Strategy

Malaysia Strategy

KLCI 1,622 @ 18 January 2016

POSITIVE (maintain)

2016 KLCI Target: 1,793

De-coupling

The crude oil price has fallen sharply since December 2015 raising fears of dragging the Ringgit and the KLCI down with it. But evidence suggests that a decoupling has taken place for Brent-Ringgit and Brent-KLCI. The Brent price has a huge influence on 3 key areas and our analysis shows a manageable impact even at extreme crude-oil prices. We believe the KLCI will see limited downside risk from lower crude, but upside potential far outstrips it if oil were to rebound. However, EIA is not expecting major price upswings due to record-high inventories. Global growth is still expected to be better in 2016 than 2015, though risks have increased given recent volatility.

Sweet break up with oil

Despite the sharp 16.4% fall in Brent price to US$37.28/b in December 2015, the Ringgit closed the month flat at RM4.29 per US$. Stepping into the New Year, the crude oil price has fallen more sharply, by 24% to US$28.55/b currently, yet the Ringgit has weakened by just 2.3% to RM4.39. In fact, the fall in Ringgit was likely due to Renminbi weakness rather than Brent. Similarly, the KLCI strengthened by 1.2% in December, but the 4.13% selldown so far in January to 1,622.6 is likely due to CSI300.

The implication of lower oil prices manageable

Petroleum permeates the Malaysian economy in 3 key areas. The first is the Federal government fiscal position with a target deficit of 3.1% in 2016 based on a US$48/b Brent price. Our analysis shows that the fall in crude oil to an extreme case of US$5/b would widen it to 4.4%, based on the government Budget 2016 at implied production cost of US$20/boe. Conservatively, the current account surplus equivalent to 2.6% of GNI (LTM to 3Q15) would still remain in surplus of 0.1% at US$30/b while at US$5/b it would see it swing to a 2% deficit. Lastly, the O&G sector makes up just 6% of market earnings. Hence, we estimate that market earnings would fall by a small 0.8%, assuming sector net profit decline of 13.1%.

The expert view

EIA forecasts 1.42m b/d growth in demand to 95.19m b/d and expansion of 0.22m to 96.69m in supply for 2016. This narrows excess production from 1.94m b/d in 2015 to 0.74m in 2016. However, inventory in OECD is at a record high of 3.06bn in 2015 with an elevated stock-to-usage ratio of 66 days. Both are expected to rise further to 3.17bn and 69 days in the future before a net drawdown in stock levels beginning in 3Q17. As such, it forecasts an average Brent price of US$40 in 2016 and US$50 in 2017.

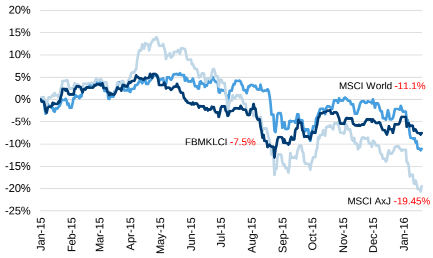
What keeps us awake at night

The main risk stemming from Brent is if the rating agencies downgrade Malaysia's sovereign rating, thus putting pressure on the Ringgit and, in turn, damaging consumer sentiment. The government is announcing a revised budget for 2016 this month and our economist expects it to hit the 3.1% fiscal deficit target on US$30 oil by adept cuts mostly in operating and some trimming of development expenditures. Beyond that, the biggest risk on the overall market is an external-led global slowdown/recession. IMF has just trimmed its global growth forecast to 3.4% in 2016 from 3.6% previously. However, this is still higher than the 3.1% in 2015.

Remain positive on Malaysia; unchanged 1,793 year-end KLCI target

Although market risk has increased, our sector and stock strategy is based on fundamentally-strong recommendations that are adept at navigating the current environment and well positioned to capitalize on the opportunities as, and when, conditions improve. The KLCI is currently trading at 16.9x 2016 PE, which is below its 17.8x historical average.

KLCI vs MSCI World vs MSCI AxJ (since 2015)



Source: Bloomberg

Key market statistics

	2015E	2016E
GDP growth (%)	+5.0	+5.0
KLCI EPS growth (%)	-5.2	+7.8

Source: Affin Hwang

Top calls for 2016

Stock	Rating	Price (RM)	TP (RM)
Top Buys			
AEON CREDIT	BUY	11.62	14.80
AFG	BUY	3.38	4.50
CIMB	BUY	4.11	5.15
E&O	BUY	1.47	2.54
GAMUDA	BUY	4.51	5.84
GENTING	BUY	7.35	8.40
IGB REIT	BUY	1.34	1.60
INARI	BUY	3.48	5.15
JAKS RESOURCES	BUY	1.18	1.60
KPJ	BUY	4.36	4.75
PAVILION REIT	BUY	1.55	1.90
PETRA ENERGY*	BUY	1.15	1.43
PUBLIC BANK	BUY	18.24	21.80
SUNWAY	BUY	3.03	3.90
SUNWAY CONSTRUCTION*	BUY	1.35	1.76
TA ANN	BUY	5.45	6.22
TENAGA	BUY	13.02	15.50
UOA DEVELOPMENT	BUY	2.08	2.57
WCT	BUY	1.61	2.16
WTK	BUY	1.53	1.36
Stocks to Avoid			
FELDA	SELL	1.57	1.26
MAXIS	HOLD	6.61	6.70
MCIL	SELL	0.65	0.48
MEDIA PRIMA	SELL	1.35	1.13
MMHE	SELL	0.95	0.97
TELEKOM	HOLD	6.54	6.50
UMW-OG	SELL	0.95	0.89
UNISEM	SELL	2.36	1.55

*new addition

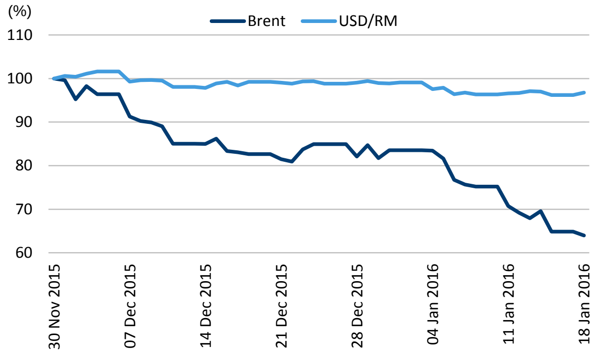
Source: Affin Hwang, pricing as of 18 January 2016

Chue Kwok Yan
(603) 2146 7618
kwokyan.chue@affinhwang.com

Research Team
(603) 2146 7599
research@affinhwang.com

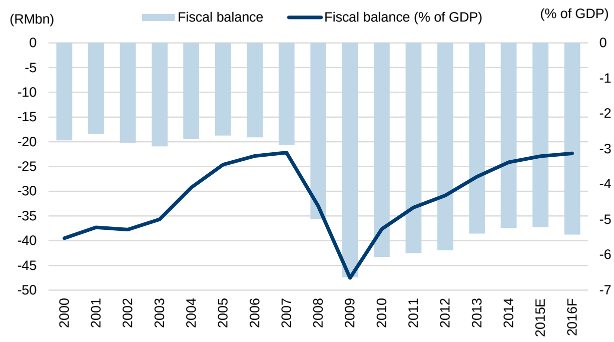
Focus Charts

Fig (a): Breakdown in relationship between Brent and Ringgit



Source: Bloomberg

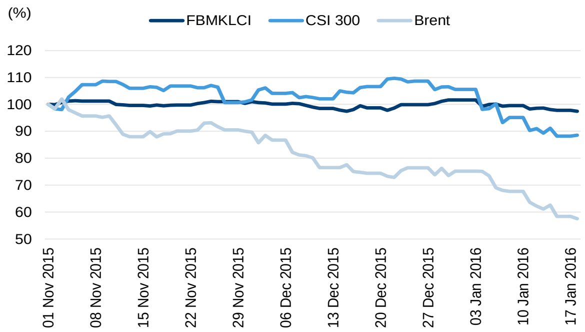
Fig (b): Malaysia's historical fiscal deficit



Source: MOF, Affin Hwang

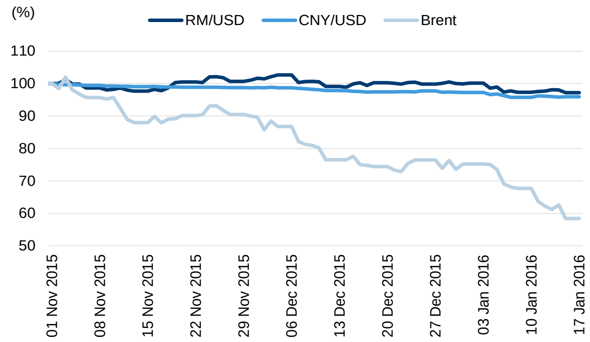
Source: Bloomberg

Fig (c): Correlation of KLCI, Brent, CSI



Source: Bloomberg

Fig (d): Correlation of Ringgit, Brent and Renminbi



Source: Bloomberg

Fig (e): Another sign of the KLCI de-coupling from Brent

	Malaysia	Singapore	Japan	Jakarta	Thailand	Korea	Taiwan	Shanghai	Shenzhen	Hong Kong
Ytd %	(4.1)	(10.1)	(10.9)	(2.4)	(3.3)	(4.2)	(6.3)	(17.7)	(20.7)	(12.2)

Source: Bloomberg

Fig (f): Current account at various Brent oil price levels

	Unit	LTM					2016						
Average Brent price	USD/boe	**63.39**	**5.00**	**10.00**	**15.00**	**20.00**	**25.00**	**30.00**	**35.00**	**40.00**	**45.00**	**48.00**	**50.00**
Goods	RM bn	107.4	54.8	59.8	64.8	69.8	74.8	79.8	84.8	89.8	94.8	97.8	99.8
Services	RM bn	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8
Primary income	RM bn	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2
Secondary income	RM bn	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2
Current account	RM bn	28.3	-24.3	-19.3	-14.3	-9.3	-4.3	0.7	5.7	10.7	15.7	18.7	20.7
GNI	RM bn	1,105.2	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9
% of GNI		**2.6%**	**-2.0%**	**-1.6%**	**-1.2%**	**-0.8%**	**-0.4%**	**0.1%**	**0.5%**	**0.9%**	**1.3%**	**1.5%**	**1.7%**

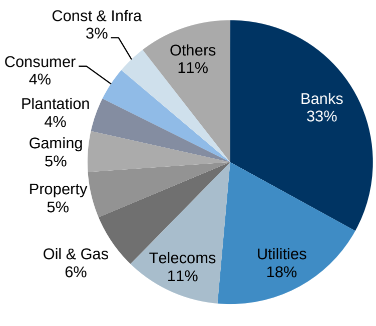
Source: Bloomberg

Fig (g): Possible revised government's finance position

RM bn, unless stated otherwise	2012	2013	2014	2015E	2016F	Without fiscal reform*	With fiscal reform**
Brent price (US$ per barrel)	**111.7**	**108.7**	**99.5**	**55.0**	**48.0**	**30.0**	**30.0**
Total revenue	207.9	213.4	220.6	222.5	225.7	220.3	220.3
Oil related revenue	70.2	66.6	66.3	44.4	31.8	26.4	26.4
Operating expenditure	205.5	211.3	219.6	213.3	215.2	215.2	210.8
Current balance	2.4	2.1	1.0	9.1	10.4	5.0	9.4
Gross development expenditure	46.9	42.2	39.5	47.4	50.0	50.0	49.0
Less: loan recoveries	2.6	1.5	1.1	1.0	0.8	0.8	0.8
Net development expenditure	44.3	40.7	38.5	46.4	49.2	49.2	48.2
Overall balance	**-42.0**	**-38.6**	**-37.4**	**-37.2**	**-38.8**	***-44.2***	***-38.8***
% of GDP	***-4.3***	***-3.8***	***-3.4***	***-3.2***	***-3.1***	***-3.6***	***-3.1***

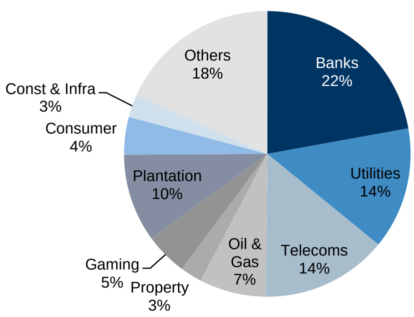
Source: Bloomberg

Fig (h): Breakdown of 9MCY15 earnings contribution



Source: Affin Hwang

Fig (i): Breakdown of market cap by sector



Source: Bloomberg

Fig (j): Expenditure cut to offset revenue shortfall

	Savings (RM bn)
Brent price (US$ per barrel)	**30.0**
Revenue shortfall	**-5.4**
Cut in operating expenditure	**-4.4**
Optimise outlays on supplies and services	*-1.5*
Savings in subsidies i.e. super subsidy scheme	*-1.0*
Review of transfers & grants to statutory bodies	*-1.8*
Reschedule of non-critical assets	*-0.1*
Cut in development expenditure	**-1.0**
Total savings in expenditure	**5.4**
Original operating expenditure	**215.2**
Revised operating expenditure	**210.8**

Source: Affin Hwang's estimates

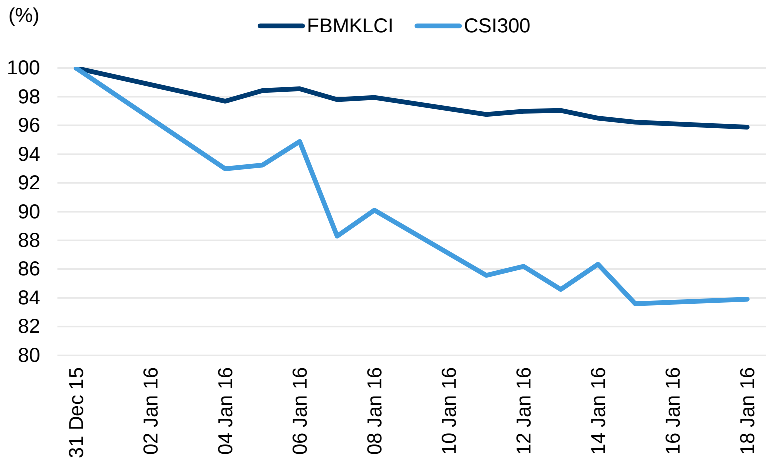
Table of Contents

Ushering in 2016

Throwing a curveball

It is inconceivable that all market participants are superstitious but it is probably fair to say that most would hope for an auspicious start to the New Year. Yet 2016 is a clear indication that markets have no regard for superstitions or customs. Global markets decided to throw a curveball on the very first trading day of 2016 with the CSI300 down 7.0%, triggering the newly introduced circuit breaker. Naturally, the Malaysian stock market reacted negatively in the first day as well, falling 2.3%. YTD, the CSI300 is down 16.1% and the KLCI is off 4.1%, which puts the KLCI now 14.3% below its peak of 1,893 points on 8 July 2014.

Fig 1: KLCI and CSI300 since the start of 2016



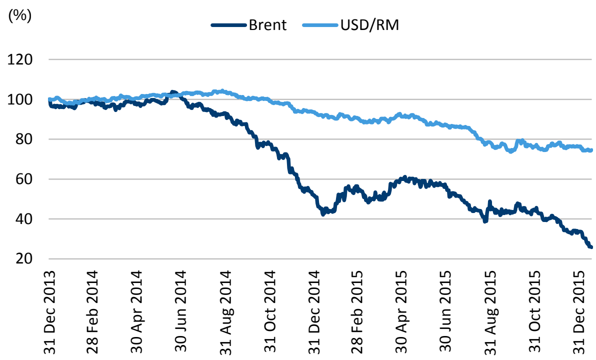
Source: Bloomberg

Promising end to 2015

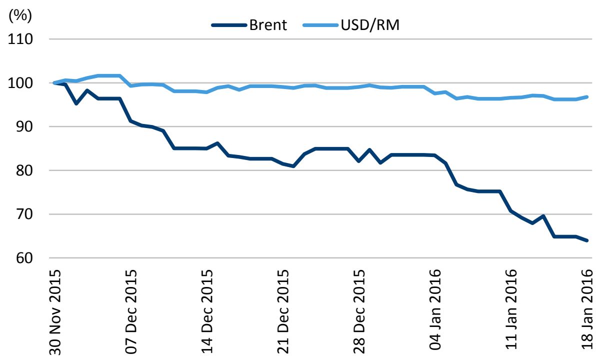
The extent of the global rout and the KLCI's abrupt reaction took market participants by surprise given the promising end to 2015. The KLCI was up 1.2% in December to close 2015 at 1,692 points. For the entire 2015, the KLCI was lower by 3.9%.

In our latest Malaysia Strategy report, '***The Ringgit Awakens?***', published on 3 December 2015, we were hopeful of the Ringgit strengthening over the course of the next 12 months. Although the Ringgit was flat in December, it was in fact a very encouraging sign given that the Brent crude oil price fell 16.4% to US$37.28/b in the month. Prior to this, there had been a close correlation between Brent oil and the Ringgit (Fig 2 LHS) but that relationship seems to have broken down in that month (Fig 2 RHS).

Fig 2: Breakdown in relationship between Brent and Ringgit



Source: Bloomberg



Source: Bloomberg

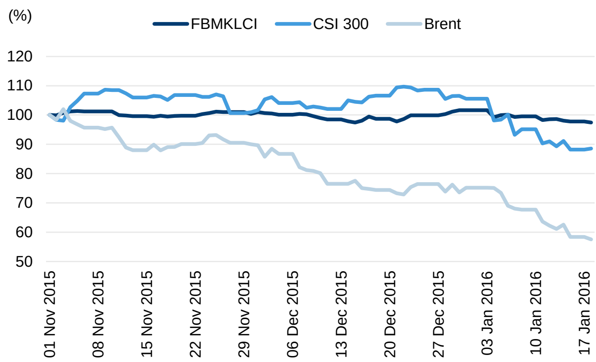
The Ringgit weakens

Yet the Ringgit quickly descended into losses in January. It is down 2.3% YTD (measured on US$ per RM) to RM4.39. The key trigger was devaluation of the Renminbi, taking the cue from the wild gyrations in China's stock markets. As the volatility in China was attributed to the extent of its economic slowdown, it sparked fears of a currency war in Asia if policy makers were using a weaker currency to boost export competitiveness, and thus, support China's GDP growth.

Decoupling has happened

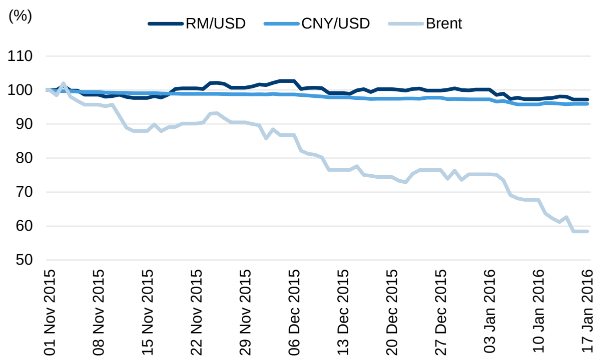
In our view, the relationship between the KLCI and crude oil price as well as the Ringgit and Brent has weakened substantially. In Figure 3 below, there is a clear link between the KLCI and Brent price, but as we mentioned earlier, the relationship broke down in December. The correlation seems to have resumed in 2016, but we point out that it is trending in tandem with the CSI rather than Brent price. We have provided the similar correlation of Ringgit with Brent and Renminbi, giving the same result (see Figure 4). There is strong correlation between the Ringgit and Brent, but the relationship broke down in December, while in January the Ringgit has, thus far, been dictated by the Renminbi movement.

Fig 3: Correlation of KLCI, Brent, CSI



Source: Bloomberg

Fig 4: Correlation of Ringgit, Brent and Renminbi



Source: Bloomberg

Another important sign of the de-coupling from Brent could be witnessed in KLCI's performance against regional peers (see Figure 5). While Malaysia is down 4.1% ytd, it is still better than Singapore, Japan, Korea, Taiwan and Hong Kong bourses, which have fallen by as much as 12% YTD. By right, the KLCI should be underperforming relative to the rest given the sharp fall in Brent. Yet that has not happened.

Fig 5: Another sign of the KLCI de-coupling from Brent

	FBMKLCI	SINGAPORE	JAPAN	JAKARTA	THAILAND	KOREA	TAIWAN	SHANGHAI	SHENZHEN	HONG KONG
Ytd %	(4.1)	(10.1)	(10.9)	(2.4)	(3.3)	(4.2)	(6.3)	(17.7)	(20.7)	(12.2)

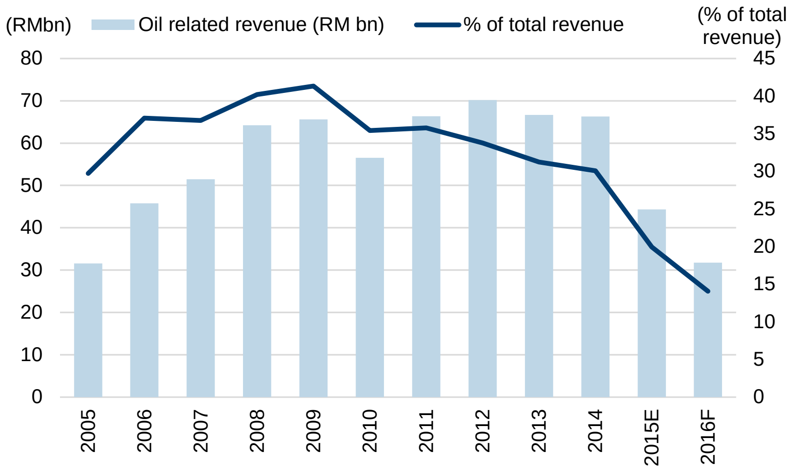
Source: Bloomberg

How important is oil?

Naturally, a diminishing influence of crude oil prices on the KLCI and Ringgit is surprising given that Malaysia is a net petroleum exporter. Hence, the importance of oil on Malaysia is worthy of further examination. We find that crude oil plays a major role in three main areas.

The first is on the Federal government fiscal position. In 2009, 41.3% of total revenue came from petroleum. This is expected to drop to 14.1% based on Budget 2016 of US$48/b. The government is announcing a revised budget this month and it will likely see further erosion in petroleum revenue contribution. However, the diminished weight of petroleum revenue is not at the expense of decline in total revenue. Between 2009 and 2016 (pre-revision), Federal government revenue is expected to grow at a 5.2% CAGR.

Fig 6: Share of petroleum related revenue has fallen



Source: MOF

The second area of Brent influence is net trade. Petroleum related exports made up 15.9% of total export value and 11.2% of imports in 11M15.

The final area is on the stock market. Oil & gas sector constitutes 6% of the market net profit and 7% of market cap, based on Affin Hwang's coverage universe.

Implication of lower oil prices

We estimate that Malaysia's petroleum revenue is US$60/boe (barrel of oil equivalent), production cost is US$35/boe and pre-tax profit is US$14 in 2015. Similar calculation yields revenue of US$32/boe, production cost of US$20 and pre-tax profit of US$13 in 2016, based on the Federal government fiscal revenue for Budget 2016. Our own input in the calculation is a Ringgit-USD cross rate of RM4.30 and production volume of 456m boe, which is assumed to be the same as in 2015.

Recapping, the Federal government fiscal deficit is estimated at 3.2% in 2015 and is targeted at 3.1% in 2016. The average crude oil price assumptions are US$55/b and US$48/b, respectively. On a conservative basis, our analysis indicates a fiscal deficit of 4.2% of GDP at US$30/b Brent price and 3.6% at US$40/b. At an extreme view where Brent falls to US$5/b, the impact on the Federal government fiscal position deteriorates marginally only to 4.4% deficit. This analysis is based on Federal government Budget 2016 figures. It is conservative because we have assumed LNG prices to fall in tandem with Brent. We are not privy to the terms but we understand that LNG contracts typically have a floor price limit set in the offtake agreement. Separately, government officials have been quoted in saying that every US$1/b drop in Brent oil would represent a RM300m annual loss in Federal revenue. In this instance, we estimate that the fiscal deficit would widen to 3.6% in 2016 at US$30/b Brent. These are very manageable given that the country's worst fiscal deficit was 6.7% in 2009.

Fig 7: Fiscal deficit at various Brent oil price levels

	RMbn, unless stated otherwise	2014	2015E	2016F	Scenario analysis for 2016 at different oil price						
1	**Average Brent price (USD/B)**	**99.5**	**55.0**	**48.0**	**0.0**	**5.0**	**10.0**	**20.0**	**30.0**	**40.0**	**50.0**
2	Total revenue	220.6	222.5	225.7	209.9	210.3	210.7	211.6	212.8	219.9	227.1
3	Oil related revenue	66.3	44.4	31.8	16.0	16.4	16.9	17.7	18.9	26.1	33.2
4	Oil related revenue (% of total revenue)	30.1	19.9	14.1	7.6	7.8	8.0	8.4	8.9	11.9	14.6
5	PITA	27.0	9.5	9.3	0.0	0.0	0.0	0.0	0.3	5.3	10.3
6	Petronas dividend	29.0	26.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
7	MTJDA	2.0	2.2	2.4	0.0	0.0	0.0	0.0	0.1	1.3	2.6
8	Petroleum royalties	6.5	4.4	3.2	0.0	0.3	0.7	1.3	2.0	2.6	3.3
9	Export duties	1.6	0.9	0.9	0.0	0.1	0.2	0.4	0.6	0.7	0.9
10	Others	0.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Total operating expenditure	219.6	213.3	215.2	215.2	215.2	215.2	215.2	215.2	215.2	215.2
12	Current balance	1.0	9.1	10.4	-5.3	-4.9	-4.5	-3.6	-2.4	4.7	11.9
13	Gross development expenditure	39.5	47.4	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
14	less loan recoveries	1.1	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
15	Net development expenditure	38.5	46.4	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2
16	Fiscal balance	-37.4	-37.2	-38.8	-54.6	-54.1	-53.7	-52.9	-51.6	-44.5	-37.4
17	% of GDP	-3.4	-3.2	-3.1	-4.4	-4.4	-4.3	-4.3	-4.2	-3.6	-3.0
18	Nominal GDP	1,106.6	1,161.3	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6

Source: Affin Hwang estimates, MOF

In the last twelve months, Malaysia has been running a current account surplus equivalent to 2.6% of GNI, courtesy of positive net trade in goods. We estimate that at US$30/b for Brent, Malaysia's current account surplus falls to 0.1% of GNI and 0.9% at US$40. However, it plunges to a deficit of 2% if crude oil falls to the extreme case of US$5/b. Note that the analysis is based on no change in other components in the current account. Also note that similar to our analysis on fiscal deficit, this is conservative as we assume LNG prices to fall in tandem with Brent while there is usually a floor price stipulated in the LNG supply contracts.

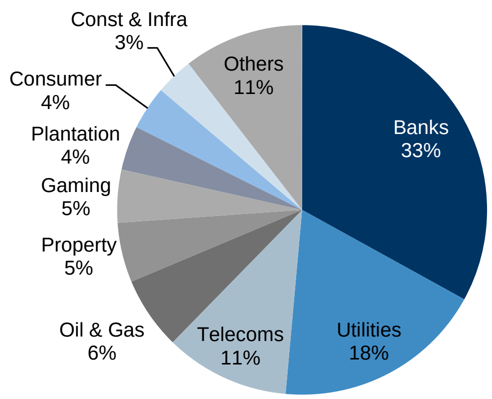
Fig 8: Current account at various Brent oil price levels

	Unit	LTM	2016										
Average Brent price	USD/boe	**63.39**	**5.00**	**10.00**	**15.00**	**20.00**	**25.00**	**30.00**	**35.00**	**40.00**	**45.00**	**48.00**	**50.00**
Goods	RM bn	107.4	54.8	59.8	64.8	69.8	74.8	79.8	84.8	89.8	94.8	97.8	99.8
Services	RM bn	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8
Primary income	RM bn	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2
Secondary income	RM bn	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2
Current account	RM bn	28.3	-24.3	-19.3	-14.3	-9.3	-4.3	0.7	5.7	10.7	15.7	18.7	20.7
GNI	RM bn	1,105.2	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9
% of GNI		**2.6%**	**-2.0%**	**-1.6%**	**-1.2%**	**-0.8%**	**-0.4%**	**0.1%**	**0.5%**	**0.9%**	**1.3%**	**1.5%**	**1.7%**

Source: Affin Hwang estimates, DOS

Lastly, we estimate the impact of oil & gas sector on overall market earnings would be just 0.8%, assuming that sector net profit falls by 13.1% in 2016. This is based on the oil & gas sector under our classification where sector net profit contracted by 9.1% in 2014, 4.4% in 2015 and 13.1% over the two years. Hence, we are assuming that two years of declines get compressed into 2016 to get the 0.8% fall in overall market earnings.

Fig 9: Significance of oil & gas sector earnings to the stock market in 9M15



Source: Bloomberg, Affin Hwang

According to the experts

It is clear that the impact of falling Brent price is manageable given that Malaysia has successfully made the bulk of the adjustments to lower oil prices over the past 1.5 years. On the other hand, Malaysia stands to gain substantially if oil prices recover. In fact, the risk-reward balance is now tilted towards the latter, in our view.

Meanwhile, the Energy Information Administration's (EIA) demand and supply forecast is relatively unchanged in its latest January 2016 outlook. It sees 1.5% demand growth in 2016 or equivalent to 1.42m b/d. Global demand is expected at 95.19m b/d. The corresponding supply growth is 0.22m b/d to 96.69m b/d. Hence, it sees excess production narrowing from 1.94m b/d in 2015 to 0.74m in 2016. According to the EIA, it will take until 3Q17 before the excess production reverses and to see a net draw on stockpiles.

However, the EIA has revised down its 2016 average Brent price forecast substantially from US$56/b to US$40/b due to high stock levels. It forecasts stock levels at the OECD to be at 3.06bn barrels at end 2015. This is a record high level and sees a peak of 3.17bn in 3Q17. Stock-to-usage at OECD is 66 days now and is expected to peak at around 69 days in the future.

Conclusion

Overall, we believe that the impact of petroleum on the Federal government fiscal position, current account and the stock market has been eroded courtesy of the successful adjustments that Malaysia has been able to make over the past 1.5 years. The implication of the current lower oil-price environment is, thus, manageable, in our view. Therefore, we see little influence of falling Brent prices specifically on the KLCI.

Having said that, and although risk is low on a bottom-up, stock-specific basis, the bigger risk lies in the hands of the rating agencies. In particular, a lower oil price does widen the fiscal deficit, which could prompt rating agencies to downgrade Malaysia's sovereign bonds. That would further restrict the Federal government's fiscal position as debt servicing would rise, while at the same time it could trigger foreign outflows from the bond market. This would weaken the Ringgit and damage consumer sentiment, thus slowing the economy. This risk immediately dissipates if rating agencies are cooperative.

The good news is that the government is revising its Budget 2016 later this month and we believe that the fiscal deficit could remain at 3.1%. Our economist estimates that the revenue shortfall at US$30/b could be offset by a cut mostly to operating expenditures, with some trimming to development expenditures.

Fig 10: Possible revised government's finance position

RM bn, unless stated otherwise	2012	2013	2014	2015E	2016F	Without fiscal reform*	With fiscal reform**
Brent price (US$ per barrel)	**111.7**	**108.7**	**99.5**	**55.0**	**48.0**	**30.0**	**30.0**
Total revenue	207.9	213.4	220.6	222.5	225.7	220.3	220.3
Oil related revenue	70.2	66.6	66.3	44.4	31.8	26.4	26.4
Operating expenditure	205.5	211.3	219.6	213.3	215.2	215.2	210.8
Current balance	2.4	2.1	1.0	9.1	10.4	5.0	9.4
Gross development expenditure	46.9	42.2	39.5	47.4	50.0	50.0	49.0
Less: loan recoveries	2.6	1.5	1.1	1.0	0.8	0.8	0.8
Net development expenditure	44.3	40.7	38.5	46.4	49.2	49.2	48.2
Overall balance	**-42.0**	**-38.6**	**-37.4**	**-37.2**	**-38.8**	***-44.2***	***-38.8***
% of GDP	***-4.3***	***-3.8***	***-3.4***	***-3.2***	***-3.1***	**-3.6**	**-3.1**

**without adjustment to expenditures*
***with adjustment to expenditures (Affin Hwang estimate)*
Source: MOF, Affin Hwang estimates
note: revenue adjustments based on Government estimates that a US$1 decline in oil price will lead to a RM300m loss in government revenue

Fig 11: Expenditure cut to offset revenue shortfall

	Savings (RM bn)
Brent price (US$ per barrel)	**30.0**
Revenue shortfall	**-5.4**
Cut in operating expenditure	**-4.4**
Optimise outlays on supplies and services	*-1.5*
Savings in subsidies i.e. super subsidy scheme	*-1.0*
Review of transfers & grants to statutory bodies	*-1.8*
Reschedule of non-critical assets	*-0.1*
Cut in development expenditure	**-1.0**
Total savings in expenditure	**5.4**
Original operating expenditure	**215.2**
Revised operating expenditure	**210.8**

Source: Affin Hwang's estimates

Overall, the most significant risk to our market call remains the same – an external-led global economic slowdown/recession. Unfortunately, the risk has increased in the first two weeks of the year. Sentiment has deteriorated and if this prolongs it could spill over to the real economy. Also, if China were to slow down significantly, Brent prices are likely to come under renewed pressure with demand destruction at a time of bloated stock levels, thus deepening the oil rout and prolonging any recovery. Once again, it raises the risk of rating agency downgrades.

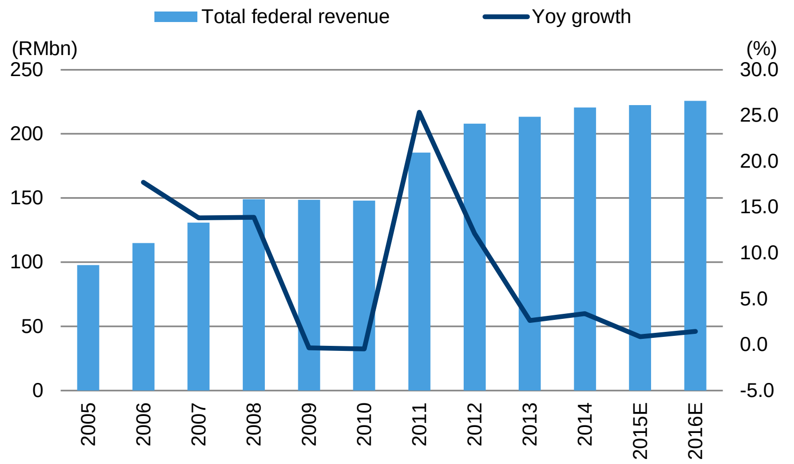
Nonetheless, we are acknowledging that those are the risks and it is not our base case scenario. We still see a better external environment in 2016. The IMF in its Economic Outlook Update released on 19 January 2016 has just cut global GDP growth in 2016 from 3.6% to 3.4%. However, this still represents acceleration in growth in 2016 vis-à-vis the 3.1% in 2015. We remain Positive on Malaysia and retain our KLCI year-end 2016 target of 1,793 points.

The role of oil

Significance of petroleum revenue

The Federal government expects to collect RM222.5bn of revenue in 2015. Thus far, the figure seems on track with 9M15 revenue constituting 73.3% of the target; it achieved 73% for the same period in 2014. If this is true, it would represent an 0.8% rise from the RM220.6bn collection in 2014. This would be the slowest pace of expansion since 0.6% in 2010, as Federal government revenue rebounded from the 0.7% contraction in 2009 due to the Global Financial Crisis. For 2016, the revenue budget is RM225.7bn, which is a 1.4% improvement from 2015.

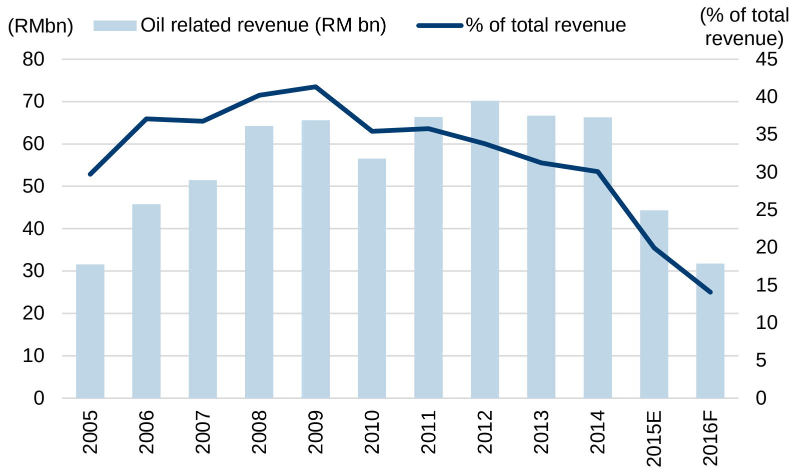
Fig 12: Federal government's revenue



Source: MOF

Malaysia depends on oil & gas to bring in a substantial portion of revenue. In 2005, oil & gas related revenue made up 29.7% of Federal government total and this rose to a peak of 41.3% in 2009. Hence it is unsurprising that Malaysia is often and widely tagged as an oil dependent nation.

Fig 13: Share of oil related revenue has fallen



Source: MOF

However, the significance of oil has fallen substantially since then to 19.7% of revenue in 2015 and to an expected 14.1% in 2016, based on an oil-price assumption of US$48/b.

It is worth pointing out that government revenue did not fall despite a drop in petroleum contribution. In fact, federal government revenue should grow at a 5.2% CAGR between 2009 and 2016 when petroleum contribution fell from its peak of 41.3% in 2009 to an anticipated 14.1% in 2016. In absolute terms, 2016 will likely mark the fourth consecutive annual drop in petroleum revenue contribution. The most severe decline was RM21.9bn in 2015 and the government is estimating another RM12.6bn drop in 2016.

Fig 14: New GST revenue and fall in petroleum revenue

RM m	2010	2011	2012	2013	2014	2015	2016
Change in petroleum revenue	-9,042	9,828	3,810	-3,538	-319	-21,948	-12,584
Change in GST revenue						27,000	12,000
Net impact	-9,042	9,828	3,810	-3,538	-319	5,052	-584

Source: MOF

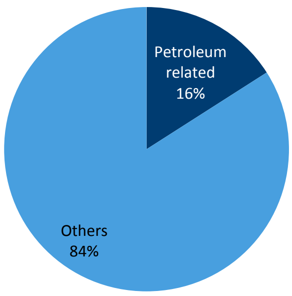
From a federal government's perspective, the fortuitous timing in Goods and Services Tax (GST) implementation on 1 April 2015 was a major factor in preventing a contraction in government revenue as it coincided with the sharp fall in crude oil prices. Total GST collection in 2015 is estimate at RM27bn, which is more than able to cover the decline in petroleum contribution. However, the GST is also a replacement tax and we estimate that the net collection is RM16-17bn (GST replaces sales and services tax). As such, there is still a shortfall in collection due to the petroleum prices, though it was more than covered by rise in other tax revenues.

As for 2016, the government is forecasting RM39bn in GST collection. Hence the RM12bn absolute increase should be able to more or less compensate for the drop in petroleum-related revenue of RM12.6bn, based on a crude-oil price of US$48/b.

Hydrocarbon in external trade

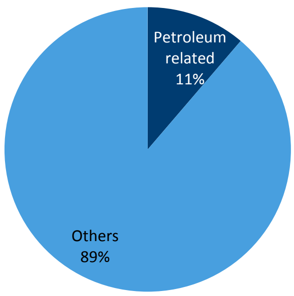
Malaysia is fortunate in that it produces more than enough hydrocarbons for domestic consumption. As such, it is a net petroleum exporting country. The total value of monthly petroleum-related exports has fallen between 5% and 45% yoy for 11M15 and despite that still made up 15.9% of total exports (last twelve months (LTM) to 3Q15).

Fig 15: Significance of oil & gas to exports



Source: DOS

Fig 16: Significance of oil & gas to imports



Source: DOS

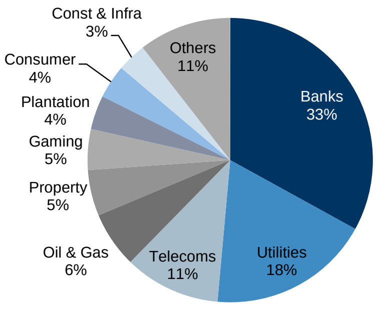
Meanwhile, petroleum-related trade is also captured in imports despite Malaysia being a net hydrocarbon exporter. One part of this is due to longstanding contracts such as for LNG where the bulk of domestic volume from gas fields is committed to external off-takers. This created a shortage in domestic supply, which is met by imports. In addition, there could be imports of hydrocarbon elements for trading or manufacturing purposes.

Similar to exports, the import value of petroleum-related products has fallen between 3% and 56% yoy monthly in 11M15 and made up 11.2% of total imports (LTM to 3Q15).

Oil & gas and the stock market

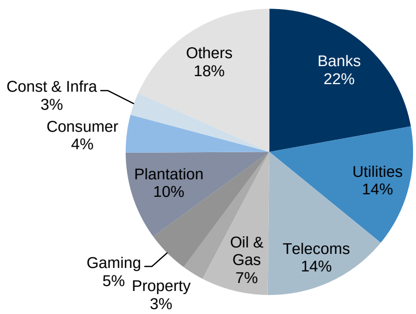
The steady rise in crude oil prices in more than a decade has spurred rapid development of the Malaysian oil & gas sector. Similarly, the oil & gas sector, which was previously poorly represented in the stock market, saw rapid growth and new listings. However, the drop in oil prices since mid-2014 has caused substantial value destruction. As of 9M15 results, the oil & gas sector contributed 6% of KLCI's earnings based on our stock coverage universe. Meanwhile, it represents 7% of the KLCI's market value as of now.

Fig 17: Breakdown of 9MCY15 earnings contribution



Source: Affin Hwang

Fig 18: Breakdown of market cap by sector



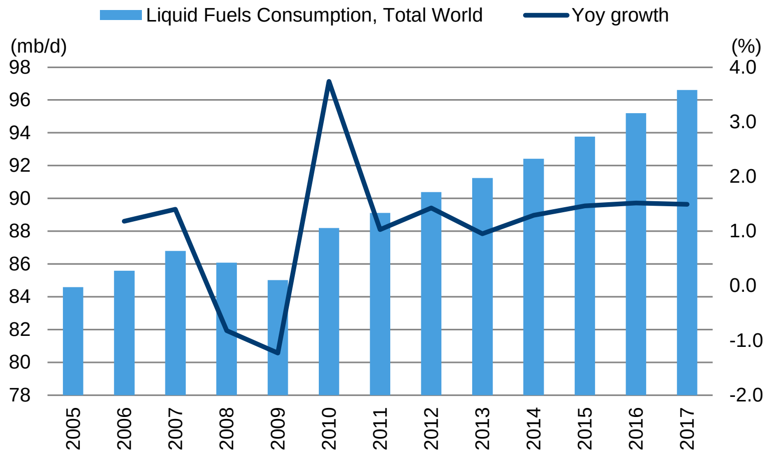
Source: Bloomberg

The experts say

Stable global petroleum demand growth

In its latest energy outlook in January 2016, the EIA is maintaining its demand outlook for 2016. It sees a 1.42m b/d increase in additional demand for 2016, which is relatively unchanged from the 1.4m b/d rise in its December 2015 edition. It has also introduced its 2017 forecast and sees a similar 1.42m b/d increment. If this is true, global petroleum demand is expected to go from 93.77m b/d in 2015 to 95.19m in 2016 and reach 96.61m in 2017.

Fig 19: Demand to reach 95.19m b/d in 2016



Source: EIA estimates and forecasts

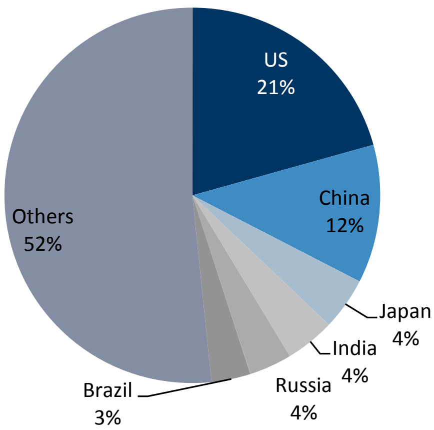
Major petroleum consuming countries are the US, China, Japan, India, Russia and Brazil. Of these, the US is the largest, constituting 20.7% of global consumption while Brazil makes up the smallest at 3.4%. The top six countries make up 48% of global demand. The growth is expected to be driven by India and China with the quickest growth pace. The US is also seeing better consumption though at just a 0.8% rise. Japan and Russia is expected to see lower petroleum consumption.

Table 20: Consumption of top six nations

Demand	2015	2016	Change (mb/d)	Change
US	19.37	19.53	0.16	0.8%
China	11.18	11.5	0.32	2.9%
Japan	4.23	4.14	-0.09	-2.1%
India	3.97	4.14	0.17	4.3%
Russia	3.45	3.41	-0.04	-1.2%
Brazil	3.15	3.18	0.03	1.0%
Others	48.42	49.29	0.87	1.8%
	93.77	95.19	1.42	1.5%

Source: EIA

Fig 21: Major petroleum-consuming countries in 2015

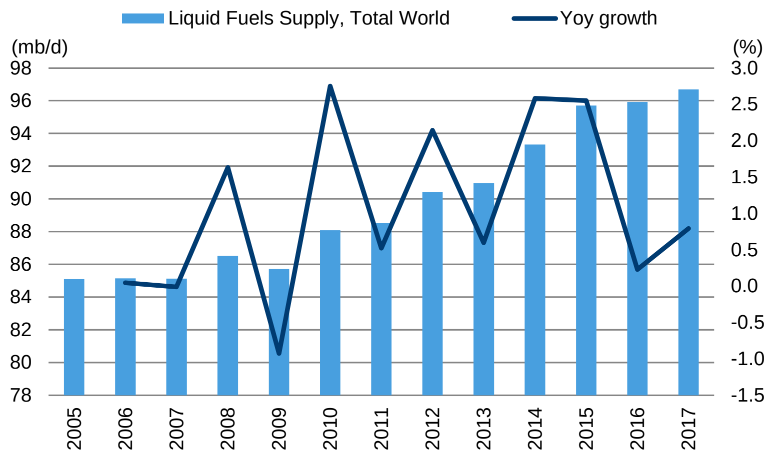


Source: EIA

Relatively stable petroleum supply

On the supply side, it still sees additional production in 2016 despite the low crude oil price currently. The additional supply is anticipated to be 0.22m b/d in 2016, though this has been revised down from the 0.25m b/d projection last month. The newly introduced 2017 figure indicates a rebound to a 0.76m b/d increase in supply in reaction to demand growth. Global supply of 95.71m b/d in 2015 is anticipated to rise to 95.93m in 2016 and 96.69m in 2017.

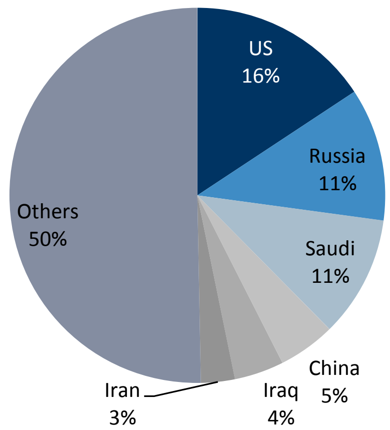
Fig 22: Supply forecast of 95.93m b/d in 2016



Source: EIA estimates and forecasts

The top six petroleum producing countries are the US, Russia, Saudi Arabia, China, Iraq, and Iran. Again, the US is the largest constituting 15.7% of global supply while Iran is the smallest among the list of the top six at 2.9% of global supply. In total, the six nations make up half of global production.

Fig 23: Major petroleum producing countries in 2015



Source: EIA

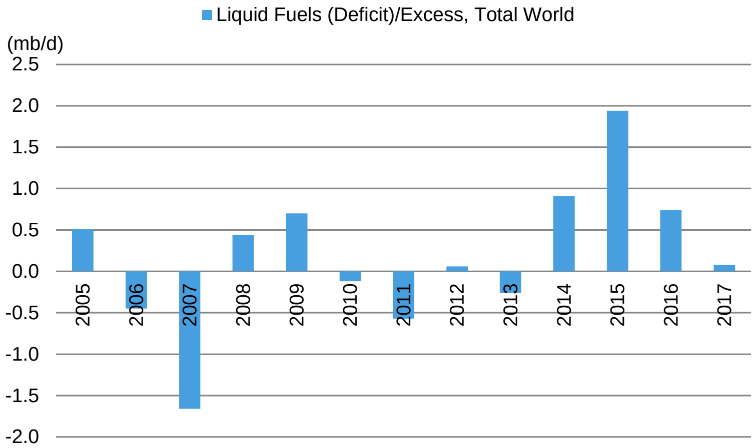
Although US is the largest petroleum producer, it is also the biggest consumer globally and runs a net deficit. Hence the biggest players in supply are those with outsize production relative to their consumption. These are predominantly Saudi Arabia, Russia, Iraq and Iran.

In its forecasts, EIA has taken into account the lifting of sanctions on Iran in 1Q16. It sees Iran's crude oil production rising by 0.3m b/d in 2016 and by 0.5m b/d in 2017. This substantially explains the bulk of the expected increase in OPEC's production capacity of 0.5m b/d in 2016 and 0.6m b/d in 2017.

Dwindling excess production

One way of putting supply and demand into perspective is to look at excess production over consumption. The EIA numbers suggest that the excess production of 1.94m b/d in 2015 will narrow to 0.74m in 2016 and drop to just 0.08m in 2017, based on its latest January 2016 projections. However, this is a deterioration from its December 2015 forecast of 1.72m b/d of excess production in 2015 and 0.57m in 2016.

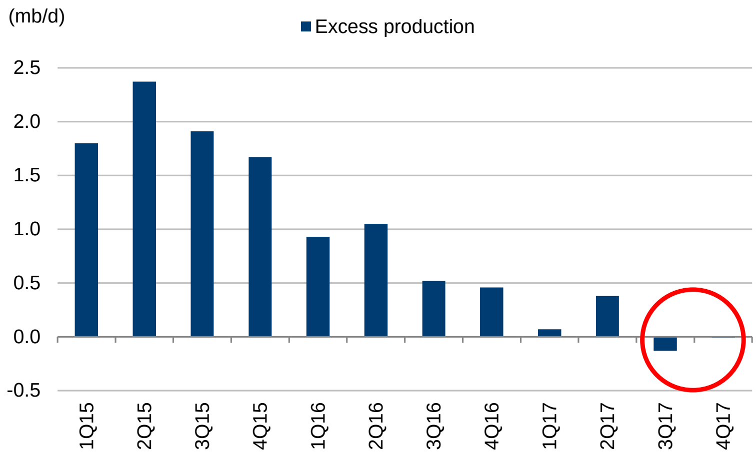
Fig 24: Global excess production



Source: EIA estimates and forecasts

While those are annual averages, naturally there would be fluctuations throughout the year. According to EIA, it sees excess production in 2Q16 at 1.05m b/d before falling to 0.46m b/d in 4Q16. It will take us into 3Q17 before the first draw on petroleum stock piles.

Fig 25: 3Q17 will be the first draw on bloated petroleum inventories



Source: EIA estimates and forecasts

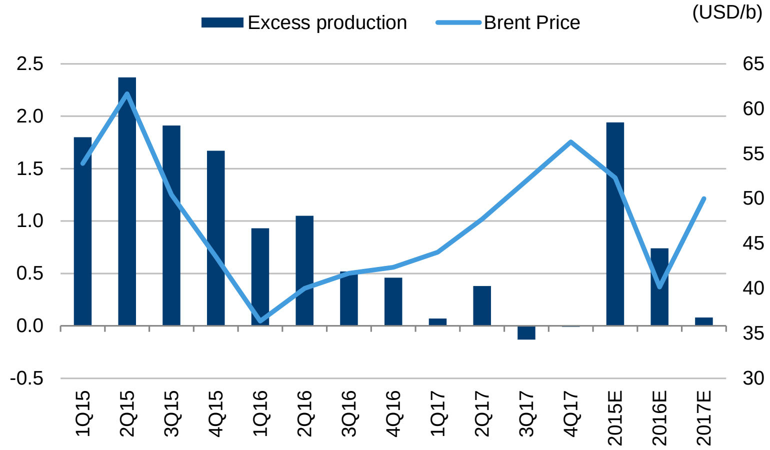
EIA's Brent price forecast

Despite relatively unchanged demand and supply dynamics, EIA has substantially reduced its average Brent price forecast for 2016 from US$56/b to US$40. It has also introduced US$50/b for 2017. The adjustment follows the persistent decline in Brent price in December, from US$44.61/b to US$37.28 now.

In most instances, the sharp drop in 2016 excess production should suggest upward pressure on oil prices. This could be one reason for EIA's earlier US$56/b forecast. However, surplus production since mid-2014 has caused huge inventory build-ups, overshadowing the anticipated tightening in demand over supply. Under this scenario, petroleum off takers would be able to first draw on huge stock levels before seeing prices rise as condition eventually tightens. Hence it does seem that EIA overlooked this aspect initially but the US$40/b forecast now subsequent to the fall in crude oil prices does seem like an acknowledgement of this fact.

While the US$40/b is the average for 2016, it sees crude-oil prices bottoming in 1Q16 before gradually rising to above US$40/b for most part of 2016. Brent is expected to surmount US$50/b in 3Q17 in tandem with the first drawdown on petroleum stock levels.

Fig 26: Brent crude-oil forward price development



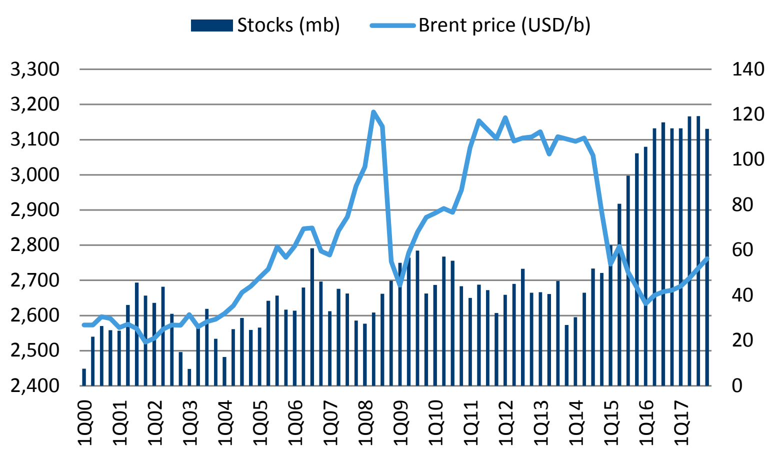
Source: EIA estimates and forecasts

Bloated OECD stock levels

As indicated earlier, EIA estimates average excess production in 2015 to be 1.94m b/d of the 93.77m b/d of demand. While it represents an excess of just 2.1%, it is a barrels per day figure. This means that over the course of the year there are 708m barrels added to global stocks. The EIA puts OECD stock levels at 2.7bn barrels in 2014 and 3.06bn in 2015. This is the first time it has surmounted 3bn barrels. It is projected to reach a peak of 3.17bn barrels in 3Q17.

In our view, stock levels are not always the determinant of crude oil prices. The chart below supports this to an extent. For instance, oil price moved up in 2003 through 2005 despite stock levels climbing. Similarly, stock levels were low in 2014 and in the early part of 2015 when oil prices plunged. In these two instances, crude oil inventory is lagging crude oil prices and it is a secondary indicator. In our opinion, the primary indicator would be the excess production because if demand falls off or supply increases, then stock levels would increase in the future, and vice versa.

Fig 27: Correlation between stock levels and Brent prices



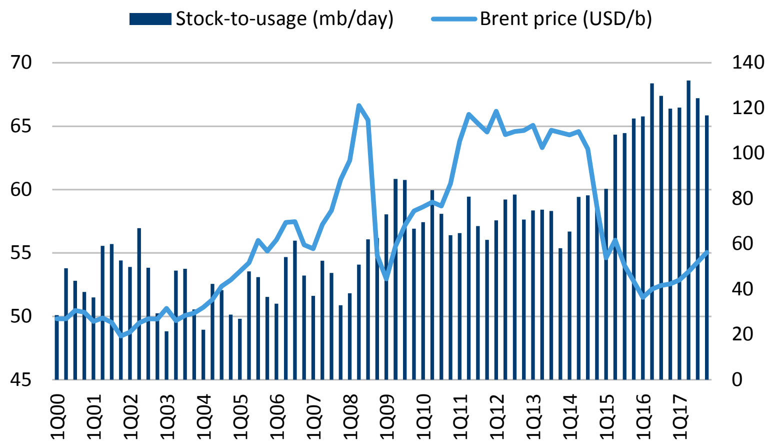
Source: EIA estimates and forecasts

However, stock levels have gone so high this time round that it has a more significant influence on crude-oil prices. Hence, despite narrowing excess production, oil prices are capped by the ample inventory sloshing around globally.

Stock-to-usage ratio tells similar story

Current OECD stock-to-usage ratio is at 66 days versus its low of 49 days in 1Q13. At the peak Brent price of above US$120/b, the stock-to-usage ratio stood at around 54 days. The EIA expects the ratio to move up to a peak of 69 days in 2Q17 before falling due to rise in demand growth.

Fig 28: Correlation between stock-to-usage and Brent prices



Source: EIA, Affin Hwang

Comparing the experts

Besides EIA, OPEC and International Energy Agency (IEA) are the other credible sources in the petroleum field. The IEA is forecasting global demand of 95.8m b/d in 2016, while OPEC sees 94.13m b/d. Both are anticipating 1.3% growth versus 1.5% by EIA. We have tabulated the main features of IEA and OPEC in the table below in comparison with the EIA forecast. Note that the EIA forecasts are the most complete as both IEA and OPEC do not have global supply and stock figures.

Table 29: Comparing EIA, OPEC and IEA

		OPEC			International Energy Agency (IEA)			Energy Information Administration (EIA)		
	Units	2015	2016	2017	2015	2016	2017	2015	2016	2017
Publication	Date	10 December 2015			11 December 2015			12 January 2016		
Demand	mb/d	92.92	94.17		94.6	95.8		93.77	95.19	96.61
Change	mb/d	1.54	1.25		1.8	1.2		1.32	1.42	1.42
Growth	%	1.7%	1.3%		1.9%	1.3%		1.4%	1.5%	1.5%
Supply	mb/d							95.71	95.93	96.69
Change	mb/d							2.45	0.22	0.76
Growth	%							2.6%	0.2%	0.8%
OECD Stocks	mb							3,061	3,132	3,131

Source: OPEC, IEA, EIA

The crude reality

Implications of lower oil prices

Oil price plays an important part in three key areas. As indicated earlier, 14.1% of Federal government revenue in 2016 comes from petroleum based on an average Brent price of US$48/b. Hence lower oil price puts pressure on ability of government to meet its budget obligation and in particular to achieve its 3.1% fiscal deficit target in 2016. The second is the role of oil in trade. Malaysia is a net petroleum exporter hence lower petroleum prices has an impact on net export and the current account surplus. Lastly, it influences stock market earnings and the listed counters given a fair representation of oil & gas companies on the bourse.

In this section we gauge the impact on these areas at various low Brent price levels.

On Federal government fiscal position

The Malaysian government has unequivocally stood by its commitment to gradually reduce its budget deficit. The fiscal deficit has fallen from a peak of 6.7% in 2009 to 3.4% in 2014. Despite the fall in oil prices, the government has likely met its 3.2% deficit target in 2015. However, the turn of the New Year has immediately put the current 3.1% fiscal deficit target on the back footing.

There are five major sources of petroleum revenue for the Federal government. These are Petroleum Income Tax, Petronas dividend, petroleum royalties, income from Malaysia-Thailand Joint Development Area, and export duties.

PITA. It is based on the Petroleum (Income Tax) Act 1967 (PITA) that requires all entities that derive profits from petroleum operation to pay the Federal government an income tax of 38%. Specifically, it relates to petroleum upstream operations while those entities engaged in downstream operations are governed by the Income Tax Act 1967 with corporate income tax rate of 25% in 2015 and 24% in 2016.

MTJDA. The Malaysia-Thailand Joint Development Area (MTJDA) refers to an area with overlapping continental shelf. It covers approximately 7,250 sqkm in the Gulf of Thailand, offshore from the Malaysian-Thailand border at the north-eastern part of Peninsular Malaysia. It is about 150km from Kota Bharu and 260km from Songkhla. Both countries have exerted claims and due to the overlapping shelf the two governments decided in 1979 to jointly explore the petroleum resources for a period of 50 years. The income on petroleum profit is tax free for the first eight years of production. However, it is subjected to 10% tax in the subsequent seven years and 20% thereafter.

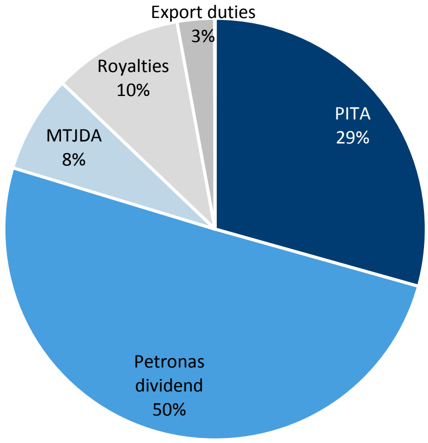
Petroleum royalties. Royalty is imposed on all upstream petroleum revenue. The royalty is at 10% of revenue with an equal split between the Federal and respective state governments.

Export duties. Export duty is levied on all crude oil exported from Malaysia. The duty is at 10% of the value.

Petronas dividend. Petronas is a wholly owned subsidiary of the Federal government. Dividend revenue reflected in the Federal government fiscal revenue is based on the profitability of Petronas in the previous year.

By far the largest component of petroleum revenue contribution in 2016 is Petronas dividend at 50% of the total. This is followed by PITA at 29% and royalties at 10%. The MTJDA makes up 8% of Federal government petroleum revenue while export duty is the smallest at 3%.

Fig 30: Composition of 2016 Federal government petroleum revenue



Source: MOF

Before deep diving into the details of our analysis on the impact of lower Brent prices, we first need to estimate the unit production cost in Malaysia. In order to do this, we have gathered and treated some required information. Note that the bulk, if not all of the information is based on official statistics.

Volume of production

We use the following official data.

- Crude oil production volume of 652,130 b/d in 2015 is based on ten-month average.
- LNG production of 25.2m tonnes in 2015 based on annualised ten-month figure.

From these figures, we are able to estimate the annual output of petroleum products equivalent to 456m boe in 2015.

Table 31: Volume of petroleum production in Malaysia

	Unit	2010	2011	2012	2013	2014	2015
Crude oil volume per day	b/d	638,260.3	569,849.7	585,566.1	575,772.9	602,864.7	652,130.0
Crude oil volume	m barrels	233.0	208.0	214.3	210.2	220.0	238.0
Gas volume	m tonnes	24.4	25.8	24.0	26.0	26.1	25.2
Gas volume	mmbtu	1,266.9	1,342.7	1,247.3	1,349.8	1,357.0	1,308.4
Crude oil volume	m boe	233.0	208.0	214.3	210.2	220.0	238.0
Gas volume	m boe	211.5	224.1	208.2	225.3	226.5	218.4
Total	m boe	444.4	432.1	422.5	435.5	446.6	456.4

Source: Affin Hwang estimates, MOF

The cost of production

We are now able to calculate the cost of production using the Federal government 2015 fiscal budget for petroleum revenue. We estimate revenue to be US$50 per boe and pre-tax profit to be US$14 per boe. In other words, the implied production cost is calculated to be US$35 per boe. The historical production cost per boe ranged from US$23 to US$41 between 2010 and 2014.

Table 32: Estimate of Federal government's unit revenue and cost of production

	Unit	2010	2011	2012	2013	2014	2015	2016
Days		365	365	366	365	365	365	366
Exchange rate	RM per US$	3.22	3.06	3.09	3.15	3.27	3.91	4.30
Petroleum revenue	RM m	97,101.9	102,954.1	128,466.2	123,726.6	130,635.2	88,300.0	63,380.0
Petroleum pre-tax profit	RM m	49,245.5	73,020.5	89,299.3	78,297.7	70,937.2	25,076.3	24,555.4
Crude oil export value	RM m	17,447.9	19,967.3	19,277.0	16,318.9	15,772.7	9,036.4	8,999.9
Crude oil export volume	m barrels	67.6	58.9	55.9	47.6	48.5	42.0	43.6
Revenue per boe	RM per boe	218.48	238.25	304.05	284.13	292.53	193.46	138.86
Pre-tax profit per boe	RM per boe	110.80	168.98	211.35	179.80	158.85	54.94	53.80
Production cost per boe	RM per boe	107.68	69.27	92.70	104.32	133.68	138.52	85.06
Revenue per boe	US$ per boe	67.87	77.90	98.44	90.19	89.39	49.51	32.29
Pre-tax profit per boe	US$ per boe	34.42	55.25	68.43	57.08	48.54	14.06	12.51
Production cost per boe	US$ per boe	33.45	22.65	30.01	33.12	40.85	35.45	19.78

Source: Affin Hwang estimates, MOF

We have done similar calculations for 2016 by making the assumption of the same production level in 2016 as in 2015, yielding revenue of US$32 per boe, pre-tax profit of US$13 per boe and production cost of US$20 per boe.

What is interesting is that the estimated production cost of US$35 per boe in 2015 falls to US$20 per boe in 2016. We are not entirely sure why but there could be a few reasons for this. The easiest and most logical is probably a more concerted effort in reducing cost via retrenchments, renegotiation of services contracts, scaling back expansionary spending, optimising maintenance expenditure, and spending on productivity enhancements. However, cost optimising by itself is very unlikely able to explain the sharp drop in unit production cost.

Another possibility is economies of scale via production growth. During the period of high oil prices that lasted into 2H14, upstream oil contractors were aggressively spending to enhance production of existing fields. For some of these, it is not possible to immediately suspend the initiatives once in process. Hence these likely continued into 2015 as well. The cost could have been captured in 2014 and extended into 2015; it could explain the higher cost per boe in 2014 and 2015. Meanwhile the benefits of lower unit cost come through in 2016 with a corresponding lower cost per boe in 2016.

Another plausible explanation is higher LNG volume mix, as LNG production generally has lower unit production cost. In our US$20 per boe estimate, we assume the same level of volume in boe and the same ratio of crude oil and petroleum mix. In reality, there could be higher LNG production in 2016 and thus growth in overall boe as well. We have given more details of these in the next section.

Petroleum volume growth

In Malaysia, there are various new prominent fields that have boosted the country's production capacity. Here are the major ones recently.

Gumusut-Kakap. Shell starts oil production from Gumusut-Kakap deep-water platform in Malaysia on 8 October 2014. The platform is capable of producing 135 kb/d, which translates into an annual peak production of 49.3m barrels. This is equivalent to 25% of Malaysia's annual crude oil production at that time. The field comprises 19 subsea wells, with oil exported via a 200-km long pipeline to an oil and gas terminal in Kimanis, Sabah. In 2008, development drilling began in the Gumusut-Kakap field. Early production started at the field in Nov 2012, by linking Gumusut-Kakap's production wells to the Kikeh production facility, the country's first deep-water development, operated by Murphy Sabah Oil. This early production was an interim measure to bring 25 kb/d on stream ahead of completing the FPS.

Malikai. Malikai deepwater project is located 100km offshore Sabah. The field is expected to be able to produce 60 kb/d, which translates into a peak annual output of 21.9m barrels annually. The first stage of drilling (involving top holes) was completed safely in Jan 2015, while the main drilling campaign is scheduled to start in 2016. Production from the project is scheduled to start in early 2017. The Malikai project is a JV between Shell (35%, operator), ConocoPhillips Sabah (35%), and PETRONAS Carigali (30%).

LNG related projects for Petronas. We have given LNG plant projects rather than natural gas fields as an indication of potential uplift in LNG capacity. This is because the ability to sell LNG is not just premised on the available natural gas fields but also LNG liquefaction facilities. Malaysia's production of natural gas is significantly above that of LNG. Some of the natural gas is channelled to local utilisation but part of this is probably also due to constrains in liquefaction capacity. In this aspect, works for the MLNG Train 9 and LNG (FLNG) projects are progressing well. The Train 9 project is targeted to reach Ready For Start Up (RFSU) at the end-2015 whilst FLNG 1 and FLNG 2 are set to be operational by 1Q16 and 1Q18 respectively. Together, these projects will add an additional 6.3 mtpa capacity to Petronas' LNG production in Malaysia. Details relating to these incoming projects are as follows:

- MLNG Train 9 is located at the Petronas LNG Complex in Bintulu Sarawak, and will draw its required 850mmcsfd of natural gas from the various fields offshore Sarawak. Once online at end-2015, it would add 3.6mtpa to the existing 24 mtpa production capacity of the PETRONAS LNG Complex. Train 9 will utilise the same liquefaction process technology as the Complex's existing eight trains.
- The PLNG is a facility that allows for the processing of LNG to be done offshore hundreds of kilometres away from land, allowing Petronas to unlock remote and stranded fields that were previously uneconomical to explore. PLNG 1 will be located at the Kanowit field, 180km offshore Bintulu with the capacity to produce 1.2 mtpa of LNG, once it is onstream in 1Q16.
- PLNG 2 will be located at the Rotan Gas Field, 240km offshore Kota Kinabalu with capacity to produce 1.5 mtpa of LNG, once it is online in 1Q18.

The final analysis on Federal government fiscal deficit

Armed with all these information, we are now able to estimate the impact of various crude oil price levels on the Federal government fiscal deficit. The government bases its 2016 budget on US$48/b oil level. In our analysis, we would need to calculate the implied price per boe at various crude oil price levels. In doing so, we use the same production volume and ratio of crude to LNG mix as with 2015.

The table below gives the price per boe at various crude oil reference prices. A final note on the reference price is that unlike crude oil, LNG prices are not globally benchmarked. The LNG contracts between suppliers and off-takers are typically negotiated and vary from one contract to another. Most of them though are linked to crude oil in some ways but we understand that there is also the element of a floor price for LNG. In other words, LNG price should not drop as drastically. However, our price/boe cross-reference is linearly linked to crude oil. In other words, at the extreme crude oil price assumption our analysis overstates the negative impact versus reality. It also means that our analysis is more conservative.

Table 33: Cross-referencing Brent to price per boe

Brent	US$/b	5.00	10.00	15.00	20.00	25.00	30.00	35.00	40.00	45.00	48.00	50.00
Corresponding boe	US$/boe	3.36	6.73	10.09	13.46	16.82	20.18	23.55	26.91	30.27	32.29	33.64

Source: Affin Hwang estimates

At current Brent price of around US$30/b, we estimate that Federal government fiscal deficit could widen to 4.2% from the budgeted 3.1%. The key destruction in contribution comes from PITA, as this is a tax on profit. Hence the closer Brent price moves towards production cost then reverse economies of scale takes hold where PITA contribution falls drastically. However, the floor on PITA is zero hence even as Brent prices fall further the impact on Federal fiscal deficit becomes marginal. For instance, we estimate that the fiscal deficit widens by just 20bps to 4.3% even if Brent price plunge to US$10/b. In an even more extreme case where Brent price goes to US$5/b, we estimate the fiscal deficit to be at 4.4%. Just as a matter of academic interest, zero Brent price would still give a 2016 deficit of 4.4%.

Table 34: Sensitivity of 2016 Federal government fiscal deficit to Brent price

	RMbn, unless stated otherwise	2014	2015E	2016F	Scenario analysis for 2016 at different oil price						
1	**Average Brent price (USD/B)**	**99.5**	**55.0**	**48.0**	**0.0**	**5.0**	**10.0**	**20.0**	**30.0**	**40.0**	**50.0**
2	Total revenue	220.6	222.5	225.7	209.9	210.3	210.7	211.6	212.8	219.9	227.1
3	Oil related revenue	66.3	44.4	31.8	16.0	16.4	16.9	17.7	18.9	26.1	33.2
4	Oil related revenue (% of total revenue)	30.1	19.9	14.1	7.6	7.8	8.0	8.4	8.9	11.9	14.6
5	PITA	27.0	9.5	9.3	0.0	0.0	0.0	0.0	0.3	5.3	10.3
6	Petronas dividend	29.0	26.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
7	MTJDA	2.0	2.2	2.4	0.0	0.0	0.0	0.0	0.1	1.3	2.6
8	Petroleum royalties	6.5	4.4	3.2	0.0	0.3	0.7	1.3	2.0	2.6	3.3
9	Export duties	1.6	0.9	0.9	0.0	0.1	0.2	0.4	0.6	0.7	0.9
10	Others	0.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Total operating expenditure	219.6	213.3	215.2	215.2	215.2	215.2	215.2	215.2	215.2	215.2
12	Current balance	1.0	9.1	10.4	-5.3	-4.9	-4.5	-3.6	-2.4	4.7	11.9
13	Gross development expenditure	39.5	47.4	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
14	less loan recoveries	1.1	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
15	Net development expenditure	38.5	46.4	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2
16	Fiscal balance	-37.4	-37.2	-38.8	-54.6	-54.1	-53.7	-52.9	-51.6	-44.5	-37.4
17	% of GDP	-3.4	-3.2	-3.1	-4.4	-4.4	-4.3	-4.3	-4.2	-3.6	-3.0
18	Nominal GDP	1,106.6	1,161.3	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6	1,240.6

Source: Affin Hwang esimates, MOF

The key assumptions are as follows.

- No change in non-petroleum revenue components.
- We assume unchanged operating expenditure.
- Petroleum sales volume is assumed as the same as 2015.
- Export volume for crude oil is the same as 2015.
- Petronas dividend sustained at RM16bn.
- MTJDA contribution changes at the same rate as PITA.

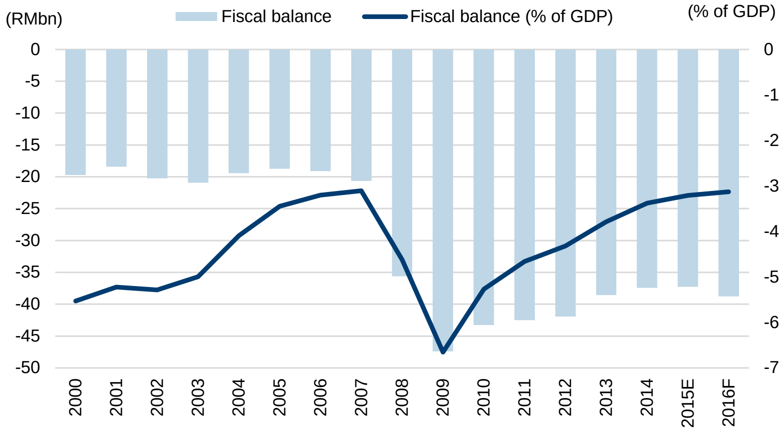
There is another way to estimate the impact of lower petroleum revenue on the fiscal deficit. A government official has been quoted for saying that for every US$1/b drop in Brent price the government would stand to lose RM300m in annual revenue. Taking this information and assuming that the rest of the government's fiscal items remain unchanged, we estimate that the deficit could rise to 3.6% at US$30/b (0.6ppts lower versus our estimates above).

Table 35: Possible revised government's finance position

RM bn, unless stated otherwise	2012	2013	2014	2015E	2016F	Without fiscal reform*	With fiscal reform**
Brent price (US$ per barrel)	**111.7**	**108.7**	**99.5**	**55.0**	**48.0**	**30.0**	**30.0**
Total revenue	207.9	213.4	220.6	222.5	225.7	220.3	220.3
Oil related revenue	70.2	66.6	66.3	44.4	31.8	26.4	26.4
Operating expenditure	205.5	211.3	219.6	213.3	215.2	215.2	210.8
Current balance	2.4	2.1	1.0	9.1	10.4	5.0	9.4
Gross development expenditure	46.9	42.2	39.5	47.4	50.0	50.0	49.0
Less: loan recoveries	2.6	1.5	1.1	1.0	0.8	0.8	0.8
Net development expenditure	44.3	40.7	38.5	46.4	49.2	49.2	48.2
Overall balance	**-42.0**	**-38.6**	**-37.4**	**-37.2**	**-38.8**	***-44.2***	***-38.8***
% of GDP	***-4.3***	***-3.8***	***-3.4***	***-3.2***	***-3.1***	*-3.6*	*-3.1*

**without adjustment to expenditures*
***with adjustment to expenditures (Affin Hwang estimate)*
Source: MOF, revenue adjustments based on Government estimates that a US$1 decline in oil price will lead to RM300m loss in government revenue

Fig 36: Malaysia's fiscal deficit trend



Source: MOF, Affin Hwang

External trade position

Unlike the analysis for fiscal deficit, calculation for the impact of lower crude oil prices on net trade is more straightforward. This is because it is fair to assume that total trade value varies according to Brent price. The one complication is that petroleum trade is captured in both exports and imports, which means that we have to individually estimate the change in both items before netting them off.

The table below gives the impact of various Brent price levels on the current account position. We estimate that Malaysia should still remain in a current account surplus position, albeit just only at 0.1% of GNI at US$30/b and 0.9% at US$40/b. At US$5/b, we estimate that current account would swing into 2% deficit. Final point to note is that just like the Federal government fiscal deficit measure, our analysis is conservative in the sense that LNG prices tend to have a floor but our estimates are based on a linear drop in LNG linked to Brent prices.

Table 37: Current account at various Brent oil price levels

	Unit	LTM	2016										
Average Brent price	USD/boe	**63.39**	**5.00**	**10.00**	**15.00**	**20.00**	**25.00**	**30.00**	**35.00**	**40.00**	**45.00**	**48.00**	**50.00**
Goods	RM bn	107.4	54.8	59.8	64.8	69.8	74.8	79.8	84.8	89.8	94.8	97.8	99.8
Services	RM bn	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8
Primary income	RM bn	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2	-37.2
Secondary income	RM bn	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2	-22.2
Current account	RM bn	28.3	-24.3	-19.3	-14.3	-9.3	-4.3	0.7	5.7	10.7	15.7	18.7	20.7
GNI	RM bn	1,105.2	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9	1,206.9
% of GNI		**2.6%**	**-2.0%**	**-1.6%**	**-1.2%**	**-0.8%**	**-0.4%**	**0.1%**	**0.5%**	**0.9%**	**1.3%**	**1.5%**	**1.7%**

Source: Affin Hwang estimates, DOS

The key assumptions are as follows.

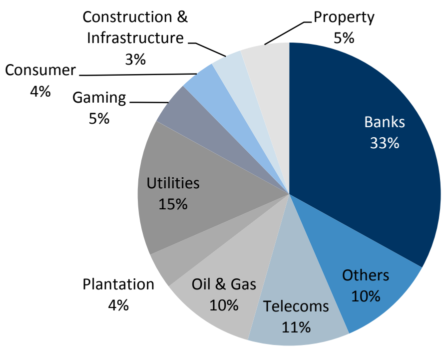
- No change in other components of the current account apart from goods account.
- Export and import volume the same as the last twelve months (to 3Q15).

Impact on the stock market

The significance of oil & gas to the stock market has declined subsequent to around one and a half years of falling oil prices. As we indicated in Section 2, oil & gas sector earnings make up 5% of the market, based on our coverage universe that we use as a proxy for the the stock market. The eight oil & gas stocks make up 6% of the total market cap of the 98 companies under our stock universe.

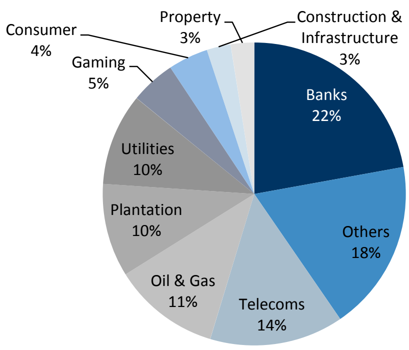
However, there are stocks in other sectors that have oil & gas exposures. For instance, UMWH in Autos and Petronas Gas, which we have classified under utilities given the limited impact from lower oil prices. The others are Gas Malaysia and Puncak Niaga, which are also captured in the utilities sector. If we reclassify all four companies into oil & gas, the weight increases to 10% for earnings and 11% for market cap.

Fig 38: Reclassified weight of oil & gas earnings



Source: Affin Hwang

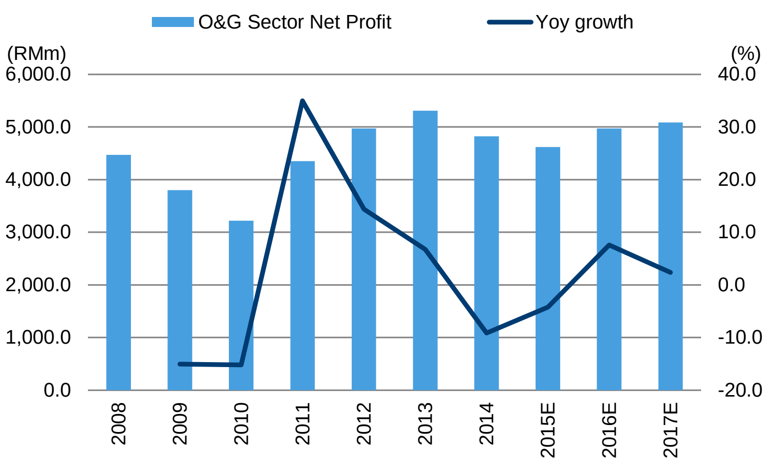
Fig 39: Breakdown of reclassified market cap by sector



Source: Bloomberg

Based on our oil & gas sector classification, we estimate that sector net profit contracted by 9.1% in 2014, 4.4% in 2015 and 13.1% over the two years. If we assume that sector net profit will fall by the same 13.1% in 2016, the impact on overall market earnings would be just 0.8%. In other words, the impact of the oil & gas sector on the overall stock market is small.

Fig 40: Sector net profit growth



Source: Affin Hwang

Sector and stock strategy

Back to basics

The biggest risk to the market that keeps us awake at night remains unchanged; a sharp external led slowdown/recession. The risk though has increased since the start of 2016. We believe it is unlikely that the global economy has changed drastically in just two weeks. However, behavioural patterns have been negatively influenced given the rout in China and the reverberation in global financial markets. Essentially, media outlets are already prophesising a difficult year ahead. This in turn has hit market and consumer sentiment. If consumers tighten their belts further and remain cautious over a prolonged period of time, the risk is that it may spill over to an extended cutback in spending and thus hit the real economy.

Nonetheless, our sector position is based on fundamentals of the respective industries and not reactionary to short term conditions and noises. We believe this is the best way to navigate the current uncertainties as these sectors should remain sound and able to withstand market stress. In addition, we believe that they are well positioned when things pick up.

Sector positioning

We have made no changes to our sector positioning for this year. There are eight sectors that we overweight, another eight sectors of which we are neutral, while we are underweight the remaining two sectors.

Fig 41: Positioning for the eighteen sectors under coverage

Overweight	Neutral	Underweight
Banks	Auto& Autoparts	Building Materials
Construction	Consumer	Oil & Gas
Gaming	Media	
Healthcare	Plantation	
MREIT	Integrated Rubber Products	
Property	Telecommunications	
Technology	Transport & Logistics	
Timber	Utilities	

Source: Affin Hwang

We believe our Overweight sectors should be able to emerge relatively unscathed in the event of global weakness.

Banks. We believe that banks are undervalued. The reason is because the market is expecting significant asset quality deterioration. We believe that domestic condition remains resilient. Despite poor sentiment, employment numbers are at all-time high in Malaysia and wages continue to grow at a healthy pace. Hence asset quality should remain good unless we see huge uptick in unemployment rate going forward. Under this scenario, we believe that valuation is likely to re-rate from its depressed levels.

Construction. Slew of planned and ongoing infrastructure projects are going to sustain the sector over the foreseeable future. Malaysia is in its last leg as it pushes towards developed nation status by 2020. There are still plenty of bottlenecks requiring infrastructure build up especially in the public transportation and rail infrastructure spaces. Moreover, the sector may also benefit in the event of any fiscal pump priming given its large multiplier effect on the economy.

Gaming. Although consumer sentiment is weak now, we see structural growth in private consumption. Malaysia has young demographics where 44% of the population is below 25 years and 63% below 40 years being supportive of private consumption. Moreover, a higher proportion of private consumption is a key characteristic of developed nation and Malaysia is no different with an expected rise of its significance as a proportion of GDP. Gaming is a good play on this theme especially with expected upgrades in the integrated resort in Malaysia.

Healthcare. In 2020, Malaysia should attain developed nation status with a large base in the middle income segment. Demand for healthcare would rise in tandem with nation's development as population ages in the future. It also remains defensive over the short term.

MREIT. The MREIT has a combination of attractive characteristics. It is defensive giving more than 6% net yield. Meanwhile, the shopping mall REITs also offer exposure to the private consumption theme. Weak Ringgit is likely to bring in more tourists into Malaysia, which will also benefit the shopping mall REITs. Lastly, they also provide strong asset revaluation gain potential given the prime location and scarcity of land in the city.

Property. While sentiment is weak, property stock valuation has come off substantially and the sector is trading at 11x CY16E PE, it is trading at below book value, and gives reasonable 4.0% net yield. Understandably, property companies have large working capital and cash flow requirements hence the sector de-rates significantly due to the financial leverage risks. However, we argue that property stocks in Malaysia are cheap because there are no signs of financial stress with net gearing of 16% in 2016E, which should put them in good stead to withstand the current soft patch.

Technology. Some of the companies in the sector such as Inari and Globetronics have structural demand growth angles. Weak Ringgit is also supportive of tech companies given export prices that are denominated in USD but domestic costs that are in Ringgit. However, a softer global economic growth environment is an area of concern for the sector.

Timber. Timber companies have diversified into palm oil estates. For most of them, the average age profile of the trees is young. This means that they are able to provide strong volume growth over the next few years. It is a significant advantage as it provides earnings growth even with flat CPO prices, but accentuates growth if average selling price rises as well. Moreover, there is a gap in valuation between timber and plantation companies. We believe there should be a narrowing of valuation as CPO becomes an increasingly significant contribution and overtakes timber earnings. Meanwhile, timber prices remain firm and benefits from the weak Ringgit given sales are in USD while costs are in Ringgit.

Fig 42: Summary of sector valuation

Sector	Rating	Market Cap (RMm)	EPS Growth (%)		PE (x)		EV/EBITDA (x)		Yield (%)		P/BV (x)		ROE (%)	
			2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Banks & Financial Services	OW	261,066.8	(5.8)	4.5	13.4	12.8			3.7	3.9	1.6	1.5	10.6	10.9
Auto & Autoparts	N	10,216.5	(23.2)	21.3	16.3	13.4	7.8	8.4	4.9	6.2	1.0	1.1	5.9	7.5
Building Materials	UW	7,419.9	19.4	6.3	23.7	22.3	11.8	10.9	3.9	4.1	2.2	2.1	8.6	9.0
Construction & Infrastructure	OW	30,181.1	2.0	0.9	14.7	14.5	13.7	12.4	3.0	2.9	1.4	1.3	9.4	8.9
Consumer	N	50,289.0	4.4	3.1	22.7	22.1	11.9	11.3	4.4	4.5	18.4	17.5	24.8	24.8
Gaming	OW	56,583.1	2.3	3.8	17.9	17.2	6.2	5.8	1.5	1.6	0.7	0.6	4.4	4.3
Healthcare & Pharma.	OW	58,049.6	23.7	18.1	53.1	45.0	24.6	21.6	0.6	0.7	2.7	2.5	5.0	5.6
Media	N	17,067.3	30.4	20.0	17.5	14.6	7.1	6.8	5.6	6.6	5.0	4.6	23.2	24.9
MREIT	OW	23,744.9	33.3	1.6	17.0	16.7	15.4	14.8	5.2	5.5	1.1	1.1	6.7	6.8
Oil & Gas	UW	88,104.6	13.2	7.1	21.3	19.9	10.5	10.2	2.4	2.6	2.1	2.0	8.3	8.5
Plantation	N	117,248.5	(19.8)	33.4	25.7	19.2	16.2	13.3	2.5	2.8	2.3	2.2	7.4	10.1
Property	OW	29,429.7	1.5	(10.1)	9.8	10.9	9.7	10.1	3.8	4.0	0.9	0.9	8.7	7.7
Rubber Products	N	29,575.6	56.8	24.0	29.2	23.6	20.0	16.1	1.6	2.1	5.5	4.9	17.8	19.7
Technology	OW	10,423.9	52.6	10.2	16.4	14.9	8.9	8.4	3.0	3.5	3.0	2.8	19.4	19.9
Telecoms	N	168,474.1	(4.6)	2.3	25.5	24.9	10.5	10.3	3.6	3.7	4.7	4.6	19.4	19.5
Timber	OW	4,412.3	54.2	11.1	13.7	12.4	8.4	7.6	3.0	3.0	1.3	1.2	6.5	7.5
Transports & Logistics	N	54,463.4	0.1	8.2	19.0	17.5	12.4	12.3	1.5	1.5	1.3	1.2	5.5	6.0
Utilities	N	162,428.9	(2.6)	9.9	15.0	13.6	8.7	8.5	2.7	2.8	2.0	1.8	10.7	10.8
Coverage		**1,179,179.2**	**(5.2)**	**7.8**	**18.2**	**16.9**	**12.7**	**11.8**	**3.2**	**3.4**	**2.2**	**2.1**	**9.5**	**9.9**

Source: Bloomberg, Affin Hwang forecasts

Stock positioning

We have expanded our top pick list to 20 companies by adding Petra Energy. It may seem untimely given the fall in crude oil prices. However, we believe that valuation more than reflects the associated risks. Its upstream services business is relatively resilient given that its hook-up and commissioning, as well as topside major maintenance, caters for existing brownfield projects. These are ongoing productive facilities that are likely to continue unless oil price falls to extreme levels. On the other hand, demand for these services would be one of the first few to return when oil prices pick up. Having said that, even if there is no facility shutdown, revenue may moderate due to deferred maintenance activities or pricing pressure from the oil majors but we believe these are reflected in our forecast and in its cheap valuation of 8.5x in CY16. Meanwhile, its Risk Sharing Contract (RSC) has already recouped its capex and able to recognise remuneration fee for its 30% equity stake. If oil prices stay above US$22-28/b, this RSC would contribute stable profits to Petra Energy. For more on Petra Energy, see ***A good boat to weather the storm***, 19 January 2016.

Lastly, we have recently initiated coverage on Sunway Construction (Suncon, see ***One-stop contractor***, 18 January 2016)) and included it into our top picks list. In its place, we have removed IJM Corp. We like Suncon for its pure construction exposure, strong RM3.8bn outstanding orderbook, good track record, strong financial strength with a net cash position, good order book replenishment opportunities due to solid industry prospects, and cheap valuation.

All the other top picks and top stocks to avoid remain unchanged. The two lists and their corresponding valuation are given in the following table.

Fig 43: List of our top buys and stocks to avoid

Stock	Rating	Price (RM)	TP (RM)	Upside (%)	Mkt Cap (RMm)	Core PE (x) CY15	Core PE (x) CY16	Core EPS Growth (%) CY15	Core EPS Growth (%) CY16	PBV CY15	PBV CY16	DPS(sen) FY15	DPS(sen) FY16	Div. Yield (%) FY15	Div. Yield (%) FY16	ROE (%) FY15	ROE (%) FY16
Top Buys																	
AEON CREDIT	BUY	11.62	14.80	27.4	1,673.3	7.8	7.1	5.8	10.0	2.1	1.8	57.2	62.6	4.9	5.4	29.4	27.4
AFG	BUY	3.38	4.50	33.1	5,238.1	10.0	9.7	(1.2)	3.1	1.1	1.0	14.4	14.8	4.2	4.4	11.2	10.7
CIMB	BUY	4.11	5.15	25.3	35,047.1	9.3	8.4	15.5	11.1	0.9	0.8	14.6	19.5	3.6	4.7	7.8	9.7
E&O	BUY	1.47	2.54	72.8	1,888.9	20.5	18.1	(32.2)	13.2	1.2	1.2	2.3	3.0	1.5	2.0	7.3	6.3
GAMUDA	BUY	4.51	5.84	29.5	10,850.6	16.2	15.9	(6.3)	1.9	1.7	1.6	12.0	12.0	2.7	2.7	10.3	9.9
GENTING	BUY	7.35	8.40	14.3	27,504.8	18.2	17.5	(6.8)	4.5	0.5	0.5	8.0	8.8	1.1	1.2	2.8	2.7
IGB REIT	BUY	1.34	1.60	19.4	4,652.2	16.7	15.9	17.9	5.2	1.3	1.3	8.9	9.3	6.6	6.9	7.6	8.0
INARI	BUY	3.48	5.15	48.0	3,294.9	15.3	11.2	37.8	37.1	4.2	3.4	9.8	12.6	2.8	3.6	30.2	31.4
JAKS RESOURCES	BUY	1.18	1.60	35.6	517.3	27.4	7.7	41.9	258.1	0.9	0.7	-	-	-	-	3.2	9.4
KPJ	BUY	4.36	4.75	8.9	4,597.9	28.7	26.0	17.4	10.5	3.3	3.1	5.9	7.6	1.4	1.7	10.9	11.0
PAVILION REIT	BUY	1.55	1.90	22.6	4,677.7	19.4	17.4	3.9	11.3	1.2	1.2	8.2	9.5	5.3	6.2	7.4	7.0
PETRA ENERGY	BUY	1.15	1.43	24.3	369.1	13.1	8.5	(18.1)	54.5	0.7	0.6	6.0	2.7	5.2	2.3	9.3	7.5
PUBLIC BANK	BUY	18.24	21.80	19.5	70,810.2	15.6	15.0	(5.5)	4.1	2.3	2.1	55.0	57.0	3.0	3.1	14.9	14.3
SUNWAY	BUY	3.03	3.90	28.7	5,419.7	10.4	9.6	(29.6)	8.3	0.8	0.8	9.0	10.0	3.0	3.3	9.4	8.0
SUNWAY CONSTRUC	BUY	1.35	1.76	30.4	1,745.4	13.0	12.3	6.2	5.8	3.8	3.3	5.0	5.5	3.7	4.1	28.2	26.8
TA ANN	BUY	5.45	6.22	14.1	2,020.5	12.4	11.7	30.4	5.9	1.7	1.6	20.0	20.0	3.7	3.7	13.8	13.9
TENAGA	BUY	13.02	15.50	19.0	73,479.8	10.4	9.8	7.4	5.4	1.5	1.3	30.2	33.4	2.3	2.6	13.2	13.5
UOA DEVELOPMENT	BUY	2.08	2.57	23.6	3,162.5	8.2	9.3	23.3	(12.2)	1.1	1.0	13.0	12.0	6.3	5.8	12.5	10.5
WCT	BUY	1.61	2.16	34.2	1,945.5	50.3	14.6	(75.4)	243.8	1.2	1.1	6.0	6.0	3.7	3.7	6.5	15.1
WTK	BUY	1.53	1.36	(11.1)	736.4	13.8	12.1	21.0	13.5	0.5	0.5	1.8	2.1	1.2	1.4	3.9	4.3
Stocks to Avoid																	
FELDA	SELL	1.57	1.26	(19.7)	5,727.6	nm	15.0	nm	nm	0.9	0.9	2.0	8.0	1.3	5.1	1.8	5.9
MAXIS	HOLD	6.61	6.70	1.4	49,641.2	26.1	25.8	10.6	1.2	10.3	10.0	24.0	24.0	3.6	3.6	39.3	38.7
MCIL	SELL	0.65	0.48	(26.2)	1,096.7	8.4	8.1	(3.0)	3.9	1.3	1.2	3.5	3.6	5.3	5.5	15.1	14.4
MEDIA PRIMA	SELL	1.35	1.13	(16.3)	1,497.4	10.2	10.8	101.3	(5.3)	0.9	0.9	8.8	8.3	6.5	6.1	8.9	8.0
MMHE	SELL	0.95	0.97	2.1	1,520.0	32.8	11.7	(65.5)	179.3	0.6	0.5	-	1.8	-	1.9	3.2	4.5
TELEKOM	HOLD	6.54	6.50	(0.6)	24,576.9	29.9	28.4	(3.4)	5.0	3.2	3.2	21.9	23.0	3.3	3.5	10.8	11.3
UMW-OG	SELL	0.95	0.89	(5.8)	2,043.1	67.5	14.8	(88.0)	357.1	0.6	0.6	-	-	-	-	1.6	4.0
UNISEM	SELL	2.36	1.55	(34.3)	1,731.8	11.8	16.4	96.2	(28.0)	1.6	1.5	11.6	8.6	4.9	3.6	13.0	9.5

Source: Affin Hwang forecasts, Bloomberg; note: in our top Buys, we have added Petra Energy and Sunway Construction, and removed IJM

Fig 44: Affin Hwang's stock universe

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					**10,216**	**(23.2)**	**21.3**	**16.3**	**13.4**	**7.8**	**8.4**	**4.9**	**6.2**	**1.0**	**1.1**	**5.9**	**7.5**
APM AUTOMOTIVE	HOLD	3.90	3.56	(8.72)	785.66	(39.4)	29.5	12.8	9.9	3.9	2.8	4.8	5.0	0.8	0.7	6.3	7.7
MBMR	HOLD	2.10	2.90	38.10	820.49	(19.9)	39.6	9.1	6.5	30.4	26.6	5.7	5.2	0.4	0.4	4.5	5.8
UMW	HOLD	7.37	7.80	5.83	8,610.33	(21.7)	19.9	16.9	14.1	7.7	8.6	4.9	6.2	1.0	1.1	6.2	8.0
Banks & Financial Services					**261,067**	**(5.8)**	**4.5**	**13.4**	**12.8**			**3.7**	**3.9**	**1.6**	**1.5**	**10.6**	**10.9**
AEON CREDIT	BUY	11.62	14.80	27.37	1,673.28	10.9	10.7	7.2	6.5	0	0	4.9	5.4	2.1	1.8	29.4	27.4
AFG	BUY	3.38	4.50	33.14	5,238.11	(0.7)	2.7	10.0	9.7	0	0	4.2	4.4	1.1	1.0	11.2	10.7
AMMB	HOLD	4.40	5.10	15.91	13,262.41	(16.9)	(3.2)	8.5	8.7	0	0	6.7	7.5	0.9	0.8	10.3	9.2
BURSA M'SIA	HOLD	8.40	8.60	2.38	4,490.76	(4.2)	11.3	23.7	21.3	14.2	12.7	3.8	3.8	5.9	5.6	25.1	26.5
CIMB	BUY	4.11	5.15	25.30	35,047.09	(2.9)	34.3	11.3	8.4	0	0	3.6	4.7	0.9	0.8	7.8	9.7
HONG LEONG BANK	HOLD	13.08	12.00	(8.26)	28,391.55	(12.4)	(4.7)	12.2	12.8	0	0	2.7	2.6	1.3	1.2	11.7	11.2
MAYBANK	HOLD	8.34	8.00	(4.08)	81,413.02	(10.5)	1.2	12.6	12.4	0	0	5.9	6.0	1.4	1.3	11.1	10.7
MBSB	HOLD	1.49	1.80	20.81	4,229.36	(59.7)	15.9	9.5	8.2	0	0	3.2	3.7	0.9	0.8	8.5	9.2
PUBLIC BANK	BUY	18.24	21.80	19.52	70,810.20	(5.5)	4.1	15.6	15.0	0	0	3.0	3.1	2.3	2.1	14.9	14.3
RHB CAPITAL	HOLD	5.37	5.54	3.17	16,511.00	(30.5)	18.8	9.7	8.2	0	0	-	-	0.7	0.6	7.0	8.9
Building Materials					**7,420**	**19.4**	**6.3**	**23.7**	**22.3**	**11.8**	**10.9**	**3.9**	**4.1**	**2.2**	**2.1**	**8.6**	**9.0**
CHOO BEE	SELL	1.41	0.94	(33.33)	154.96	(42.3)	51.6	22.0	14.5	9.5	7.2	4.3	4.3	0.4	0.4	1.6	2.4
LAFARGE	HOLD	8.55	8.80	2.92	7,264.89	19.8	6.1	23.7	22.3	11.8	11.1	3.9	4.1	2.3	2.2	9.5	9.8
Construction & Infrastructure					**30,181**	**2.0**	**0.9**	**14.7**	**14.5**	**13.7**	**12.4**	**3.0**	**2.9**	**1.4**	**1.3**	**9.4**	**8.9**
BENALEC	HOLD	0.58	0.61	6.09	466.77	(28.6)	411.3	90.5	17.7	19.4	10.1	0.5	2.0	0.9	0.8	0.9	4.6
EVERSENDAI	BUY	0.74	1.18	59.46	572.69	85.4	11.2	8.3	7.5	7.4	6.5	5.4	5.4	0.6	0.6	7.3	7.7
GABUNGAN AQRS	SELL	0.85	0.70	(17.16)	332.07	(94.0)	1,066.7	140.8	12.1	(62.2)	7.2	-	1.8	0.9	0.8	(3.1)	7.7
GAMUDA	BUY	4.51	5.84	29.49	10,850.64	(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	3.36	3.76	11.90	12,016.91	21.1	(1.3)	14.0	14.2	10.7	9.1	3.3	3.2	1.1	1.0	7.9	7.4
MRCB	BUY	1.26	1.60	26.98	2,251.10	96.0	(67.4)	7.2	22.1	17.6	19.1	2.0	2.0	1.1	1.1	18.8	5.0
SUNWAY CONSTRUCTION	BUY	1.35	1.76	30.37	1,745.42	3.1	10.0	13.5	12.3	7.7	7.0	3.7	4.1	3.8	3.3	28.2	26.8
WCT	BUY	1.61	2.16	34.16	1,945.51	(5.8)	136.6	15.9	6.7	25.9	14.1	3.7	3.7	1.2	1.1	6.5	15.1

Source: Bloomberg, Affin Hwang forecasts

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					**50,289**	**4.4**	**3.1**	**22.7**	**22.1**	**11.9**	**11.3**	**4.4**	**4.5**	**18.4**	**17.5**	**24.8**	**24.8**
AEON CO	HOLD	2.67	2.60	(2.62)	3,748.68	(30.7)	23.8	25.4	20.5	8.5	7.1	1.3	1.6	1.9	1.7	7.4	8.4
BAT	HOLD	56.70	62.20	9.70	16,189.55	(0.5)	(2.3)	18.0	18.5	13.2	13.5	5.4	5.3	29.5	28.4	163.4	153.7
BONIA	HOLD	0.70	0.66	(5.04)	560.37	45.7	1.9	12.9	12.6	5.9	5.0	2.2	2.4	1.2	1.1	9.7	8.4
CARLSBERG	BUY	11.66	13.10	12.35	3,614.03	(2.2)	3.4	17.2	16.7	11.7	11.2	5.8	6.0	4.7	4.4	27.1	26.4
GUINNESS	BUY	13.00	15.58	19.85	3,927.27	11.4	9.5	17.1	15.6	10.4	9.8	6.7	6.9	8.8	8.9	51.3	56.8
HAI-O	HOLD	2.35	2.02	(14.04)	472.63	(4.1)	9.6	14.7	13.4	9.1	8.4	5.2	4.9	1.6	1.5	11.2	11.3
MSM	HOLD	4.90	4.85	(1.02)	3,444.60	5.0	1.0	12.8	12.6	7.0	6.4	5.1	5.1	1.6	1.5	12.4	11.6
NESTLE	HOLD	73.44	77.20	5.12	17,221.68	6.6	8.7	29.3	27.0	19.1	17.8	3.5	3.9	21.2	20.1	72.2	74.6
PARKSON	HOLD	0.97	0.95	(2.06)	1,110.21	(20.0)	49.2	16.2	10.8	5.2	5.3	1.5	3.1	0.4	0.4	2.6	3.9
Gaming					**56,583**	**2.3**	**3.8**	**17.9**	**17.2**	**6.2**	**5.8**	**1.5**	**1.6**	**0.7**	**0.6**	**4.4**	**4.3**
BTOTO	HOLD	3.01	3.05	1.33	4,083.35	(6.7)	(4.5)	12.4	13.0	7.3	7.5	6.8	6.6	5.9	5.4	47.3	41.6
GENTING	BUY	7.35	8.40	14.29	27,504.77	3.9	4.5	18.2	17.5	5.2	4.9	1.1	1.2	0.5	0.5	2.8	2.7
GENTING MALAYSIA	HOLD	4.21	4.30	2.14	24,994.96	10.7	3.9	18.1	17.5	8.7	8.1	1.6	1.7	1.5	1.4	8.2	8.0
Healthcare & Pharma.					**58,050**	**23.7**	**18.1**	**53.1**	**45.0**	**24.6**	**21.6**	**0.6**	**0.7**	**2.7**	**2.5**	**5.0**	**5.6**
IHH	HOLD	6.50	6.71	3.23	53,451.75	26.0	19.0	56.0	47.1	25.9	22.6	0.5	0.6	2.6	2.5	4.6	5.2
KPJ	BUY	4.36	4.75	8.94	4,597.89	11.8	10.2	27.8	25.2	16.3	14.6	1.4	1.7	3.3	3.1	10.9	11.0
Media					**17,067**	**30.4**	**20.0**	**17.5**	**14.6**	**7.1**	**6.8**	**5.6**	**6.6**	**5.0**	**4.6**	**23.2**	**24.9**
ASTRO	BUY	2.45	3.35	36.73	12,752.29	29.0	25.7	19.2	15.3	7.7	7.4	5.2	6.5	14.7	11.8	76.4	77.3
MCIL	SELL	0.65	0.48	(26.15)	1,096.70	0.9	5.9	8.6	8.1	5.1	4.5	5.3	5.5	1.3	1.2	15.1	14.4
MEDIA PRIMA	SELL	1.35	1.13	(16.30)	1,497.42	96.1	(5.3)	10.2	10.8	4.7	4.4	6.5	6.1	0.9	0.9	8.9	8.0
STAR	SELL	2.33	1.95	(16.31)	1,720.85	-	7.9	15.4	14.3	7.5	6.7	7.7	7.7	1.5	1.5	9.6	10.2
MREIT					**23,745**	**33.3**	**1.6**	**17.0**	**16.7**	**15.4**	**14.8**	**5.2**	**5.5**	**1.1**	**1.1**	**6.7**	**6.8**
AXIS REIT	HOLD	1.60	1.65	3.12	1,759.67	(32.0)	9.1	18.2	16.7	17.9	16.9	5.3	6.1	2.2	1.3	7.2	7.9
IGB REIT	BUY	1.34	1.60	19.40	4,652.20	(13.1)	5.2	16.7	15.9	17.3	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	1.55	1.90	22.58	4,677.66	(44.5)	(5.3)	16.5	17.4	17.8	16.6	5.3	6.2	1.2	1.2	7.4	7.0

Source: Bloomberg, Affin Hwang forecasts

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					**88,105**	**13.2**	**7.1**	**21.3**	**19.9**	**10.5**	**10.2**	**2.4**	**2.6**	**2.1**	**2.0**	**8.3**	**8.5**
ALAM MARITIM	BUY	0.40	0.57	42.50	369.78	(68.1)	50.0	18.2	12.1	8.8	6.9	-	-	0.4	0.4	2.4	3.5
BUMI ARMADA	HOLD	0.95	1.02	7.94	5,543.63	4.2	37.8	21.0	15.2	11.8	11.6	1.9	2.6	0.7	0.7	3.5	4.7
DIALOG	HOLD	1.57	1.72	9.55	8,156.95	46.3	10.9	28.5	25.7	23.3	25.5	1.4	1.5	3.8	3.5	13.5	13.5
MMHE	SELL	0.95	0.97	2.11	1,520.00	(32.3)	47.3	17.3	11.7	7.3	4.2	-	1.9	0.6	0.5	3.2	4.5
PCHEM	SELL	7.44	5.30	(28.76)	59,520.00	6.1	7.9	22.6	21.0	11.6	11.0	2.4	2.7	2.3	2.2	10.2	10.4
PETRA ENERGY	BUY	1.15	1.43	24.35	369.09	44.4	(12.8)	7.4	8.5	8.0	8.8	5.2	2.3	0.7	0.6	9.3	7.5
SAPURA KENCANA	BUY	1.76	2.05	16.48	10,582.02	(12.3)	(9.5)	8.5	9.4	7.4	7.8	2.0	1.8	0.8	0.8	9.6	8.2
UMW-OG	SELL	0.95	0.89	(5.82)	2,043.09	(79.4)	166.7	39.4	14.8	12.6	8.0	-	-	0.6	0.6	1.6	4.0
Plantation					**117,248**	**(19.8)**	**33.4**	**25.7**	**19.2**	**16.2**	**13.3**	**2.5**	**2.8**	**2.3**	**2.2**	**7.4**	**10.1**
FELDA	SELL	1.57	1.26	(19.75)	5,727.60	(64.1)	228.6	49.1	15.0	19.1	10.1	1.3	5.1	0.9	0.9	1.8	5.9
GENTING PLANT	SELL	10.36	9.15	(11.68)	8,108.18	(41.9)	85.4	37.8	20.4	22.3	13.9	1.0	1.2	2.0	1.8	5.2	9.0
HAP SENG PLANT	HOLD	2.38	2.28	(4.20)	1,903.99	(34.5)	66.7	22.7	13.6	12.4	8.1	2.9	5.5	1.0	0.9	4.3	7.0
IJM PLANT	HOLD	3.52	3.34	(5.11)	3,099.64	(25.7)	134.2	45.4	19.4	16.4	11.6	1.7	2.6	1.9	1.8	3.7	8.9
IOI CORP	HOLD	4.34	4.02	(7.37)	27,944.83	(60.1)	86.9	39.3	21.0	26.1	16.9	2.4	2.8	4.8	4.3	12.4	21.2
KUALA LUMPUR KEPONG	HOLD	22.86	21.21	(7.22)	24,403.16	(0.3)	31.0	25.4	19.4	15.9	12.8	2.0	2.3	3.1	3.0	12.3	15.4
SIME DARBY	HOLD	7.28	7.60	4.40	46,061.09	(25.7)	14.9	21.1	18.4	13.1	12.9	3.8	4.1	1.5	1.4	7.0	7.8
Property					**29,430**	**1.5**	**(10.1)**	**9.8**	**10.9**	**9.7**	**10.1**	**3.8**	**4.0**	**0.9**	**0.9**	**8.7**	**7.7**
AMCORP PROP	BUY	0.87	1.53	76.88	514.27	16.4	25.6	6.3	5.0	4.9	7.5	4.4	5.0	0.5	0.5	8.2	9.5
E&O	BUY	1.47	2.54	72.79	1,888.91	(14.8)	(8.5)	15.2	16.6	29.6	26.5	1.5	2.0	1.2	1.2	7.3	6.3
IOI PROPERTIES	BUY	2.31	2.50	8.23	8,728.32	(18.9)	(2.3)	10.4	10.7	11.7	9.7	3.0	3.7	0.7	0.7	6.5	6.5
SP SETIA	HOLD	3.15	3.25	3.17	8,279.32	57.5	(15.7)	10.8	12.8	8.8	10.1	4.4	4.4	1.2	1.1	10.8	8.6
SUNWAY	BUY	3.03	3.90	28.71	5,419.74	(14.8)	(9.5)	8.7	9.6	9.9	9.3	3.0	3.3	0.8	0.8	9.4	8.0
TROPICANA	BUY	0.99	1.95	97.97	1,436.69	(32.8)	(28.2)	6.0	8.4	9.4	12.0	4.6	4.6	0.6	0.6	9.9	6.7
UOA DEVELOPMENT	BUY	2.08	2.57	23.56	3,162.50	10.9	(12.2)	8.2	9.3	5.3	6.3	6.3	5.8	1.1	1.0	12.5	10.5

Source: Bloomberg, Affin Hwang forecasts

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 Products					**29,576**	**56.8**	**24.0**	**29.2**	**23.6**	**20.0**	**16.1**	**1.6**	**2.1**	**5.5**	**4.9**	**17.8**	**19.7**
HARTALEGA	HOLD	6.05	5.16	(14.71)	9,927.47	17.6	24.8	38.5	30.8	25.3	20.2	1.3	1.6	7.2	6.3	18.7	20.5
KAREX	HOLD	4.55	4.05	(10.99)	3,040.54	36.4	36.0	40.3	29.6	28.8	21.2	0.6	0.8	6.5	5.7	16.2	19.0
KOSSAN	HOLD	8.70	9.15	5.17	5,563.37	43.6	15.0	26.6	23.1	16.7	14.6	1.6	2.2	6.0	5.4	22.7	23.1
SUPERMAX	HOLD	3.44	2.20	(36.05)	2,319.82	147.9	n/a	n/a	15.2	14.9	11.9	1.6	2.0	2.2	2.0	11.3	13.0
TOP GLOVE	BUY	13.90	14.90	7.19	8,724.39	49.4	25.9	27.0	21.5	18.0	14.3	1.9	2.4	5.1	4.6	19.0	21.4
Technology					**10,424**	**52.6**	**10.2**	**16.4**	**14.9**	**8.9**	**8.4**	**3.0**	**3.5**	**3.0**	**2.8**	**19.4**	**19.9**
AEMULUS	HOLD	0.52	0.56	7.69	228.20	334.6	30.1	18.4	14.1	18.6	15.6	-	-	3.2	2.6	14.7	18.2
GLOBETRONICS	BUY	6.00	6.28	4.67	1,690.90	14.6	49.0	22.8	15.3	12.6	9.1	3.9	5.9	5.8	5.6	25.3	36.4
INARI	BUY	3.48	5.15	47.99	3,294.90	36.1	29.2	14.3	11.1	15.4	11.2	2.8	3.6	4.2	3.4	30.2	31.4
MPI	HOLD	10.02	7.84	(21.76)	2,103.03	60.0	(6.3)	16.6	17.7	5.7	5.9	2.0	2.0	2.4	2.3	15.0	13.9
SCICOM	BUY	1.98	2.39	20.71	703.80	28.0	13.9	18.9	16.6	15.8	13.5	3.9	4.1	8.2	7.1	43.0	42.6
UCHI TECH	HOLD	1.70	1.90	11.76	671.27	13.3	10.7	13.9	12.6	9.7	9.9	6.5	6.5	3.3	3.2	23.6	25.9
UNISEM	SELL	2.36	1.55	(34.32)	1,731.84	90.1	(25.4)	12.2	16.4	5.6	6.4	-	-	1.6	1.5	13.0	9.5
Telecoms					**168,474**	**(4.6)**	**2.3**	**25.5**	**24.9**	**10.5**	**10.3**	**3.6**	**3.7**	**4.7**	**4.6**	**19.4**	**19.5**
AXIATA	HOLD	6.14	6.25	1.79	54,136.96	(11.8)	2.1	25.6	25.1	9.2	8.9	3.2	3.3	2.5	2.4	9.9	9.9
DIGI	BUY	5.16	6.30	22.09	40,119.00	(9.6)	2.5	21.9	21.3	13.5	13.2	4.6	4.7	58.5	58.5	268.0	274.3
MAXIS	HOLD	6.61	6.70	1.36	49,641.22	10.6	1.2	26.1	25.8	13.1	12.9	3.6	3.6	10.3	10.0	39.3	38.7
TELEKOM	HOLD	6.54	6.50	(0.61)	24,576.89	(4.4)	5.0	29.9	28.4	7.5	7.5	3.3	3.5	3.2	3.2	10.8	11.3
Timber					**4,412**	**54.2**	**11.1**	**13.7**	**12.4**	**8.4**	**7.6**	**3.0**	**3.0**	**1.3**	**1.2**	**6.5**	**7.5**
JAYA TIASA	HOLD	1.70	1.33	(21.76)	1,655.32	43.8	46.6	23.0	15.7	11.1	9.4	1.0	1.3	0.9	0.9	3.6	5.6
TA ANN	BUY	5.45	6.22	14.13	2,020.51	31.3	5.9	12.4	11.7	6.9	6.3	3.7	3.7	1.7	1.6	13.8	13.9
WTK	BUY	1.53	1.36	(11.11)	736.43	21.6	13.5	13.8	12.1	7.0	6.6	1.2	1.4	0.5	0.5	3.9	4.3

Source: Affin Hwang forecasts, 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
Transports & Logistics					**54,463**	**0.1**	**8.2**	**19.0**	**17.5**	**12.4**	**12.3**	**1.5**	**1.5**	**1.3**	**1.2**	**5.5**	**6.0**
AIRASIA	BUY	1.39	1.85	33.09	3,868.33	476.7	6.4	8.0	7.6	9.4	10.0	2.5	2.7	0.8	0.7	9.5	9.2
AIRASIA X	SELL	0.20	0.14	(30.00)	829.63	(22.8)	(12.5)	(1.5)	(1.7)	(212.4)	(64.3)	-	-	5.4	(2.4)	(364.6)	145.4
MAHB	HOLD	5.70	5.40	(5.26)	9,457.39	(94.8)	177.8	211.1	76.0	14.0	14.3	0.1	0.2	1.3	1.3	0.6	1.7
MISC	HOLD	9.03	8.60	(4.76)	40,308.05	8.1	6.2	16.9	15.9	12.2	11.5	1.7	1.7	1.3	1.2	7.8	7.8
Utilities					**162,429**	**(2.6)**	**9.9**	**15.0**	**13.6**	**8.7**	**8.5**	**2.7**	**2.8**	**2.0**	**1.8**	**10.7**	**10.8**
GAS MALAYSIA	BUY	2.38	2.58	8.40	3,055.92	(20.0)	12.5	22.9	20.3	12.3	11.2	4.4	4.9	2.9	2.9	12.6	14.3
JAKS RESOURCES	BUY	1.18	1.60	35.59	517.27	34.4	258.1	27.4	7.7	17.2	5.7	-	-	0.9	0.7	3.2	9.4
MALAKOFF	BUY	1.60	1.92	20.00	8,000.00	(90.0)	25.3	18.4	14.7	8.5	7.8	3.8	4.8	1.3	1.0	6.9	6.7
MMC	BUY	1.83	2.60	42.08	5,572.46	(17.3)	6.0	13.7	12.9	14.3	14.3	2.2	2.2	0.5	0.5	3.6	3.8
PETRONAS GAS	HOLD	21.68	20.80	(4.06)	42,898.91	1.5	1.4	22.9	22.6	13.2	13.1	2.8	2.8	3.7	3.5	16.0	15.4
PUNCAK NIAGA	HOLD	1.43	2.90	102.80	642.48	(12.1)	4.5	2.7	2.6	11.1	9.4	5.2	5.2	0.3	0.2	9.7	9.3
TENAGA	BUY	13.02	15.50	19.05	73,479.82	2.9	14.2	11.2	9.8	6.8	6.6	2.3	2.6	1.5	1.3	13.2	13.5
YTL CORP	HOLD	1.53	1.54	0.65	16,514.81	(12.3)	1.3	13.0	12.9	8.5	8.5	7.8	7.8	1.0	0.9	7.1	6.9
YTL POWER	HOLD	1.45	1.52	4.83	11,747.28	(16.2)	0.8	11.6	11.5	8.9	9.4	6.9	6.9	0.9	0.9	8.3	8.2
Market Total					**1,179,179**	**(5.2)**	**7.8**	**18.2**	**16.9**	**12.7**	**11.8**	**3.2**	**3.4**	**2.2**	**2.1**	**9.5**	**9.9**

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 18 January 2016

When a report covers six or more subject companies please access important disclosures for Daiwa Capital Markets Hong Kong Limited at **http://www.daiwacm.com/hk/research_disclaimer.html** or contact your investment representative or Daiwa Capital Markets Hong Kong Limited at Level 26, One Pacific Place, 88 Queensway, Hong Kong.

Important Disclosures and Disclaimer

This publication is prepared by Affin Hwang Investment Bank Berhad ("Affin Hwang") and reviewed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates (collectively, "Daiwa"), and is distributed and/or originated from outside Malaysia by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, except to the extent expressly provided herein. The role of Daiwa Securities Group Inc. and/or its non-U.S. affiliates in connection with this publication is solely limited to the review and distribution of this publication ; and Daiwa Securities Group Inc. and/or its non-U.S. affiliates are not involved in the preparation of this publication in any other way. This research is for Daiwa clients only and the publication and the contents hereof are intended for information purposes only, and may be subject to change without further notice. Other than disclosures relating to Daiwa, this research is based on current public information that Affin Hwang and Daiwa consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

The analysts named in this report may have from time to time discussed with clients, including Daiwa's salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analysts' published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analysts' fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage group as described herein.

Any use, disclosure, distribution, dissemination, copying, printing or reliance on this publication for any other purpose without our prior consent or approval is strictly prohibited. Neither Affin Hwang ,Daiwa Securities Group Inc. nor any of its or their respective parent, holding, subsidiaries or affiliates, nor any of its or their respective directors, officers, servants and employees, represent nor warrant the accuracy or completeness of the information contained herein or as to the existence of other facts which might be significant, and will not accept any responsibility or liability whatsoever for any use of or reliance upon this publication or any of the contents hereof. Neither this publication, nor any content hereof, constitute, or are to be construed as, an offer or solicitation of an offer to buy or sell any of the securities or investments mentioned herein in any country or jurisdiction where such an offer or solicitation would be illegal nor, unless expressly provided, any recommendation or investment opinion or advice. Any view, recommendation, opinion or advice expressed in this publication constitutes the views of the analyst(s) named herein and does not necessarily reflect those of Affin Hwang, Daiwa Securities Group Inc. and/or its affiliates nor any of its respective directors, officers, servants and employees except where the publication states otherwise. This research report is not to be relied upon by any person in making any investment decision or otherwise advising with respect to, or dealing in, the securities mentioned, as it does not take into account the specific investment objectives, financial situation and particular needs of any person. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents in relation to such investments.

All research reports are disseminated and available to our clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Daiwa and Affin Hwang responsible for the redistribution of our research by third party aggregators.

Affin Hwang, Daiwa Securities Group Inc., its subsidiaries and affiliates, and its or their respective directors, officers and employees, from time to time may have trades as principals, or may have positions in, or have other interests in the securities of the company under research including market making activities, derivatives in respect of such securities or may have also performed investment banking and other services for the issuer of such securities. The following are additional disclosures.

Ownership of Securities
For "Ownership of Securities" information, please visit BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action.
Investment Banking Relationship
For "Investment Banking Relationship", please visit BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action.

Japan

Disclosure of Interest of Daiwa Securities Group Inc.

Investment Banking Relationship

Within the preceding 12 months, the subsidiaries and/or affiliates of Daiwa Securities Group Inc. * has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Modern Land (China) Co. Ltd (1107 HK); econtext Asia Ltd (1390 HK); Accordia Golf Trust (AGT SP); GF Securities Co Ltd (1776 HK); Mirae Asset Life Insurance Co Ltd (085620 KS); China Reinsurance Group Corporation (1508 HK).

*Subsidiaries of Daiwa Securities Group Inc. for the purposes of this section shall mean any one or more of: Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司), Daiwa Capital Markets Singapore Limited, Daiwa Capital Markets Australia Limited, Daiwa Capital Markets India Private Limited, Daiwa-Cathay Capital Markets Co., Ltd., Daiwa Securities Capital Markets Korea Co., Ltd.

This research may only be distributed in Japan to "qualified institutional investors", as defined in the Financial Instruments and Exchange Act (Article 2 (3) (i)), as amended from time to time.

Disclosure of Interest of Affin Hwang Investment Bank

-

Hong Kong

This research is distributed in Hong Kong by Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司) ("DHK") which is regulated by the Hong Kong Securities and Futures Commission. Recipients of this research in Hong Kong may contact DHK in respect of any matter arising from or in connection with this research.
Relevant Relationship (DHK)
DHK may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

Singapore

This research is distributed in Singapore by Daiwa Capital Markets Singapore Limited and it may only be distributed in Singapore to accredited investors, expert investors and institutional investors as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. By virtue of distribution to these category of investors, Daiwa Capital Markets Singapore Limited and its representatives are not required to comply with Section 36 of the Financial Advisers Act (Chapter 110) (Section 36 relates to disclosure of Daiwa Capital Markets Singapore Limited's interest and/or its representative's interest in securities). Recipients of this research in Singapore may contact Daiwa Capital Markets Singapore Limited in respect of any matter arising from or in connection with the research.

Australia

This research is distributed in Australia by Daiwa Capital Markets Stockbroking Limited and it may only be distributed in Australia to wholesale investors within the meaning of the Corporations Act. Recipients of this research in Australia may contact Daiwa Capital Markets Stockbroking Limited in respect of any matter arising from or in connection with the research.

India

This research is distributed in India to Institutional Clients only by Daiwa Capital Markets India Private Limited (Daiwa India) which is an intermediary registered with Securities & Exchange Board of India as a Stock Broker, Merchant Bank and Research Analyst. Daiwa India, its Research Analyst and their family members and its associates do not have any financial interest save as disclosed or other undisclosed material conflict of interest in the securities or derivatives of any companies under coverage. Daiwa India and its associates may have received compensation for any products other than Investment Banking (as disclosed) or brokerage services from the subject company in this report during the past 12 months. Unless otherwise stated in BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action, Daiwa India and its associates do not hold more than 1% of any companies covered in this research report.

There is no material disciplinary action against Daiwa India by any regulatory authority impacting equity research analysis activities as of the date of this report.

Taiwan

This research is distributed in Taiwan by Daiwa-Cathay Capital Markets Co., Ltd and it may only be distributed in Taiwan to institutional investors or specific investors who have signed recommendation contracts with Daiwa-Cathay Capital Markets Co., Ltd in accordance with the Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers. Recipients of this research in Taiwan may contact Daiwa-Cathay Capital Markets Co., Ltd in respect of any matter arising from or in connection with the research.

Philippines

This research is distributed in the Philippines by DBP-Daiwa Capital Markets Philippines, Inc. which is regulated by the Philippines Securities and Exchange Commission and the Philippines Stock Exchange, Inc. Recipients of this research in the Philippines may contact DBP-Daiwa Capital Markets Philippines, Inc. in respect of any matter arising from or in connection with the research. DBP-Daiwa Capital Markets Philippines, Inc. recommends that investors independently assess, with a professional advisor, the specific financial risks as well as the legal, regulatory, tax, accounting, and other consequences of a proposed transaction. DBP-Daiwa Capital Markets Philippines, Inc. may have positions or may be materially interested in the securities in any of the markets mentioned in the publication or may have performed other services for the issuers of such securities.

For relevant securities and trading rules please visit SEC and PSE link at http://www.sec.gov.ph/irr/AmendedIRRfinalversion.pdf and http://www.pse.com.ph/ respectively.

United Kingdom

This research report is produced by Daiwa Securities Co. Ltd. and/or its affiliates and is distributed in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority ("FCA") and is a member of the London Stock Exchange and Eurex. This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory.

Germany

This document is distributed in Germany by Daiwa Capital Markets Europe Limited, Niederlassung Frankfurt which is regulated by BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht) for the conduct of business in Germany.

Bahrain

This research material is distributed in Bahrain by Daiwa Capital Markets Europe Limited, Bahrain Branch, regulated by The Central Bank of Bahrain and holds Investment Business Firm – Category 2 license and having its official place of business at the Bahrain World Trade Centre, South Tower, 7th floor, P.O. Box 30069, Manama, Kingdom of Bahrain. Tel No. +973 17534452 Fax No. +973 535113

United States

This report is distributed in the U.S. by Daiwa Capital Markets America Inc. (DCMA). It may not be accurate or complete and should not be relied upon as such. It reflects the preparer's views at the time of its preparation, but may not reflect events occurring after its preparation; nor does it reflect DCMA's views at any time. Neither DCMA nor the preparer has any obligation to update this report or to continue to prepare research on this subject. This report is not an offer to sell or the solicitation of any offer to buy securities. Unless this report says otherwise, any recommendation it makes is risky and appropriate only for sophisticated speculative investors able to incur significant losses. Readers should consult their financial advisors to determine whether any such recommendation is consistent with their own investment objectives, financial situation and needs. This report does not recommend to U.S. recipients the use of any of DCMA's non-U.S. affiliates to effect trades in any security and is not supplied with any understanding that U.S. recipients of this report will direct commission business to such non-U.S. entities. Unless applicable law permits otherwise, non-U.S. customers wishing to effect a transaction in any securities referenced in this material should contact a Daiwa entity in their local jurisdiction. Most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as a process for doing so. As a result, the securities discussed in this report may not be eligible for sales in some jurisdictions. Customers wishing to obtain further information about this report should contact DCMA: Daiwa Capital Markets America Inc., Financial Square, 32 Old Slip, New York, New York 10005 (Tel no. 212-612-7000).

Ownership of Securities
For "Ownership of Securities" information please visit BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action.

Investment Banking Relationships
For "Investment Banking Relationships" please visit BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action.

DCMA Market Making
For "DCMA Market Making" please visit BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action.

Research Analyst Conflicts
For updates on "Research Analyst Conflicts" please visit BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action. The principal research analysts who prepared this report have no financial interest in securities of the issuers covered in the report, are not (nor are any members of their household) an officer, director or advisory board member of the issuer(s) covered in the report, and are not aware of any material relevant conflict of interest involving the analyst or DCMA, and did not receive any compensation from the issuer during the past 12 months except as noted: no exceptions.

Research Analyst Certification
For updates on "Research Analyst Certification" and "Rating System" please visit BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action. The views about any and all of the subject securities and issuers expressed in this Research Report accurately reflect the personal views of the research analyst(s) primarily responsible for this report (or the views of the firm producing the report if no individual analysts[s] is named on the report); and no part of the compensation of such analyst(s) (or no part of the compensation of the firm if no individual analyst[s)] is named on the report) was, is, or will be directly or indirectly related to the specific recommendations or views contained in this Research Report.

For stocks and sectors in Malaysia covered by Affin Hwang, the following rating system is in effect:

Stocks:

BUY: Total return is expected to exceed +10% over a 12-month period

HOLD: Total return is expected to be between -5% and +10% over a 12-month period

SELL: Total return is expected to be below -5% over a 12-month period

NOT RATED: Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

Sectors:

OVERWEIGHT: Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months

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

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

Conflict of Interest Disclosure

Ownership of Securities

For "Ownership of Securities" information, please visit BlueMatrix disclosure Link at https://daiwa3.bluematrix.com/sellside/Disclosures.action.

Investment Banking Relationships

For "Investment Banking Relationship", please visit BlueMatrix disclosure Link at https://daiwa3.bluematrix.com/sellside/Disclosures.action.

Relevant Relationships

Affin Hwang may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

Affin Hwang market making

Affin Hwang may from time to time make a market in securities covered by this research.

Additional information may be available upon request.

Japan - additional notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

  *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name:	Daiwa Securities Co. Ltd.
	Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships:	Japan Securities Dealers Association, The Financial Futures Association of Japan
	Japan Investment Advisers Association
	Type II Financial Instruments Firms Association