0	6.4	4.3	2.3	4.2	0.9	0.8	8.2	13.9
GAMUDA	BUY	4.51	5.84	29.49	10,850.63	(6.5)	1.3	16.2	16.0	17.5	20.1	2.7	2.7	1.7	1.6	10.3	9.9
IJM CORP	BUY	3.35	3.76	12.24	11,968.85	21.1	(1.3)	14.0	14.1	10.6	9.0	3.4	3.2	1.1	1.0	7.9	7.4
MRCB	BUY	1.33	1.44	8.27	2,376.15	94.8	(67.8)	7.6	23.8	13.7	30.1	1.9	1.9	1.2	1.1	15.3	4.8
WCT	BUY	1.36	1.84	35.29	1,645.30	(19.8)	19.8	15.8	13.2	20.9	14.7	4.4	4.4	1.0	0.9	5.4	6.1

Source: Affin Hwang forecasts, Bloomberg, pricing as of 2 November 2015

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PE (x) 2015E	PE (x) 2016E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	Yield (%) 2015E	Yield (%) 2016E	P/BV (x) 2015E	P/BV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E
Consumer					**52,090**	**4.6**	**2.8**	**23.1**	**22.4**	**11.9**	**11.3**	**4.1**	**4.2**	**8.2**	**7.9**	**25.7**	**25.7**
AEON CO	HOLD	2.82	3.00	6.38	3,959.28	(6.9)	7.8	20.0	18.6	7.8	6.9	1.7	1.8	2.0	1.8	10.0	9.9
BAT	HOLD	61.00	63.00	3.28	17,417.33	(0.2)	(2.1)	19.3	19.8	14.1	14.4	5.1	5.0	31.7	30.5	163.9	154.4
BONIA	HOLD	0.74	0.76	2.70	596.65	60.6	6.7	12.4	11.7	5.2	4.2	2.1	2.2	1.5	1.3	12.3	11.4
CARLSBERG	BUY	12.16	13.10	7.73	3,769.00	(2.2)	3.4	18.0	17.4	12.2	11.7	5.6	5.8	4.9	4.6	27.1	26.4
GUINNESS	HOLD	14.24	14.05	(1.33)	4,301.88	5.8	3.7	19.7	19.0	12.0	11.7	4.8	4.7	9.6	9.7	48.7	51.0
HAI-O	HOLD	2.38	2.02	(15.13)	479.99	(4.1)	9.6	14.9	13.6	9.2	8.6	5.1	4.8	1.6	1.5	11.2	11.3
MSM	HOLD	4.81	5.28	9.77	3,381.33	10.8	4.4	11.9	11.4	6.5	5.8	5.5	5.7	1.5	1.4	13.0	12.7
NESTLE	HOLD	72.32	77.20	6.75	16,959.04	6.6	8.7	28.9	26.5	18.8	17.5	3.5	3.9	20.8	19.8	72.2	74.6
PARKSON	HOLD	1.06	1.07	0.94	1,225.09	0.0	58.0	14.1	8.9	5.0	4.7	3.3	3.8	0.5	0.5	3.2	5.2
Gaming					**57,942**	**16.0**	**5.5**	**16.1**	**15.3**	**6.1**	**5.7**	**3.0**	**3.0**	**2.7**	**2.5**	**4.9**	**4.8**
BTOTO	HOLD	3.17	3.05	(3.79)	4,300.40	(6.7)	(4.5)	13.0	13.6	7.7	8.0	6.5	6.3	6.2	5.7	47.3	41.6
GENTING	BUY	7.48	9.15	22.33	27,991.25	26.6	6.9	15.2	14.2	5.0	4.7	1.1	1.2	0.5	0.5	3.4	3.4
GENTING MALAYSIA	HOLD	4.32	4.30	(0.46)	25,650.19	10.7	3.9	18.6	17.9	9.0	8.4	1.6	1.6	1.5	1.4	8.2	8.0
Healthcare & Pharma.					**57,356**	**23.3**	**18.1**	**52.7**	**44.6**	**24.3**	**21.3**	**1.0**	**1.2**	**2.9**	**2.7**	**5.0**	**5.6**
IHH	BUY	6.43	6.71	4.35	52,875.64	26.0	19.0	55.4	46.6	25.6	22.4	0.5	0.6	2.6	2.5	4.6	5.2
KPJ	BUY	4.25	4.75	11.76	4,480.14	8.3	10.7	27.9	25.2	16.0	14.3	1.4	1.8	3.2	3.0	11.3	11.5
Media					**19,176**	**33.1**	**20.5**	**19.9**	**16.5**	**7.9**	**7.5**	**6.2**	**6.5**	**5.3**	**4.4**	**23.5**	**25.1**
ASTRO	BUY	2.86	3.35	17.13	14,886.35	29.0	25.7	22.4	17.8	8.9	8.6	4.5	5.6	17.5	14.1	78.0	78.8
MCIL	SELL	0.58	0.48	(17.24)	978.60	0.9	5.9	7.7	7.2	4.5	3.9	5.9	6.2	1.2	1.0	15.1	14.4
MEDIA PRIMA	SELL	1.40	1.07	(23.57)	1,552.88	82.8	(3.3)	11.4	11.8	5.1	4.8	6.9	6.6	0.9	0.9	8.3	7.6
STAR	HOLD	2.38	2.17	(8.82)	1,757.78	21.2	7.7	13.0	12.1	6.3	5.6	7.6	7.6	1.5	1.4	11.4	11.8
MREIT					**23,698**	**32.2**	**2.6**	**17.1**	**16.7**	**15.6**	**15.0**	**5.7**	**6.1**	**1.2**	**1.2**	**6.5**	**6.8**
AXIS REIT	BUY	1.65	1.95	18.18	1,807.60	(30.4)	14.4	18.3	16.0	18.2	16.2	5.6	6.0	1.4	1.4	7.5	8.5
IGB REIT	BUY	1.35	1.60	18.52	4,678.54	(13.1)	5.2	16.8	16.0	17.4	16.5	6.6	6.9	1.3	1.3	7.6	8.0
KLCC	HOLD	7.01	7.50	6.99	12,655.38	62.2	1.7	17.0	16.7	13.8	13.5	5.1	5.3	1.1	1.0	6.2	6.3
PAVILION REIT	BUY	1.51	1.88	24.50	4,556.94	(52.5)	8.1	18.8	17.4	18.8	18.0	5.7	6.2	1.2	1.2	6.4	6.8

Source: Affin Hwang forecasts, Bloomberg, pricing as of 2 November 2015

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PE (x) 2015E	PE (x) 2016E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	Yield (%) 2015E	Yield (%) 2016E	P/BV (x) 2015E	P/BV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E
Oil & Gas					**82,607**	**(2.2)**	**15.8**	**20.2**	**17.4**	**10.7**	**10.5**	**1.2**	**1.4**	**1.3**	**1.2**	**7.7**	**8.4**
ALAM MARITIM	BUY	0.49	0.54	11.34	448.36	(55.1)	6.5	15.6	14.7	8.7	8.0	-	-	0.5	0.5	3.4	3.5
BUMI ARMADA	HOLD	0.98	0.91	(7.14)	5,748.94	(104.6)	(3,100.0)	(490.0)	16.3	11.8	12.9	1.5	1.5	0.9	0.8	(0.1)	5.2
DIALOG	HOLD	1.63	1.65	1.23	8,344.78	46.3	10.9	29.6	26.7	23.9	26.0	1.4	1.4	4.0	3.6	13.5	13.5
MMHE	SELL	1.11	0.97	(12.61)	1,776.00	(0.2)	4.9	13.7	13.1	6.1	5.4	-	1.8	0.6	0.6	4.7	4.7
PCHEM	SELL	6.31	5.30	(16.01)	50,480.00	1.0	13.4	20.2	17.8	10.0	9.2	2.9	3.2	2.0	1.8	9.7	10.4
PETRA ENERGY	BUY	1.27	1.50	18.11	407.79	(19.4)	74.7	14.6	8.4	5.3	4.2	1.6	1.6	0.8	0.7	5.2	8.5
SAPURA KENCANA	HOLD	2.13	2.00	(6.10)	12,806.65	(39.6)	15.1	15.0	13.0	10.0	10.8	2.1	2.1	1.0	0.9	9.1	7.4
UMW-OG	SELL	1.20	0.78	(35.00)	2,594.40	(66.6)	64.1	30.8	18.8	12.0	9.4	-	-	0.8	0.8	2.6	4.0
Plantation					**123,020**	**(15.3)**	**33.2**	**24.8**	**18.6**	**16.3**	**13.1**	**2.1**	**3.2**	**2.2**	**2.1**	**8.0**	**11.0**
FELDA	SELL	1.78	1.32	(25.84)	6,493.71	(73.0)	358.3	74.2	16.2	17.4	10.5	1.1	4.5	1.0	1.0	1.4	6.2
GENTING PLANT	HOLD	10.52	9.74	(7.41)	8,189.02	(35.0)	76.2	34.3	19.4	21.4	13.3	1.0	1.1	2.0	1.9	5.9	9.6
HAP SENG PLANT	BUY	2.40	2.28	(5.00)	1,919.99	(34.5)	66.7	22.9	13.7	12.5	8.2	2.9	5.4	1.0	1.0	4.3	7.0
IJM PLANT	HOLD	3.45	3.34	(3.19)	3,038.00	14.5	63.6	28.9	17.6	16.1	11.4	1.7	2.6	1.8	1.7	6.3	9.8
IOI CORP	HOLD	4.31	4.02	(6.73)	27,743.71	(60.1)	86.9	39.0	20.9	25.9	16.8	2.4	2.8	4.7	4.3	12.4	21.2
KUALA LUMPUR KEPONG	HOLD	22.56	21.21	(5.98)	24,082.91	0.6	29.2	24.7	19.2	15.6	13.3	2.2	2.3	3.1	2.9	12.4	15.4
SIME DARBY	HOLD	8.30	7.59	(8.55)	51,552.61	(15.3)	20.6	21.1	17.5	13.6	12.5	3.3	3.6	1.7	1.6	8.0	9.3
Property					**29,372**	**(2.5)**	**(1.6)**	**10.3**	**10.5**	**9.8**	**9.7**	**3.5**	**4.1**	**0.9**	**0.9**	**8.5**	**8.2**
AMCORP PROP	BUY	0.90	1.53	70.00	533.15	(2.6)	43.6	7.8	5.4	5.1	7.7	3.6	4.6	0.5	0.5	6.8	9.1
E&O	BUY	1.60	2.54	58.75	2,051.16	(1.6)	(0.2)	14.3	14.3	18.6	18.0	1.4	1.9	1.4	1.3	8.6	8.2
IOI PROPERTIES	BUY	2.09	2.50	19.62	7,897.06	(18.2)	(2.2)	9.3	9.5	10.9	8.9	3.3	4.1	0.6	0.6	6.5	6.5
SP SETIA	HOLD	3.30	3.25	(1.52)	8,673.47	57.5	(15.7)	11.3	13.4	9.1	10.5	4.2	4.2	1.3	1.2	10.8	8.6
SUNWAY	BUY	3.10	3.90	25.81	5,572.73	(26.6)	11.0	10.4	9.3	10.1	9.5	2.9	3.2	0.9	0.8	8.2	8.6
TROPICANA	BUY	0.97	1.95	101.03	1,421.02	(21.6)	(15.8)	5.1	6.1	8.2	9.5	4.1	4.6	0.6	0.6	11.7	9.3
UOA DEVELOPMENT	BUY	2.12	2.25	6.13	3,223.31	(7.0)	22.4	9.9	8.1	7.7	7.3	5.2	6.1	1.2	1.1	10.6	12.2

Source: Affin Hwang forecasts, Bloomberg, pricing as of 2 November 2015

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PE (x) 2015E	PE (x) 2016E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	Yield (%) 2015E	Yield (%) 2016E	P/BV (x) 2015E	P/BV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E
Rubber Gloves					**23,501**	**36.4**	**21.7**	**20.9**	**17.2**	**18.3**	**13.5**	**1.6**	**2.6**	**4.4**	**3.9**	**15.3**	**18.9**
HARTALEGA	HOLD	5.17	9.00	74.08	8,483.29	37.2	24.9	16.5	13.2	21.6	17.3	2.9	3.5	6.1	5.4	18.7	20.5
KAREX	BUY	3.54	3.85	8.76	2,365.61	32.0	33.4	32.4	24.3	22.6	16.9	0.8	1.0	5.1	4.4	15.7	18.1
KOSSAN	BUY	8.17	7.90	(3.30)	5,224.45	43.6	15.0	25.0	21.7	15.7	13.8	1.8	2.3	5.7	5.0	22.7	23.1
SUPERMAX	HOLD	2.23	2.20	(1.35)	1,503.84	(100.0)	n/a	n/a	8.5	0	7.5	-	3.6	1.5	1.3	-	15.8
TOP GLOVE	BUY	9.49	8.35	(12.01)	5,923.51	34.7	7.3	20.5	19.1	13.4	11.8	2.3	2.7	3.6	3.3	17.4	17.1
Technology					**9,164**	**29.4**	**9.5**	**16.9**	**15.4**	**8.1**	**7.8**	**3.2**	**3.7**	**4.5**	**4.0**	**18.0**	**17.7**
AEMULUS	BUY	0.52	0.37	(28.16)	226.01	329.6	26.7	17.8	14.0	16.5	15.4	-	-	3.1	2.6	15.5	18.2
GLOBETRONICS	BUY	6.20	6.28	1.29	1,746.09	14.6	49.0	23.6	15.8	13.1	9.4	3.8	5.7	6.0	5.8	25.3	36.4
INARI	BUY	3.54	3.89	9.89	2,586.37	32.0	24.7	15.8	12.6	11.7	9.3	2.7	3.2	4.3	3.6	28.5	27.5
MPI	SELL	7.13	4.31	(39.55)	1,496.47	21.5	(12.6)	15.5	17.8	4.6	4.9	2.8	2.8	1.7	1.7	11.4	9.8
SCICOM	BUY	2.07	2.39	15.46	735.79	28.0	13.9	19.8	17.4	16.6	14.1	3.7	3.9	8.5	7.4	43.0	42.6
UCHI TECH	HOLD	1.73	1.38	(20.23)	663.38	6.8	-	15.0	15.0	12.0	11.9	6.4	6.4	3.3	3.3	22.2	21.9
UNISEM	SELL	2.33	1.55	(33.48)	1,709.83	90.1	(25.4)	12.1	16.2	5.5	6.3						
Telecoms					**169,005**	**3.7**	**2.4**	**23.5**	**22.9**	**10.5**	**10.3**	**4.0**	**4.1**	**19.0**	**19.0**	**20.9**	**21.1**
AXIATA	HOLD	6.13	6.39	4.24	54,039.26	8.8	2.4	20.7	20.2	9.2	8.9	3.8	3.9	2.5	2.4	11.9	11.9
DIGI	BUY	5.27	6.30	19.54	40,974.25	(9.6)	2.5	22.3	21.8	13.8	13.4	4.5	4.6	59.7	59.7	268.0	274.3
MAXIS	HOLD	6.56	6.70	2.13	49,264.07	10.6	1.2	25.9	25.6	13.1	12.9	4.0	4.1	10.5	10.7	40.5	41.9
TELEKOM	HOLD	6.58	6.60	0.30	24,727.21	3.9	4.6	27.6	26.4	7.4	7.3	3.6	3.8	3.3	3.3	11.7	12.3
Timber					**3,156**	**17.6**	**18.4**	**13.1**	**11.0**	**7.5**	**6.7**	**2.6**	**2.8**	**0.8**	**0.7**	**5.1**	**6.1**
JAYA TIASA	HOLD	1.21	1.13	(6.61)	1,178.20	25.4	59.6	21.2	13.3	9.7	8.5	1.3	1.5	0.7	0.6	3.0	4.7
TA ANN	BUY	3.88	4.46	14.95	1,438.46	(3.5)	12.7	12.0	10.7	6.4	5.6	5.2	5.2	1.2	1.2	10.1	10.9
WTK	BUY	1.12	1.26	12.50	539.08	7.3	15.3	11.4	9.9	5.6	5.4	1.4	1.6	0.4	0.4	3.4	3.8

Source: Affin Hwang forecasts, Bloomberg, pricing as of 2 November 2015

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PE (x) 2015E	PE (x) 2016E	EV/EBITDA (x) 2015E	EV/EBITDA (x) 2016E	Yield (%) 2015E	Yield (%) 2016E	P/BV (x) 2015E	P/BV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E
Transports & Logistics					**54,210**	**(2.2)**	**6.8**	**19.4**	**18.1**	**12.5**	**12.5**	**1.0**	**1.1**	**2.2**	**0.2**	**5.3**	**5.9**
AIRASIA	BUY	1.48	1.85	25.00	4,118.80	480.0	6.3	8.5	8.0	9.6	10.2	2.4	2.5	0.8	0.7	9.5	9.2
AIRASIA X	SELL	0.21	0.14	(33.33)	871.11	(26.2)	(26.2)	(1.6)	(2.2)	(214.6)	(64.9)	-	-	5.6	(2.6)	(348.1)	117.2
MAHB	HOLD	5.21	5.40	3.65	8,644.39	(94.4)	158.6	179.7	69.5	13.3	13.5	0.1	0.3	1.2	1.2	0.7	1.7
MISC	HOLD	9.09	8.30	(8.69)	40,575.88	4.0	4.9	17.7	16.9	12.6	12.0	1.7	1.7	1.3	1.3	7.5	7.5
Utilities					**165,837**	**(1.5)**	**3.2**	**14.5**	**14.0**	**8.7**	**8.4**	**3.6**	**3.8**	**1.5**	**1.4**	**11.1**	**10.7**
GAS MALAYSIA	BUY	2.43	2.58	6.17	3,120.12	(20.0)	12.5	23.4	20.8	12.6	11.4	4.3	4.8	3.0	3.0	12.6	14.3
JAKS RESOURCES	BUY	1.20	1.60	33.33	526.03	59.4	202.0	23.5	7.8	15.3	5.7	-	-	0.9	0.7	3.8	9.4
MALAKOFF	BUY	1.73	1.92	10.98	8,650.00	(90.0)	25.3	19.9	15.9	8.7	8.0	3.5	4.4	1.4	1.1	6.9	6.7
MMC	BUY	2.23	2.60	16.59	6,790.48	(17.3)	6.0	16.6	15.7	14.9	14.9	1.8	1.8	0.6	0.6	3.6	3.8
PETRONAS GAS	HOLD	22.90	20.80	(9.17)	45,312.96	1.5	1.4	24.2	23.9	14.0	13.8	3.1	3.1	3.9	3.7	16.0	15.4
PUNCAK NIAGA	HOLD	2.84	2.60	(8.45)	1,187.21	(12.1)	4.5	5.3	5.1	13.4	11.5	2.6	2.6	0.5	0.5	9.7	9.3
TENAGA	HOLD	12.66	12.00	(5.21)	71,448.12	7.6	3.8	9.9	9.6	6.4	6.0	2.4	2.6	1.4	1.3	14.1	13.2
YTL CORP	HOLD	1.52	1.54	1.32	16,406.87	(12.3)	1.3	12.9	12.8	8.5	8.5	7.9	7.9	1.0	0.9	7.1	6.9
YTL POWER	HOLD	1.53	1.52	(0.65)	12,395.40	(16.2)	0.8	12.2	12.1	9.2	9.6	6.5	6.5	1.0	1.0	8.3	8.2
Market Total					**1,179,082**	**(2.7)**	**7.4**	**17.7**	**16.5**	**12.8**	**12.0**	**3.3**	**3.5**	**2.2**	**2.1**	**9.7**	**10.1**

Source: Affin Hwang forecasts, Bloomberg, pricing as of 2 November 2015

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