Securities

AFFIN HWANG CAPITAL

Daiwa Capital Markets

Waiting for the tide to turn

Strategy

Malaysia Strategy

KLCI 1,672
@ 2 September 2016

POSITIVE (maintain)

KLCI Target: 1,746

Previous target: 1,746

Corporate earnings in 2QCY16 contracted for the eighth time on the back of a weaker albeit expanding GDP. However, we were encouraged by four measures of results-season momentum that although still negative, imply a gradual improvement in expectations. We believe that the macro environment will improve going forward with 2QCY16 being the trough, and are guardedly optimistic that a market EPS recovery would follow thereafter. We remain POSITIVE on Malaysia's macro outlook and the KLCI's earnings outlook.

Current worst run just got extended

The 2QCY16 results season extended the worst run in corporate performance to its eighth quarter with a 5.1% yoy decline but it is directionally encouraging versus the 12.6% yoy contraction in 1QCY16. The three main culprits were oil & gas, telcos and financials. Overall, 2QCY16 earnings made up 23.4% of our full-year forecast, an improvement from the preceding quarter and bringing 1HCY16 earnings to 43.8% of the 2016 total. We had cut our market net profit forecast by 2% to RM69.4bn for the aggregate 100 companies under our stock universe.

Momentum has improved though

Momentum, while still weak, has improved with 15% of the companies under our coverage beating expectation (1QCY16: 12%). We also measured the 2016 earnings forecast momentum, which showed progress with a 24% upward revision (1QCY16: 18%). Similarly, we bumped up target prices for 29% of the companies in our coverage, vs. 18% previously. However, recommendation upgrades fell from 8% in 1QCY16 to just 2% post the 2QCY16 results season.

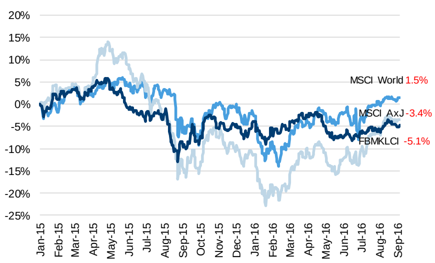
Macro picture remains resilient

Real GDP growth slowed from 4.2% in 1QCY16 to 4% in 2QCY16, representing the lowest pace of expansion since 3QCY09. However, we find that the headline figure masks the underlying strength of the domestic economy. In particular, domestic demand growth accelerated from 3.6% in 1QCY16 to 6.3% in 2QCY16. The overall GDP figure was dragged down by the external situation as reflected in net exports and a sharp drawdown in inventories, both of which subtracted in total 1.8ppts from GDP growth. Meanwhile, the current account surplus narrowed to RM1.9bn, or 0.6% of GNI in 2QCY16 from RM5bn (1.8% of GNI) in the preceding quarter due to a smaller trade surplus in tandem with the tepid global environment, stronger domestic demand and larger deficits in the primary and secondary accounts. However, the government fiscal deficit improved from 6.1% in 1QCY16 to 5% of GDP in 2QCY16. We believe Malaysia's macro condition will remain resilient in 2016 and see 4.2% GDP growth, a 2.5% inflation rate, the Ringgit at RM3.95 to the USD, a RM15bn current account surplus equivalent to 1.3% of GNI and an attainable 3.1% fiscal deficit target.

Guardedly optimistic on turnaround in 2016E EPS

Post the just-concluded 2QCY16 results season, our expectation of growth measured on fully-diluted EPS has halved from 3% previously to 1.5% now. While there are still risks to market earnings, we do see a better environment that is more conducive for growth in the next two quarters. We are guardedly hopeful that 2016 would not see another earnings contraction subsequent to the 4% fall in 2015. The three sectors contributing the most to earnings growth are plantation, utilities and gaming, totalling 3.5 ppts. Of our 18 sectors under coverage, ten sectors are contributing positively with the remainder subtracting from market growth. The KLCI is trading at a 17.8x 2016E PE and 16.8x 2017E PE. We retain our end-2016 index target of 1,746 points.

KLCI vs MSCI World vs MSCI AxJ (since 2015)



Source: Bloomberg

Key market statistics

	2015	2016E
GDP growth (%)	+5.0	+4.2
KLCI EPS growth (%)	-4.0	+1.5

Source: BNM, Affin Hwang estimates and forecasts

Top calls for 2016

Stock	Rating	Price (RM)	TP (RM)	Upside (%)	Mkt Cap (RMm)
Top Buys					
AEON CREDIT	BUY	15.08	14.80	(1.9)	2,171.5
AFG	BUY	3.90	4.50	15.4	6,036.4
CIMB	BUY	4.77	5.30	11.1	41,636.7
GAMUDA	BUY	4.85	5.70	17.5	11,737.8
GENTING MALAYSIA	BUY	4.41	5.00	13.4	26,184.6
INARI	BUY	3.32	3.54	6.6	3,177.1
IOI PROPERTIES*	BUY	2.58	2.89	12.0	11,413.0
JAKS RESOURCES	BUY	1.01	1.60	58.4	442.7
KPJ	BUY	4.25	5.01	17.9	4,511.4
PUBLIC BANK	BUY	19.90	21.80	9.5	77,254.6
PETRA ENERGY	BUY	0.96	1.48	55.0	307.3
PAVILION REIT	BUY	1.79	2.11	17.9	5,410.3
SUNWAY CONSTRUCTION	BUY	1.64	2.03	23.8	2,120.4
SCICOM	BUY	2.14	2.62	22.4	760.7
SUNWAY	BUY	3.09	3.90	26.2	6,342.6
TA ANN	BUY	3.53	4.67	32.3	1,570.4
TENAGA	BUY	14.66	16.50	12.6	82,735.3
TIONG NAM*	BUY	1.60	2.10	31.3	694.2
UOA DEVELOPMENT	BUY	2.49	2.64	6.0	4,064.8
WCT	BUY	1.56	2.00	28.2	1,961.0
Top Sells					
MAHB	SELL	6.30	5.50	(12.7)	10,452.9
MCIL	SELL	0.72	0.50	(30.6)	1,214.8
MEDIA PRIMA	SELL	1.41	1.03	(27.0)	1,564.0
STAR	SELL	2.63	2.13	(19.0)	1,942.4
UMW-OG	SELL	0.90	0.73	(18.9)	1,945.8
UNISEM	SELL	2.64	1.98	(25.0)	1,937.3

*new addition

Source: Affin Hwang, pricing as of 2 September 2016

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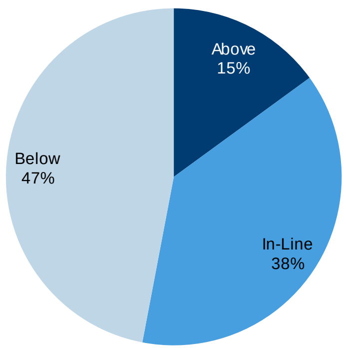
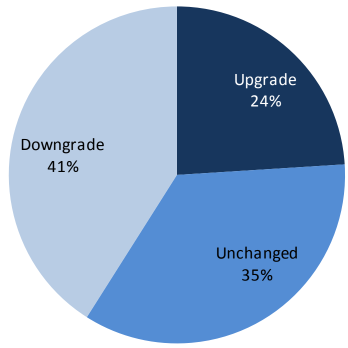
Focus Charts

Fig a: Performances relative to our expectations in 2QCY16



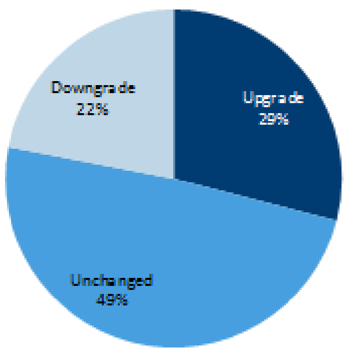
Source: Affin Hwang

Fig b: Changes in CY2016E earnings



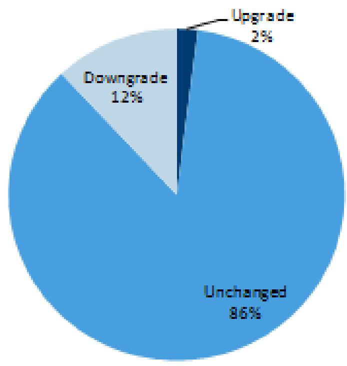
Source: Affin Hwang

Fig c: Breakdown of changes in target prices



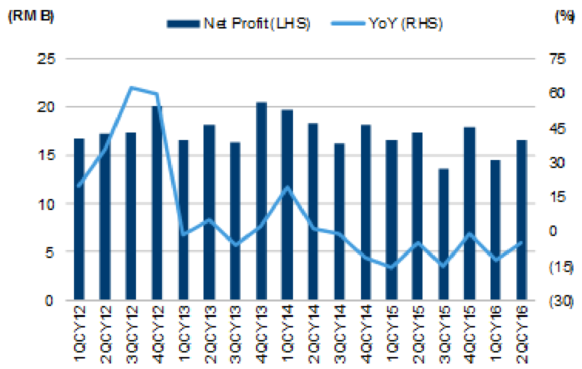
Source: Affin Hwang

Fig d: Breakdown of changes in recommendations



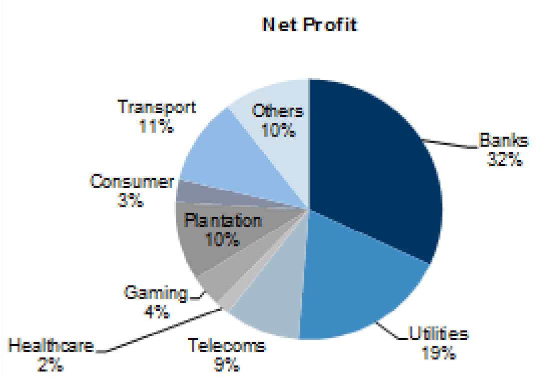
Source: Affin Hwang

Fig e: Slower rate of decline



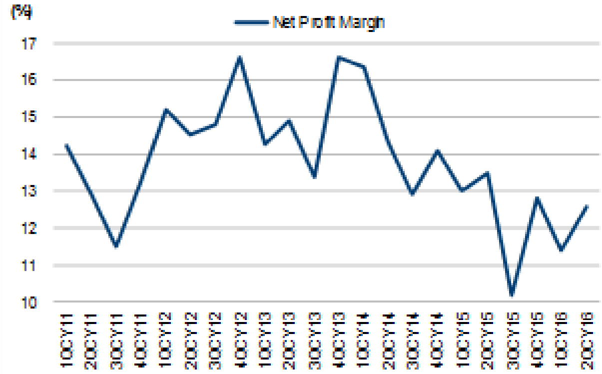
Source: Affin Hwang, Bloomberg

Fig f: Earnings breakdown by sector in 1HCY16



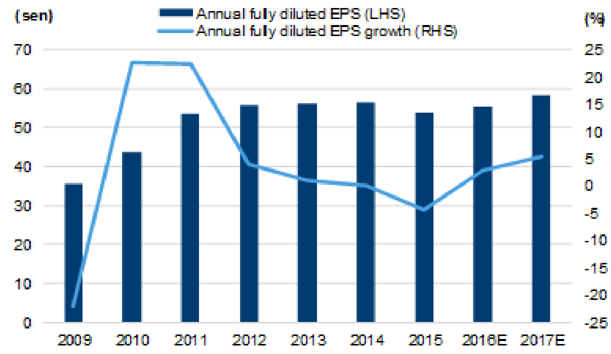
Source: Bloomberg, Affin Hwang

Fig g: Net profit margin of stock universe



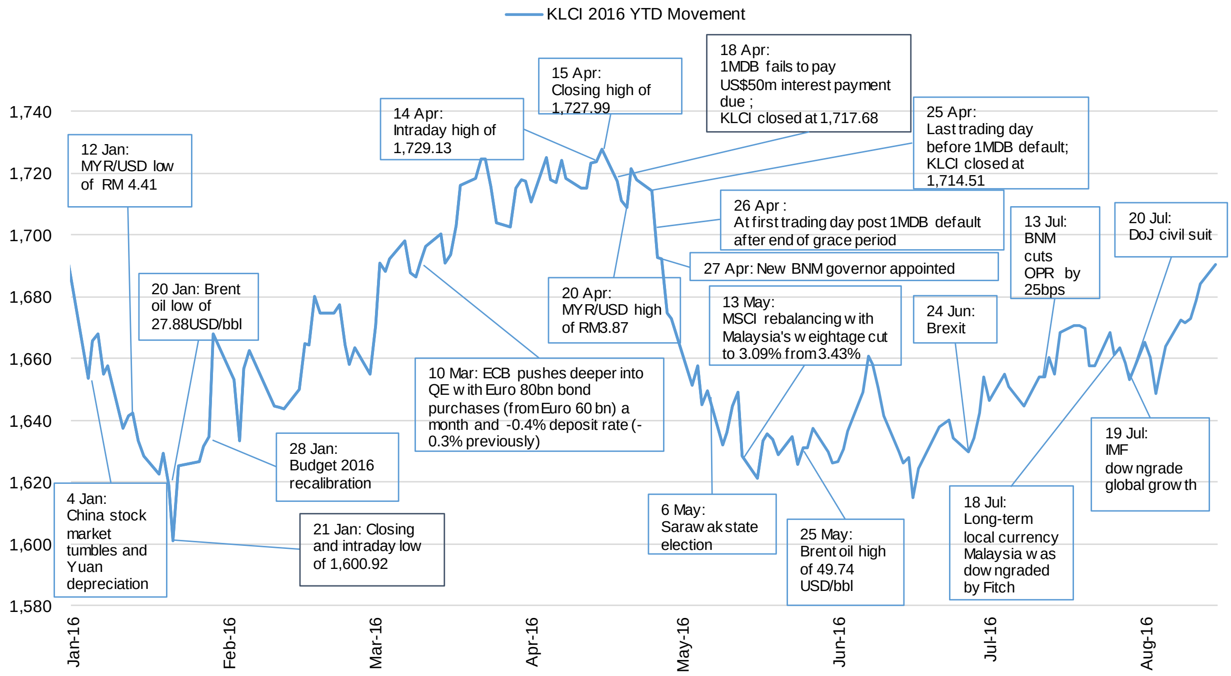
Source: Affin Hwang, Bloomberg

Fig h: Annual fully-diluted EPS growth



Source: Bloomberg, Affin Hwang forecasts

Fig i: Key events



Source: Bloomberg, Affin Hwang

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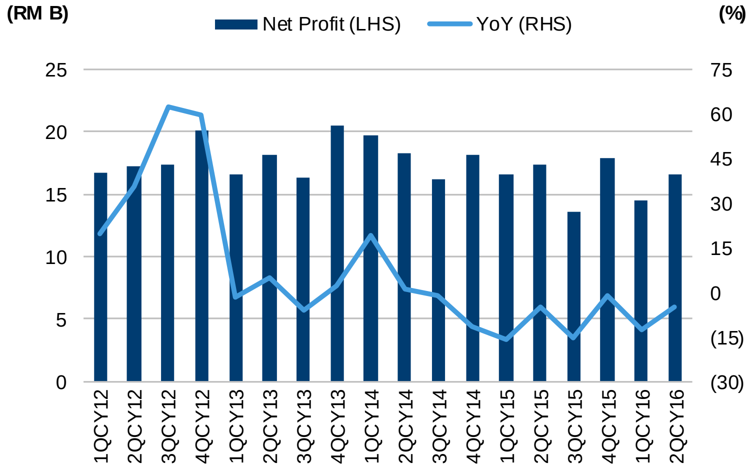
Light at the end soon?

Protracted bad patch

The worst run in quarterly performance is still an ongoing affair. The just-concluded 2QCY16 results season has gone down in the books as the eighth consecutive quarter of net profit decline measured over the same period a year ago. In other words, the KLCI has now seen two years of profit decline that started with the 0.8% yoy contraction in 3QCY14. At the trough, 1QCY15 net profit contracted by 16% yoy. The latest quarter of 2QCY16 saw a 5.1% yoy net profit fall but the rate of decline has improved from the 12.6% yoy in 1QCY16.

Fig 1: Slower rate of decline



Source: Affin Hwang, Bloomberg

Just like in the previous quarter, we counted 11 sectors that saw profit contraction with seven that delivered on growth for 2QCY16. The top three culprits contributing to the overall contraction are oil & gas, telcos and financials. On the other hand, transport, gaming and utilities were the key drivers though unable to mitigate the steeper cumulative setback of the 11 sectors.

Fig 2: 2QCY16 net profit contribution by sector to 5.1% yoy contraction

Sector	Rating	Market Cap (RMm)	Weightage	Net profit growth (%)	Sector contribution to growth 2Q16 (%)
Auto & Autoparts Sector	UW	8,295	0.69	(88.7)	(0.6)
Banks Sector	OW	275,562	22.89	(8.0)	(2.4)
Building Materials Sector	N	6,920	0.57	(57.8)	(0.2)
Const & Infra Sector	OW	31,671	2.63	(43.4)	(1.6)
Consumer Sector	N	52,308	4.35	(28.2)	(0.7)
Gaming Sector	OW	60,511	5.03	132.7	2.9
Healthcare Sector	OW	58,758	4.88	4.7	0.1
Media Sector	N	19,608	1.63	5.8	0.1
MREIT Sector	OW	26,950	2.24	2.1	0.0
Oil & Gas Sector	UW	79,117	6.57	(90.5)	(3.3)
Plantation Sector	N	124,495	10.34	(2.7)	(0.2)
Property Sector	OW	35,282	2.93	(22.2)	(1.4)
Rubber Products Sector	N	21,317	1.77	(20.3)	(0.3)
Technology Sector	N	9,570	0.79	1.0	0.0
Telecoms Sector	N	159,642	13.26	(28.4)	(2.8)
Timber Sector	OW	3,254	0.27	(14.7)	(0.0)
Transport Sector	UW	54,713	4.54	105.2	5.0
Utilities Sector	OW	175,892	14.61	2.4	0.5
Others					
TOTAL		**1,203,864**		**(5.1)**	**(5.1)**

Source: Affin Hwang

The oil & gas net profit was decimated by a large impairment of one of Bumi Armada's FPSO assets. Lower profits at Petronas Chemical and Sapura Kencana also contributed to the 91% yoy decline in the 2QCY16 sector net profit. Meanwhile, the telco sector net profit dropped 28% yoy. It was Axiata that was the main culprit as the group faced challenges in its operating companies, higher depreciation, a rise in finance cost, foreign exchange losses and a poor associate performance in India. Also, Telekom Malaysia delivered lower profits due to losses at *webe*, its start-up full mobility service offering. Lastly, the financials net profit fell 8%, in large part due to Maybank's rise in provisions for impaired loans at its Singapore and Hong Kong units.

On the other hand, the transport sector net profit more than doubled in 2QCY16 due to a gain from MISC's acquisition of a subsidiary relating to the Gemusut-Kakap FPSO from Petronas. The gaming sector contribution also more than doubled in the quarter with all firms delivering a better performance, albeit from a low base in 2QCY15. In particular, the strong performance from Genting Group's UK operations bolstered the sector net profit. Lastly, the utilities profit saw stronger contribution from Tenaga's operations but this was net off by a weaker MMC thus bringing 2QCY16 growth of just 2% yoy.

Earnings outlook for 3QCY16

Previously we had attempted to identify the potential inflection point for this dismal run. We were originally hopeful of a turnaround by 1QCY16 at the very latest premised on an already diminished profit base in 1QCY15 that corresponded to the sharpest 16% yoy contraction over this dismal period. However, that failed to materialise as sharp gyrations in China's financial market on the back of fears of economic distress, plunging crude oil prices and a weakened Ringgit conspired to throw a spanner in the works for profitability in 1QCY16.

Looking into 3QCY16, we are more guarded but still think that the market earnings improvement from 2QCY16 could be sustained, especially after the previous misstep in forecasting a turnaround. One reason is better economic activities. We highlight in greater detail in the next section that although 2QCY16 GDP growth of 4% is the slowest since 3QCY09, the underlying trend is encouraging if we break it down into the components of the economy. In fact, we are hopeful that 2QCY16 represents the lowest quarterly growth rate this year with a pick-up in the following two quarters. Second, the inflation rate has fallen and this could help sustain demand and put less cost pressures on households and businesses.

Next, we hope that the large impairments taken by companies, especially those in the oil & gas sector, would ease with oil prices fluctuating in a range. A more stable Ringgit should also see less translation losses in companies with foreign currency exposure. The impact from the overnight policy rate (OPR) cut in July would take time to transmit through the economy but it is a positive development nonetheless.

However, risks still exist. The Ringgit has averaged RM4.05 to the USD in 3QCY16 thus far, versus RM4.01 in 2QCY16. Hence, the Ringgit average has so far been relatively stable. However, the latest Ringgit exchange rate is weaker at RM4.09, which is on the back of rising expectations of an interest rate increase by the US Federal Reserve. Likewise, crude palm oil (CPO) prices that averaged RM2,601/tonne in 2QCY16 has weakened slightly to RM2,523 thus far in 3QCY16 and whether the plantation sector profits rebound in this quarter will depend on the extent of the production recovery as palm trees continue to shake off the effects of El Nino. The Brent crude oil price has remained relatively stable thus far at an average of US$46.83/bbl for 3QCY16 versus US$47.03 in the immediate preceding quarter, though like the Ringgit and CPO price has weakened to US$45.86 currently.

Lastly, the 2QCY16 total net profit of our stock universe was RM16.6bn, up 14.3% qoq. In 3QCY15, the net profit figure was RM13.7bn, which is the lowest since 4QCY11. At the very least, 3QCY16 would have the benefit of a relatively depleted base of comparison.

Overall performance

The 2QCY16 net profit made up 23.4% of our previous RM70.8bn 2016 forecast. While below the quarter mark, this is an improvement from the 20.4% in 1QCY16 though partly due to seasonality. The 1HCY16 net profit made up 43.8% of our forecast. On aggregate, we have cut our 2016 net profit by 2% to RM69.4bn.

It is worth noting that our stock coverage universe has increased from 98 companies to 100 with initiation of coverage on Tiong Nam Logistics and KESM Industries. As such, we have retrospectively included historical and forecast figures of both companies into our database. Therefore, the aggregate numbers would be slightly different from the official numbers published in the previous strategy report post-1QCY16 results three months ago.

The immediate table below shows the quarterly net profit breakdown by sector and their comparison against our forecasts. We have also provided in the subsequent pages a discussion on the overall performance of each sector in the just-concluded 2QCY16 results season.

Fig 3: Net profit performance in 2QCY16 by sector

Sector	Rating	Net Profit 1QCY14	Net Profit 2QCY14	Net Profit 3QCY14	Net Profit 4QCY14	Net Profit 1QCY15	Net Profit 2QCY15	Net Profit 3QCY15	Net Profit 4QCY15	Net Profit 1QCY16	Net Profit 2QCY16	YoY %	% of Affin Forecast 1HCY16	Affin Forecast FY16
Auto & Autoparts Sector	UW	284.4	198.8	245.8	141.3	218.1	116.0	31.8	(260.3)	44.3	13.1	-88.7%	15.3	375.8
Banks Sector	OW	5,547.0	5,679.6	5,701.1	5,460.8	5,286.7	5,249.7	5,282.3	5,154.4	5,079.7	4,828.3	-8.0%	45.0	22,004.5
Building Materials Sector	N	76.9	80.2	58.3	52.7	77.6	67.1	68.1	44.1	23.5	28.3	-57.8%	15.7	330.1
Const & Infra Sector	OW	255.6	469.9	400.7	374.2	602.4	647.8	421.1	557.2	204.8	366.6	-43.4%	26.7	2,141.4
Consumer Sector	N	678.5	625.9	633.1	706.6	662.7	433.6	734.3	549.7	586.6	311.2	-28.2%	37.4	2,402.9
Gaming Sector	OW	1,004.4	771.1	697.2	683.4	1,086.8	376.3	759.9	748.2	350.8	875.9	132.7%	35.8	3,428.8
Healthcare Sector	OW	189.3	242.8	176.0	289.2	205.4	264.1	156.6	440.4	269.7	276.4	4.7%	44.3	1,233.8
Media Sector	N	184.2	230.3	246.3	141.0	194.5	277.8	236.0	219.1	248.1	293.8	5.8%	50.9	1,064.4
MREIT Sector	OW	207.7	198.5	306.2	684.8	217.2	221.8	184.2	552.5	227.6	226.4	2.1%	31.9	1,423.8
Oil & Gas Sector	UW	1,305.6	1,344.6	1,407.9	973.9	966.9	637.3	1,206.3	411.8	(690.8)	60.3	-90.5%	(18.5)	3,415.9
Plantation Sector	N	3,683.0	2,088.0	958.7	911.3	537.0	1,520.6	(183.9)	2,013.9	1,542.1	1,479.5	-2.7%	52.2	5,789.7
Property Sector	OW	505.2	905.2	536.7	999.0	684.9	1,073.6	724.8	671.2	590.5	834.8	-22.2%	53.3	2,675.0
Rubber Products Sector	N	165.7	173.0	169.1	170.7	196.6	224.5	279.4	317.8	246.9	179.0	-20.3%	38.0	1,122.3
Technology Sector	N	75.0	84.1	122.7	120.6	130.4	152.3	186.4	182.9	130.4	153.8	1.0%	47.6	596.5
Telecoms Sector	N	1,854.6	1,614.0	1,760.6	1,716.6	1,603.0	1,728.2	1,874.8	1,510.1	1,607.6	1,237.0	-28.4%	41.9	6,791.5
Timber Sector	OW	52.7	50.1	79.0	17.8	33.1	55.3	112.8	113.4	11.0	47.2	-14.7%	21.3	273.1
Transport Sector	UW	774.3	495.0	281.8	949.2	565.1	820.5	(177.5)	1,487.6	1,667.5	1,683.8	105.2%	94.8	3,535.1
Utilities Sector	OW	2,863.4	3,082.4	2,395.8	3,719.2	3,293.3	3,568.6	1,758.7	3,224.1	2,342.1	3,655.2	2.4%	49.0	12,236.6
TOTAL		**19,707.3**	**18,333.4**	**16,176.9**	**18,112.3**	**16,561.6**	**17,434.9**	**13,656.2**	**17,938.0**	**14,482.5**	**16,550.6**	**-5.1%**	**43.8**	**70,841.1**
YoY growth %		**19.1**	**1.0**	**(0.8)**	**(11.8)**	**(16.0)**	**(4.9)**	**(15.6)**	**(1.0)**	**(12.6)**	**(5.1)**			
QoQ growth %		**(4.0)**	**(7.0)**	**(11.8)**	**12.0**	**(8.6)**	**5.3**	**(21.7)**	**31.4**	**(19.3)**	**14.3**			

Source: Companies, Affin Hwang forecasts

Fig 4: Narrative on individual sector performances

Sector	Net Profit 2QCY16 yoy	Comments
Auto & Autoparts	-88.7%	All autos companies under coverage saw lower net profit in 2QCY16 versus 2QCY15. However, the bulk of the 88.7% yoy decline in the sector net profit was due to UMW that saw its bottom line dipping into losses. The poor performance was due to a combination of lower automotive contribution with lower Toyota, and to a lesser extent Perodua, sales while its oil & gas division plunged deep into losses.
Banks	-8.0%	The banking and financial sector universe (including Bursa, Aeon Credit and MBSB) reported a 2Q16 net profit of RM4.8b (-8.0% YoY). This was below our forecast of RM22.1bn in sector universe 2016 net profit before revisions. On a QoQ comparison, our universe net profit was down by 4.9% QoQ. The weaker 2Q16 net profit was mainly due to heavyweights Maybank (higher loan provisions and impairment on corporate bonds) and RHB Bank (impairment on corporate bond). Overall, we have revised down our universe's 2016E net profit by 3.1% to RM21.4bn subsequent to downward revisions on Maybank, RHB Bank and MBSB.
Building Materials	-57.8%	The sharp decline in earnings was due to the weaker demand for cement in 2Q16 as the property market remained weak while the implementation of several large-scale infrastructure projects saw some delays. The higher operating expenses, one-off integration costs and higher interest expense following Lafarge's merger Holcim Malaysia in 4Q15 also eroded earnings.
Const & Infra	-43.4%	The construction companies reported 2Q16 results that were below our expectations. The 43% yoy decline in aggregated net profit was mainly due to lower exceptional asset disposal gains for IJM Corp and MRCB or exceptional loss in the case of Eversendai. WCT and Eversendai also incurred higher unrealised forex losses. The construction earnings were lagging as existing projects were mostly near the tail end while new projects secured have not contributed significantly to earnings. Property earnings were also weak due to slower property sales as the cautious demand outlook persists. Most construction companies saw order-book expansion to new highs with the award of contracts for the MRT Line 2, Pan-Borneo Highway (Sarawak stretch), SUKE and DASH expressways, which should lift earnings in 4Q16 and CY17.

Sector	Net Profit 2QCY16 yoy	Comments
Consumer	-28.2%	The consumer sector recorded a decrease in 2Q16 net profit by 28.2% YoY, largely dragged down by BAT's net profit decline of 78% YoY due to a large volume contraction of 32% YoY. Nonetheless, this also took into account a one-off restructuring expense due to the winding down of its factory operations. Retailers such as Aeon and Parkson which announced results that were below expectations and Bonia, whose core net earnings were above expectations after accounting for impairments and provisions, continued to record depressed earnings due to a slowdown in retail sales as well as a contraction in margins because of higher operating costs and promotional expenses. Hai-O, however, was above expectations and saw an improvement in earnings from its low 2015 base due to growth in its multi-level-marketing division. Of the two names in the F&B segment, Nestle was slightly above expectations with strong earnings due to favorable raw material prices and lower tax expenses, while MSM was below expectations due to higher average raw sugar prices and selling and distribution costs. Our brewery stocks continued their stellar performance with Heineken above expectations due to effective cost efficiencies and Carlsberg in line with expectations due to better volumes and margins, particularly from its Singapore operations. All in, we believe that the consumer sentiment index had reached its trough of 63.8 in 4Q15 and will continue to recover, albeit slowly.
Gaming	132.7%	The gaming sector saw a significant YoY increase in reported 2Q16 earnings mainly due to a sharp turnaround in Genting Malaysia's UK operations that reported an EBITDA of RM93m vs. a loss of RM100m in 2Q15. This was driven mainly by a better luck factor at Genting Malaysia's UK operations, as well as a higher volume of VIP business from revised marketing strategies. In addition, Genting Malaysia reported narrower losses in Bimini amounting to RM52m (2Q15: -RM68m). Overall, Genting Berhad's 2Q16 results were broadly within expectations.
Healthcare	4.7%	For the healthcare sector, the headline net profit increased by 4.7% yoy on the back of higher revenue in 2Q16. Revenue growth was underpinned by healthy patient volume as well as higher contribution from the new hospitals. Also, IHH's net profit was higher in 2Q16 partly due to gains on disposal of Shenton Insurance Pte Ltd. On the other hand, EBITDA margins for both IHH and KPJ were lower in 2Q16 at 22.5% (-3.7ppt yoy) and 11.1% (-1.3ppt) respectively, attributable to increased operating expenses and staff costs.
Media	5.8%	The media sector saw its net profit grew by 5.8% yoy in 2Q16 mainly due to Astro's strong performance. We continue to like Astro as it has a more diversified earnings base compared to the other media companies under our coverage. We remain cautious on print companies like Star, Media Prima and MCIL, mainly due to: 1) poor consumer and business sentiment coupled with the challenging market environment that have affected adex as advertisers remain cautious on their ad spending; and 2) negative effects on hard copy circulation due to the continual shift in reader preferences to reading on mobile devices or over the Internet.

Sector	Net Profit 2QCY16 yoy	Comments
MREITs	2.1%	Our M-REITs universe saw a net earnings growth of 2.1% YoY in 2Q16 with Pavilion REIT, IGB REIT and KLCCPSG coming in within our expectations, supported by high occupancy rates, steady tenancy renewal rates and stable leases (for KLCCPSG's office portfolio). Axis REIT came in below expectations (due to higher operating expenses along a vacancy rate of 8.3%). Moving forward, we continue to believe that retail spending at city-centric malls is likely to remain sustainable, underpinned by a diverse upper-middle class income group as consumer sentiment recovers. We await news on the possible change in REIT guidelines as seen in the recent REIT consultation paper by the Securities Commission, which has generally garnered a positive response from REITs. Should REITs be allowed to undertake property development (including acquiring vacant land) not exceeding 15% of total asset value, this could potentially allow for better yields in the future.
Oil & Gas	-90.5%	2Q16 headline net profit declined sharply yoy due mainly to lower exploration, development and production activities as well as lower average product selling prices further compounded by the large impairment charge by BAB and project write-off by PCHEM. Excluding impairment and other one-off charges, 2Q16 core net profits for our universe of O&G companies are within expectations.
Plantation	-2.7%	2Q16 headline net profit declined by an average of 2.7% yoy as the negative impact of a 21% yoy decline in FFB production due to Ell Nino was partially offset by higher selling prices of CPO (+17% yoy) and PK as well as a large property disposal gain by SIME. At the core net profit level, 6 out of the 7 plantation companies in our universe posted results which are below expectations due mainly to slower-than-expected recovery in FFB production, which also raised the per MT cost of production. Most of the plantation companies are now guiding for a decline in 2016E FFB production.
Property	-22.2%	Property company results were within expectations except for UOA Development, which was above our expectation due to profit margin expansion on completion of certain projects. The sector earnings decline was expected due to lower overseas earnings contribution for SP Setia and a sharp 86% yoy drop in earnings for E&O due to the unrealised forex loss on receivables from its UK operations.
Rubber Products	-20.3%	Rubber product companies' headline net profit fell yoy, mainly dragged down by lower ASPs despite volume sales growth and healthy utilization levels. ASPs declined by double-digits on rising supply, especially in the nitrile segment, where accelerated capacity expansion plans dented manufacturers' bargaining power leading to ASP declines across both the nitrile and latex segments. Margin drag were apparent within the sector, as a strengthening Ringgit and rising raw material prices also crimped profitability. In addition, there was a labor shortage due to the foreign labor freeze, which led to overall higher labor costs. We do not expect this trend to reverse anytime soon as the rising capacity is expected to outstrip demand growth, estimated at 6-8% annually, thereby limiting headroom for ASP adjustments. Meanwhile, efficiency gains and productivity enhancements are likely to provide only marginal improvements in profitability over a longer gestation period, and are unlikely to alleviate margin pressure in the near term.

Sector	Net Profit 2QCY16 yoy	Comments
Technology	1.0%	Results were mixed. Although sector net earnings was marginally higher yoy (+1%), and up 18% qoq, core profits for the semiconductor companies fell 4% qoq, and for the second consecutive quarter in 2Q16. Margins were weaker due to the strengthening of the RM during the quarter. Inari stood out as earnings rebounded by 49% qoq on stronger RF shipments.
Telecoms	-28.4%	Earnings for the sector were lower on a yoy basis mainly due to a more competitive environment, price cutting among the major players and weaker consumer sentiment. We note that competition was more benign until the latter part of 2Q15, which arose from confusion surrounding the implementation of the GST in Apr15 as well as the start of very aggressive price competition. Axiata posted disappointing 2Q16 results due to execution issues at Celcom, while its associates saw significantly lower earnings contribution due to competition. Maxis and DiGi posted tepid results but these were broadly within expectations.
Timber	-14.7%	The timber companies' net profit in 2Q16 declined by 14.7% yoy, mainly due to lower contribution from the timber division given the lower ASPs for timber products. Demand for timber products remained lacklustre. Fortunately, the contribution from the palm oil division improved in 2Q16 given the increasing matured areas, higher FFB and CPO production as well as higher CPO prices.
Transport	105.2%	The transport and logistics sector posted a strong surge in headline net profit yoy, primarily due to MISC, which reported a net gain of RM847m on a subsidiary acquisition. Stripping off many exceptionals, MISC would have reported a lower yoy core net profit on lower charter rates and small fleet size. The sector was also bolstered by turnaround efforts in AirAsia and AirAsia X on higher load factors and average passenger fares. Airline stocks are on track for record profits mainly due to lower fuel costs, yield improvements on capacity rationalization by MAS, strong passenger growth fueled by Chinese tourists on higher connectivity and higher overall ancillary income.
Utilities	2.4%	The sector saw a small earnings growth on yoy basis, with strong growth in TNB's net profit acting as the main driver due to new electricity peak demand as a result of the El Nino weather phenomenon. Besides that, Malakoff saw better yoy earnings in 2Q16 due to the full quarter maiden contribution of the 1,000MW Tanjung Bin Energy coal power plant. The better results from TNB and Malakoff helped to mitigate YTL Corp's tepid set of results due to a surprisingly weak quarter for the cement business that saw a 15% decline in revenue. Nonetheless, dividends from both YTL Power and YTL Corp were within expectations.

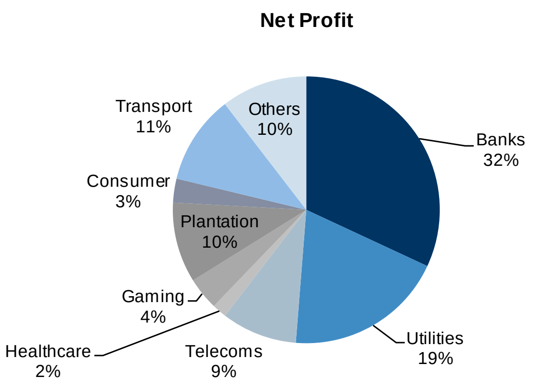
Source: Affin Hwang

Market earnings structure relatively unchanged

In 1HCY16, the five largest sectors by net profit were the same as in 1QCY16 and made up 81% of total profit for our stock universe; this compares to 85% in 1QCY16. In other words, net profit was less concentrated and more broadly spread out. The composition was partly due to the better performance of gaming clawing back share from the rest of the big sectors while the smaller sectors did better collectively. The top five sectors were financials at 32% share (1QCY16: 35%), utilities at 19% (16%), transport with 11% (12%), plantations at 10% (11%) and telcos constituting at 9% (11%).

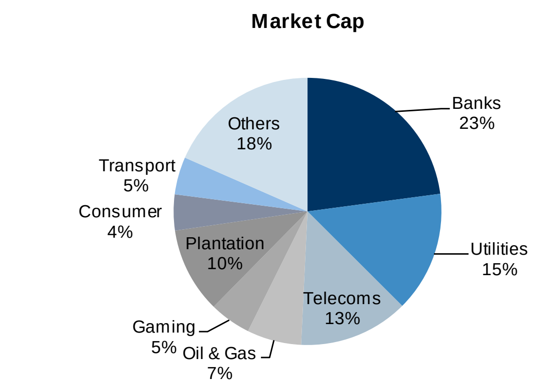
In terms of market cap, financials, utilities, telcos, plantation and oil & gas round up the top five and constitute 78% of the total. The observation here is that financials and utilities contribute more net profit to our coverage universe than their market cap composition while the opposite was true for telcos, plantation and oil & gas.

Fig 5: Earnings breakdown by sector in 1HCY16



Source: Affin Hwang, Bloomberg

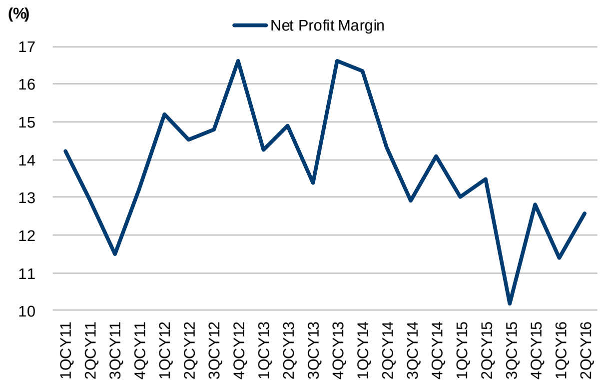
Fig 6: Breakdown of market cap by sector



Source: Affin Hwang, Bloomberg

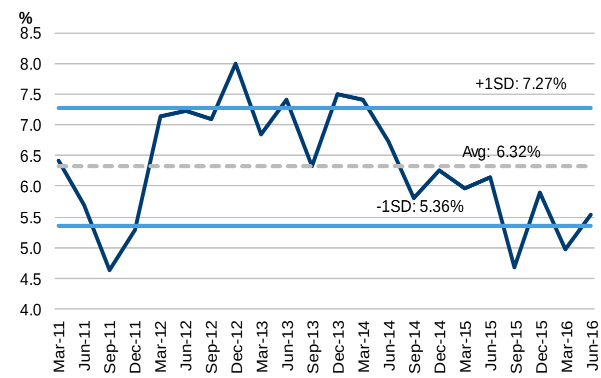
Meanwhile, there were two pieces of good news amid the lacklustre 2QCY16 results. Net profit margin improved to 12.6% from 11.4% in 1QCY16. Apart from the better margin, we also saw a rebound in profit as a proportion of nominal GDP to 5.5% from 5% previously.

Fig 7: Net profit margin of stock universe



Source: Affin Hwang, Bloomberg

Fig 8: Net profit as proportion of nominal GDP



Source: Affin Hwang, Bloomberg

Marginal improvement in results scorecard

Our scorecard this time around, while still weak, saw more companies surpassing our expectation. This stood at 15% of stocks under coverage versus 12% in 1QCY16. However, there was an offset with a lower 38% of companies coming within our expectation versus 41% previously. Those that were below our forecasts were relatively unchanged at 47% versus 46%, respectively.

Fig 9: Performances relative to our expectations in 2QCY16

Sector	Above	In-Line	Below
Auto & Autoparts		MBM Resources	APM UMW
Banks		Aeon Credit Bursa Public Bank Hong Leong Bank AFG AMMB	MBSB RHB Capital CIMB Maybank
Building Materials	Choo Bee Metal		Lafarge
Const & Infra		Gamuda	WCT IJM Sunway Construction Benalec Gabungan AQRS Eversendai MRCB
Consumer	Heineken Malaysia Nestle Bonia Hai-O	Carlsberg	BAT Aeon MSM PARKSON
Gaming	BJ Toto	Genting Malaysia Genting	
Healthcare			KPJ IHH Healthcare
Media	Astro		Media Prima Star Publications Media Chinese International
MREIT		KLCC IGB REIT Pavilion REIT	Axis REIT
Oil & Gas	Alam Maritim	Petronas Chemicals MMHE Dialog UMW-OG Petra Energy BUMI ARMADA	Sapura Kencana

Sector	Above	In-Line	Below
Plantation	Sime Darby		KL Kepong IOI Corp Hap Seng Plt. Genting Plantations Felda Global Venture IJM Plantations
Property	UOA Development IOI Properties	SP Setia Amcorp Properties Sunway	Tropicana E&O
Rubber Products		Kossan	Top Glove Hartalega Supermax Karex
Technology	Unisem Uchi Technology	MPI Inari Scicom KESM Industries	Aemulus Globetronics
Telecoms		Maxis Digi	Telekom Axiata
Timber	Jaya Tiasa		Ta Ann WTK
Transport	AirAsia	MISC TIONG NAM	Malaysia Airports AirAsia X
Utilities		Gas Malaysia Petronas Gas Tenaga Nasional Malakoff YTL Power MMC Corp	YTL Corp JAKS Resources
Total	**15**	**38**	**47**

Source: Affin Hwang

Earnings revision momentum

As usual, we also measure the momentum of the recent 2QCY16 performance in terms of revisions in our 2016 forecast. In this aspect, the direction has improved with 24% upward revisions versus 18% previously. The proportion of companies with their 2016 earnings forecasts left unchanged was flat at 35% versus 36%, hence leaving an improvement of 41% of companies with cuts in forecasts versus 47% previously. While this has improved, the momentum is still negative with an outsized number of companies still seeing their 2016 earnings forecasts cut.

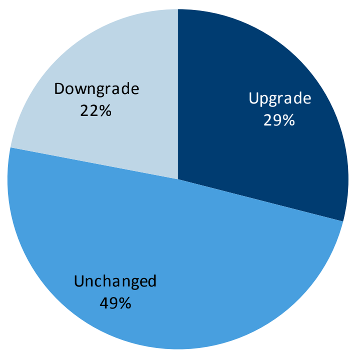
Fig 10: Changes in CY2016E earnings

Sector	Earnings Changes made on CY16		
	Upgrade	Unchanged	Downgrade
Auto & Autoparts	0	3	0
Banks & Financial Services	1	5	4
Building Materials	0	2	0
Construction & Infrastructure	3	2	3
Consumer	3	2	4
Gaming	1	2	0
Healthcare	1	0	1
Media	0	1	3
MREIT	0	3	1
Oil & Gas	2	4	2
Plantation	2	0	5
Property	2	3	2
Rubber Gloves	0	1	4
Technology	4	1	3
Telecoms	0	2	2
Timber	0	0	3
Transports & Logistics	3	1	1
Utilities	2	3	3
Total	**24**	**35**	**41**

Source: Affin Hwang

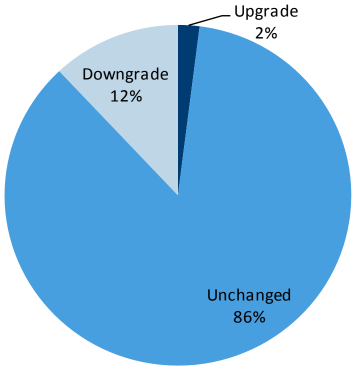
The second measure of momentum is the proportion of companies with target price changes. Once again, there is some encouragement with 29% of the 100 companies under coverage seeing target price upgrades versus 18% previously. Meanwhile, a larger proportion of 49% did not see a TP change versus 36% in the last results season while we made TP downgrades to 22% versus 46% three months ago.

Fig 11: Breakdown of changes in target prices



Source: Affin Hwang

Fig 12: Breakdown of changes in recommendations



Source: Affin Hwang

The final measure of the 2QCY16 results season momentum is rating change. This time around, we made recommendation upgrades to just 2% of the companies versus 8% previously. There is an outsized 86% (1QCY16: 82%) of companies under coverage that saw no rating change while downgrades were slightly better at 12% (1QCY16: 10%). Although this measure of momentum seems to have stalled, it is worth noting that it is partly due to generally better share price performances leading to a higher KLCI close than at the end of the 1QCY16 results season.

Overall, the negative earnings season momentum continues to dissipate based on our momentum gauge. The good news is that more companies came in above expectations, there is an increase in companies with earnings upgrades, and more target prices were raised, but these are balanced by a smaller percentage of rating upgrades. On the other hand, the bulk of the companies still performed below expectations, there is still an outsized number of companies that saw cuts in earnings forecasts, and while there is a fall in the number of companies with positive rating changes, it was balanced by a sharp fall in the percentage of target price downgrades.

A sigh of relief

2QCY16 headline GDP growth slows further

On 12 August 2016, Bank Negara Malaysia (BNM) announced that 2QCY16 headline real GDP growth has decelerated further to 4% yoy, taking over from 1QCY16 the unflattering label of slowest economic expansion since the 1.1% yoy contraction in 3QCY09. The weaker overall real GDP growth stemmed from tepid net trade and a lack of stock replenishment.

Fig 13: Malaysia's quarterly GDP growth

	2Q15	3Q15	4Q15	1Q16	2Q16	2Q15	3Q15	4Q15	1Q16	2Q16	2Q15	3Q15	4Q15	1Q16	2Q16
	%yoy					%qoq					% contribution pts to GDP growth				
GDP by Expenditure Components															
Total Consumption	6.5	4.0	4.5	5.1	6.4	1.0	6.1	6.1	-7.5	2.2	4.1	2.7	3.0	3.3	4.1
Private consumption	6.4	4.1	4.9	5.3	6.3	-0.4	6.9	-1.9	0.8	0.6	3.3	2.2	2.5	2.8	3.3
Public consumption expenditure	6.9	3.6	3.3	3.8	6.5	6.9	2.8	40.3	-32.7	9.8	0.8	0.4	0.6	0.5	0.8
Total Investment	0.4	4.2	2.7	0.1	6.1	3.9	-2.4	-1.2	-0.1	10.2	0.1	1.1	0.7	0.0	1.7
Private investment expenditure	3.9	5.5	4.9	2.2	5.6	11.4	-10.3	-23.8	34.3	15.2	0.8	0.9	0.6	0.4	1.1
Public investment expenditure	-8.1	1.8	0.4	-4.5	7.5	-12.5	19.6	45.8	-37.4	-1.5	-0.7	0.2	0.1	-0.4	0.5
Domestic Demand	4.6	4.1	4.0	3.6	6.3	1.8	3.6	4.0	-5.6	4.4	4.2	3.7	3.7	3.3	5.7
Net exports	-11.1	3.4	4.3	-12.4	-7.0	-10.7	10.5	-1.5	-9.9	-5.1	-1.1	0.3	0.4	-1.2	-0.6
Exports	-4.0	3.2	4.0	-0.5	1.0	-1.4	6.7	2.9	-8.1	0.0	-3.1	2.4	2.9	-0.3	0.7
Imports	-3.1	3.1	4.0	1.3	2.0	-0.1	6.2	3.5	-7.8	0.6	-2.1	2.1	2.6	0.8	1.2
Changes in inventories	NA	-88.0	-49.5	NA	NA	NA	NA	NA	NA	NA	1.8	0.7	0.5	2.0	-1.2
GDP (2010 real prices)	**4.9**	**4.7**	**4.5**	**4.2**	**4.0**	**2.5**	**3.2**	**3.2**	**-4.6**	**2.3**	**4.9**	**4.7**	**4.5**	**4.2**	**4.0**

Source: BNM

Real net exports continued their decline with a 7% yoy contraction in 2QCY16, though this was better than the 12.4% yoy decline in 1QCY16. The weakness emanated from tepid global trade where Malaysia's real exports grew by just 1% yoy in 2QCY16 on the back of demand for manufactured goods, though this was still an improvement from the 0.5% contraction in 1QCY16. At the same time, the recovery in investment spurred higher imports of capital goods while demand for intermediate goods also rose. Strengthening private consumption could have also played a part in higher imports. Real imports increased from 1.3% in 1QCY16 to 2% in 2QCY16.

The second drag on growth was a drawdown of stock levels. This was partly due to lower CPO production during the quarter, which fell 20.3% yoy, thus requiring the need to dip into inventories. Corroborating this suspicion is GDP by economic activity where the Agriculture, Forestry & Fishing saw a 7.9% yoy contraction in 2Q16 from a 3.8% decline in 1QCY16 and subtracted 0.7ppts from growth in the quarter. Apart from that, recall that in 1QCY16 there was a significant rise in stock levels that contributed 2ppts to real GDP growth. The high stock levels at the end of 1QCY16 would have likely prompted manufacturers to cut back on production in 2QCY16 only to be surprised by the strength of domestic demand.

The sharp reduction in stock levels subtracted 1.2ppts from GDP growth in 2QCY16. This, together with weak net exports, cumulatively reduced 2QCY16 growth rate by 1.8ppts.

Underlying strength is apparent

The headline figure masks the underlying strength of the domestic economy. Private consumption growth accelerated from 5.3% in 1QCY16 to 6.3% in 2QCY16. Back in 1QCY16, we were worried about tepid private investment growth of 2.2% yoy but to our relief it rebounded to 5.6% in 2QCY16. Similarly, public investment delivered an impressive turnaround from a 4.5% yoy contraction to a 7.5% yoy growth as government spending on projects took shape. Even public consumption expenditure was strong, rising 6.5% yoy versus 3.8% yoy in 1QCY16. As a result, domestic demand growth accelerated from 3.6% yoy in 1QCY16 to 6.3% in 2QCY16.

On the supply side, the strength in domestic demand was reflected in the Services sector that accelerated from 5.1% in 1QCY16 to 5.7% yoy in 2QCY16. Besides Services, the Mining & Quarrying as well as Construction sectors also demonstrated better output growth over the same period of comparison. Manufacturing growth weakened from 4.5% yoy to 4.1% with the slowdown probably due to the large overhang in stock levels from 1QCY16 levels. As mentioned earlier, Agriculture, Forestry & Fishing was a major drag due to a sharp fall in CPO production with a worse-than-expected El Nino impact on palm trees.

Fig 14: Malaysia's quarterly GDP growth by activity

	2Q15	3Q15	4Q15	1Q16	2Q16	2Q15	3Q15	4Q15	1Q16	2Q16	2Q15	3Q15	4Q15	1Q16	2Q16
	%yoy					%qoq					% contribution pts to GDP growth				
GDP by Economic Activity															
Agriculture, Forestry and Fishing	4.6	2.3	1.5	-3.8	-7.9	10.5	15.7	-11.4	-15.1	5.8	0.4	0.2	0.1	-0.3	-0.7
Mining and Quarrying	6.0	5.1	-1.3	0.3	2.6	-4.1	-5.9	8.6	2.3	-1.9	0.5	0.4	-0.1	0.0	0.2
Manufacturing	4.2	4.9	5.0	4.5	4.1	5.7	-0.1	4.2	-4.9	5.3	1.0	1.1	1.1	1.0	1.0
Construction	5.6	9.9	7.4	7.9	8.8	-6.0	10.7	-1.1	4.9	-5.3	0.2	0.4	0.3	0.4	0.4
Services	5.0	4.4	5.0	5.1	5.7	1.6	3.7	4.7	-4.7	2.2	2.6	2.3	2.6	2.8	3.1
Import duties	9.1	18.6	39.1	27.0	4.1	16.5	-0.5	14.9	-4.7	-4.5	0.1	0.2	0.4	0.3	0.1
GDP (2010 real prices)	**4.9**	**4.7**	**4.5**	**4.2**	**4.0**	**2.5**	**3.2**	**3.2**	**-4.6**	**2.3**	**4.9**	**4.7**	**4.5**	**4.2**	**4.0**

Source: BNM

Structure of the economy

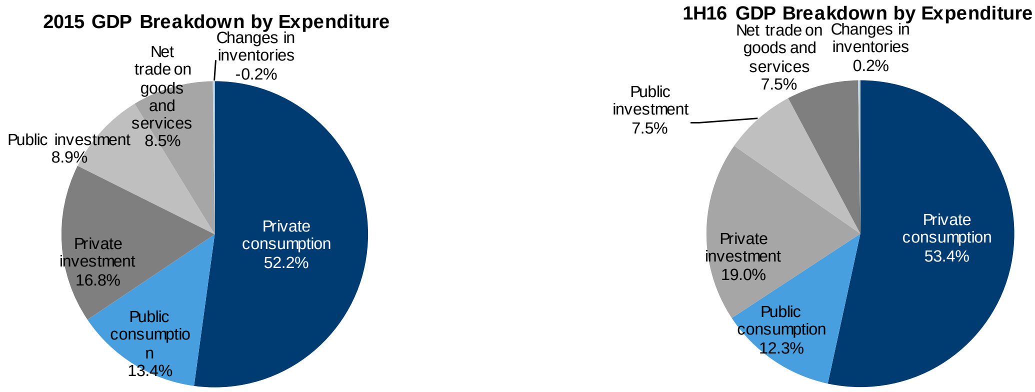
The structure of Malaysia's economy remains vibrant, in our view. The stronger growth in private consumption means it has gained size as a proportion of Malaysia's economy, making up 53.4% of the total in 1HCY16 from 52.2% in 2015. Going forward, private consumption will likely continue to be a strong pillar of growth for the Malaysian economy.

The second pillar would come from total investments. As of 1HCY16, total investments constituted 26.5% of GDP, increasing its size from 25.7% in 2015. We were worried that poor consumer sentiment and business confidence meant that private investment could be on a sustained decline with repercussions on future growth but 2QCY16 proved the fear to be unfounded. It does seem that the government's effort to resuscitate investments as the country pushes towards developed nation status by 2020 is hardier than initially thought with the swift rebound in investment.

Net trade continued to lose momentum, shrinking from 8.5% of GDP to 7.5% in 1HCY16 due to external factors that are beyond control. Having said that, we believe Malaysia's infrastructure and export competitiveness are well positioned to capitalise on global trade when the recovery happens.

We are particularly pleased that the government has receded in its role in the economy making up 19.8% of the economy in 1HCY16 from 22.3% in 2015. As a result, private sector expenditure rose from 69% to making up 72.4% of economic activities. This is important as the government continues to take a step back to avoid crowding the economy and encourage private sector creativity to flourish.

Fig 15: Comparing structure of the real economy by expenditure

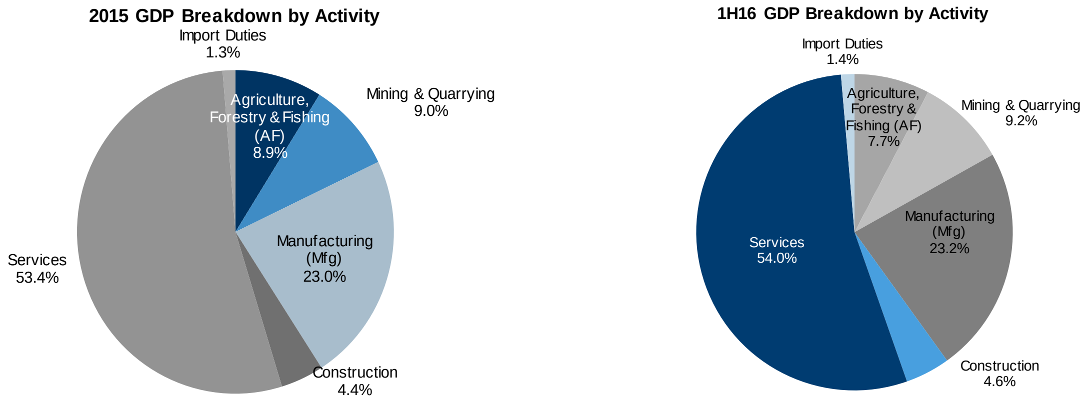


Source: BNM

Source: BNM

On the supply side, the Services sector gained in share of importance at 54% in 1HCY16 from 53.4% in 2015, in tandem with strength in domestic consumption. Manufacturing, Construction, and Mining & Quarrying all gained share at the expense of Agriculture, Forestry & Fishing, which shrunk from 8.9% in 2015 to 7.7% in 1HCY16 due to a drop in CPO production. It is interesting to note that the Mining & Quarrying sector showed growth once again with higher production of hydrocarbons.

Fig 16: Comparing structure of the real economy by activity



Source: BNM

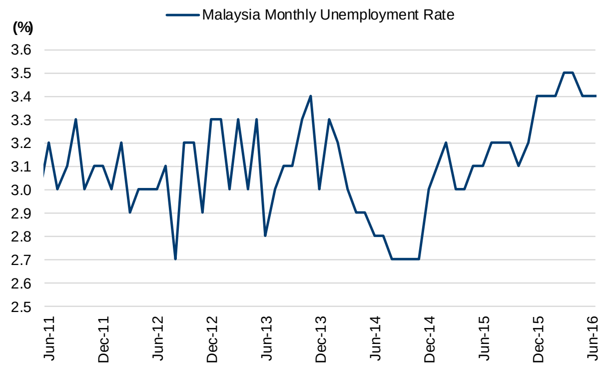
Source: BNM

Healthy labour market

We continue to track the health of the labour market in Malaysia given its wide and broad linkages to the economy and financial markets. It is therefore reassuring that the labour force remains healthy. The unemployment rate has remained stable at 3.4% in June. The labour-force participation rate is also on a steady keel at 67.7%, indicating that the labour market remains vibrant.

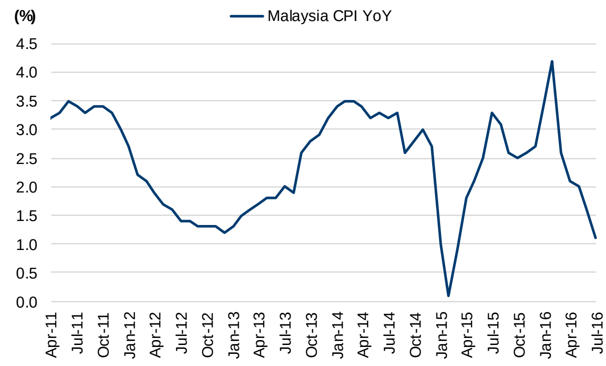
Equally important is that total employment in Malaysia has reached a new record high in June in excess of 14.2m jobs, though just marginally better by 2.7k over the previous high in November 2015. Coupled with healthy wages, this situation begins to paint a benign picture of the labour market. Wages grew by 3.5% in 2QCY16, though a slowdown from the 4.4% in 1Q16, but is nevertheless conducive for consumption given that inflation has moderated to just 1.6% in June and further improved to 1.1% in July 2016.

Fig 17: Unemployment rate



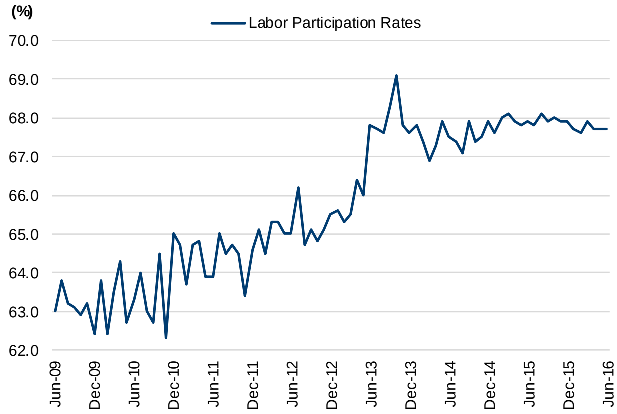
Source: BNM

Fig 18: Inflation



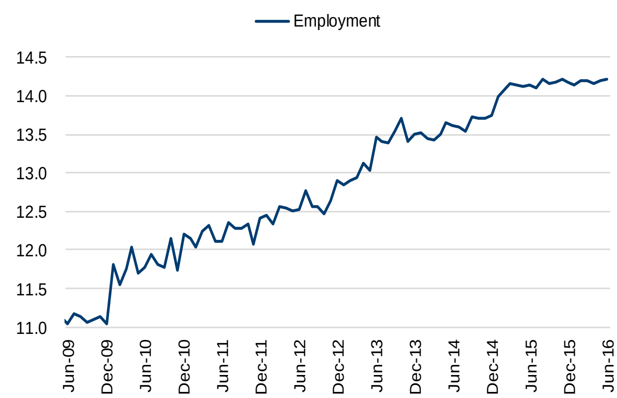
Source: BNM

Fig 19: Labour force participation rate



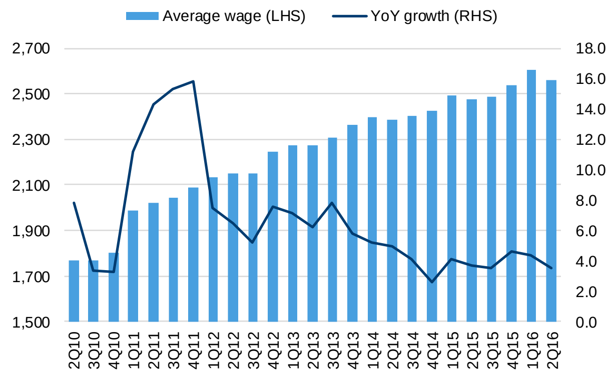
Source: BNM

Fig 20: Total employment



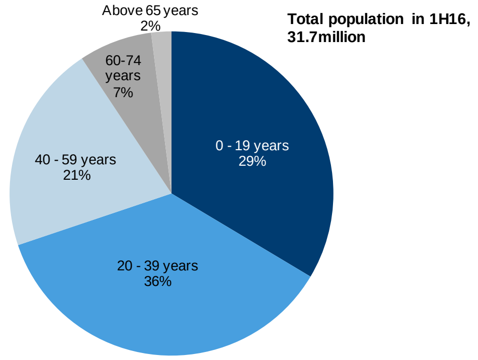
Source: BNM

Fig 21: Average payrolls



Source: BNM

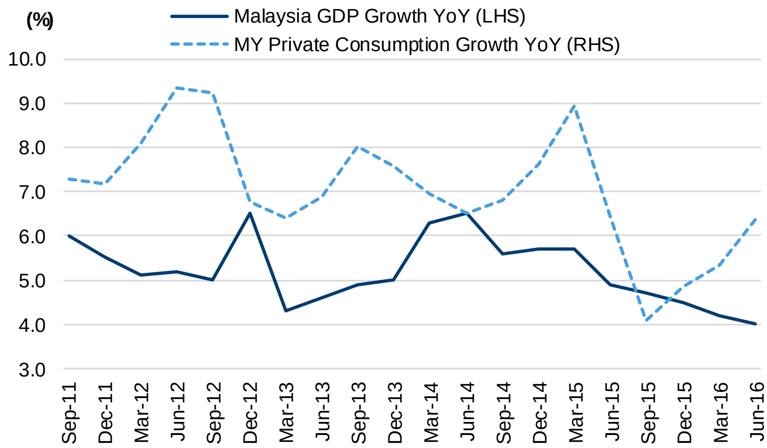
Fig 22: Young demographics



Source: BNM

The pick-up in private consumption is a further relief subsequent to the surprise and sharp slowdown to 4.1% yoy growth back in 3QCY15. That figure represented the slowest pace of expansion since 4QCY09 where private consumption grew by just 1.5%, as Malaysia was recovering from the 2009 Global Financial Crisis. However, private consumption has been on a sustained recovery since then with growth rebounding to 4.9% in 4QCY15, 5.3% in 1QCY16 and the most recent 6.3% in 2QCY16.

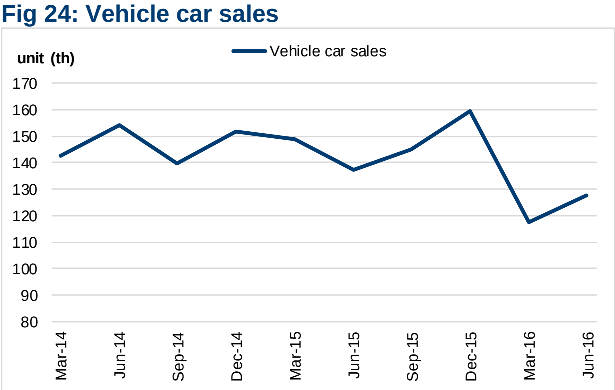
Fig 23: Sustained rebound since trough in 3QCY15



Source: BNM

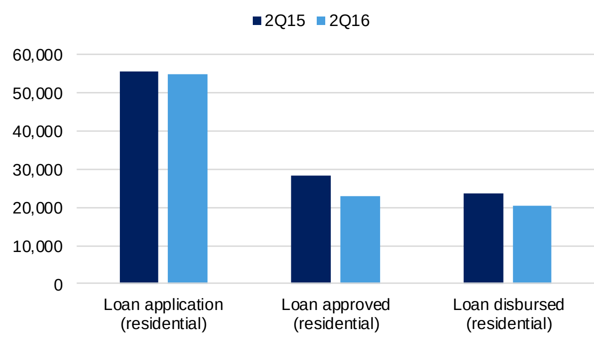
Note that the 6.3% growth in this latest quarter is despite contraction in total motor vehicle sales in 2QCY16 of 6.3% yoy, though this is an improvement from the 22% decline in 1QCY16. At the same time, residential-loan approvals and disbursements in 2QCY16 were both down 19.4% yoy and 12.9% yoy, respectively, indicating lower property activities. Loan-application levels were still high though with just a 1.3% yoy contraction in 2QCY16, which is sign that underlying demand for residential property is there.

Fig 24: Vehicle car sales



Source: Malaysian Automotive Association

Fig 25: Mortgage loans



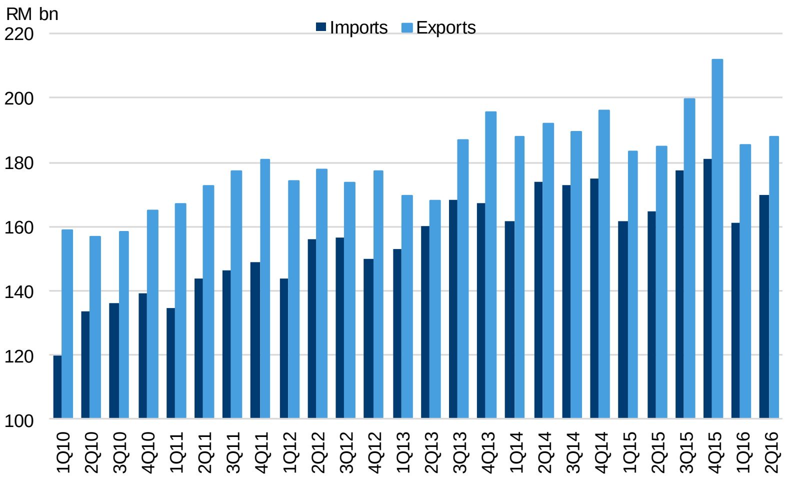
Source: BNM

Narrowing current account surplus

The current account surplus narrowed further to RM1.9bn or equivalent to 0.6% of GNI in 2QCY16. This is a continuation from the weakness that started in 1QCY16 where the surplus was RM5bn or 1.8% of GNI, dropping from RM10.5bn (3.6% of GNI) in 4QCY15. The 2QCY16 figure represents the second lowest quarterly surplus since 1998; the worst was in 2QCY13 of just RM1bn or equivalent to 0.4% of GNI.

The deterioration of the current account surplus versus 1QCY16 was due to a combination of narrower goods surplus marginally offset by lower services deficit. While the nominal value of gross exports improved from 1% in 1QCY16 to 1.4% in 2QCY16, the growth in gross imports at 3.1% outstripped that of exports resulting in a smaller surplus in the trade of goods. Gross imports contracted by 0.4% yoy in 1QCY16.

Figure 26: Malaysia's nominal trade direction



Source: CEIC

Meanwhile, the primary and secondary accounts contributed to larger deficits in the current account. The former was a function of better profits generated and repatriated by foreign investments in Malaysia while the latter was due the bigger foreign worker base in Malaysia remitting cash back to their home countries especially ahead of the major Hari Raya Aidilfitri festival in early July.

Fig 27: Balance of payment

Balance of Payments (RMbn, unless stated otherwise)	2014	2015	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Current account	**48.6**	**34.7**	**19.8**	**15.3**	**7.3**	**6.2**	**11.3**	**8.1**	**4.7**	**10.5**	**5.0**	**1.9**
(% of GDP)	**4.4**	**3.0**	**7.4**	**5.6**	**2.6**	**2.1**	**4.1**	**2.9**	**1.6**	**3.5**	**1.7**	**0.6**
(% of GNI)	**4.9**	**3.5**	**7.6**	**5.8**	**2.7**	**2.2**	**4.2**	**2.9**	**1.7**	**3.6**	**1.8**	**0.6**
Goods	113.3	109.6	31.2	27.4	25.7	28.9	27.7	23.6	27.2	31.1	23.5	19.8
Services	-10.7	-21.0	-0.2	-1.6	-3.9	-5.1	-3.5	-5.0	-6.0	-6.4	-6.8	-4.6
Income	-36.6	-32.0	-6.6	-7.8	-9.5	-12.8	-7.7	-4.6	-10.6	-9.1	-6.7	-8.2
Current transfers	-17.4	-21.9	-4.6	-2.8	-5.1	-4.9	-5.1	-5.9	-5.9	-5.0	-4.9	-5.1
Capital and financial account	**-79.6**	**-52.0**	**-38.0**	**-12.1**	**-2.1**	**-27.3**	**-29.8**	**4.6**	**-30.7**	**3.9**	**5.8**	**9.6**
Direct investment	-18.0	4.8	-14.4	-4.0	2.2	-1.8	-1.4	0.7	-0.2	5.8	3.7	5.3
Assets	-52.6	-37.2	-20.6	-16.5	-6.3	-9.2	-10.0	-17.6	-6.7	-2.9	-11.2	-3.8
Liabilities	34.6	41.9	6.2	12.5	8.5	7.4	8.5	18.2	6.5	8.6	14.9	9.1
Portfolio investment	-39.4	-28.2	-14.2	6.3	-11.2	-20.4	-7.9	-11.8	-24.4	15.9	13.1	0.1
Assets	-28.1	-9.1	-7.5	-10.4	-10.4	0.2	-7.4	-8.1	0.7	5.6	-5.9	-4.7
Liabilities	-11.2	-19.1	-6.6	16.7	-0.7	-20.6	-0.5	-3.7	-25.1	10.3	19.0	4.8
Financial derivatives	-1.0	-0.5	-1.5	0.2	0.0	0.2	0.0	-0.4	-0.1	-0.1	0.5	0.0
Other investments	-21.7	-26.8	-8.0	-14.6	6.7	-5.7	-20.5	17.3	-5.9	-17.6	-11.5	4.1
Errors and omissions	**-5.5**	**21.1**	**0.9**	**-4.2**	**-11.8**	**9.6**	**2.8**	**-4.3**	**43.0**	**-20.4**	**-38.4**	**-2.7**
Overall balance	**-36.5**	**3.8**	**-17.3**	**-1.0**	**-6.7**	**-11.5**	**-15.7**	**8.4**	**17.0**	**-6.0**	**-27.6**	**8.8**

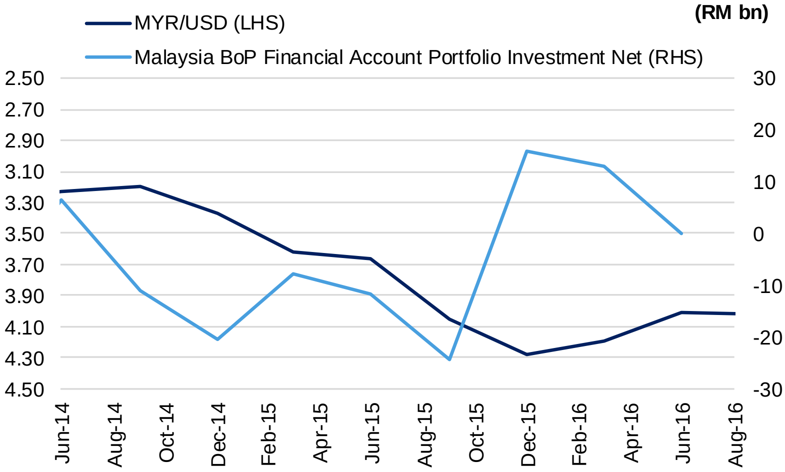
Source: MOF

Portfolio account reflects mixed flows

We observe that the portfolio account of the Balance of Payment saw severe curtailment in net inflows from RM13.1bn in 1QCY16 to just RM0.1m in 2QCY16. The main culprit is the sharp slowdown of non-resident net inflows to RM4.8bn, from significantly higher RM19bn in 1Q16. According to BNM, there was a net liquidation of equities by non-residents in 2QCY16 but more than offset by higher demand for Federal government debts.

There were a few notable events in 2QCY16 that influenced the portfolio flows. The quarter saw MSCI rebalancing its weightage resulting in a cut in Malaysia from 3.43% to 3.09%, prompting foreign liquidation in the equity market. In addition, the 1MDB default on interest payment on 25 April 2016 resulted in uncertainty prompting a sell off in government debt securities in May 2016. However, the subsequent clarification of no cross default on Federal government sovereign rating and better yield versus the developed world instruments prompted foreign fund flows back into Malaysia's government debt market.

Fig 28: Portfolio flows



Source: BNM, Bloomberg

Federal government fiscal position better in 2QCY16

The Federal government revenue was down 14.1% yoy in 2QCY16; surprisingly it was also down 2.7% qoq. The RM47.5bn registered in 2QCY16 made up 22% of the RM216.3bn 2016 revenue forecast by the government while 1HCY16 came in at 44.5%.

Operating expenditure was thankfully under control with a 0.5% yoy rise in 2QCY16, a marked deceleration from the 3.5% in 1QCY16. This was a direct result of the government's drive to reduce subsidies and leakages via grants and transfers. However, development expenditure rose 43.9% yoy as some of the government's infrastructure plans took shape. This was reflected in public investment growth of 7.5% yoy in 2QCY16 (from 4.5% contraction in 1QCY16) for real GDP by expenditure.

The net effect is a decline in the Federal government fiscal deficit from 6.1% in 1QCY16 to 5% of GDP in 2QCY16. While directionally on a declining trend, it is still elevated relative to the fiscal deficit of 3.2% in 2015 and the target of 3.1% for 2016. On an absolute basis, the fiscal deficit target of 3.1% of GDP translates to RM38.7bn. Thus far, the fiscal deficit has already ring in RM32.8bn for 1HCY16. In other words, there is only a difference of RM5.9bn extra in absolute deficit that the government can sink into for 2HCY16. Looking at it another way, the Federal government has used up 84.8% of its 2016 fiscal deficit allocation.

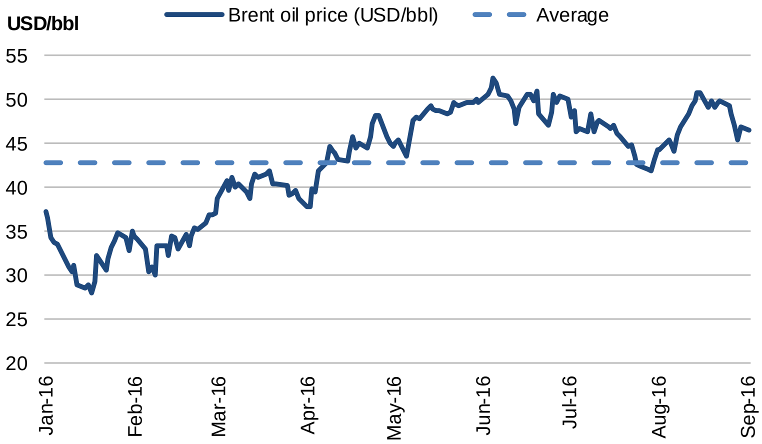
Fig 29: Federal government fiscal position

	2014					2015					2016	
	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16
Revenue	49.2	52.7	59.1	59.6	220.6	51.5	55.3	56.3	56.0	219.1	48.8	47.5
% of annual growth	12.4	2.1	3.8	-2.3	3.4	4.8	4.9	-4.9	-6.0	-0.7	-5.3	-14.0
Operating expenditure	55.2	51.7	52.9	59.7	219.6	55.4	51.8	52.3	57.5	217.0	57.4	52.1
% of annual growth	10.6	5.2	-0.9	1.6	3.9	0.4	0.2	-1.2	-3.8	-0.1	3.5	0.5
Current balance	-6.0	0.9	6.2	-0.1	1.0	-3.9	3.4	4.0	-1.4	2.1	-8.6	-4.6
% of GDP	-2.3	0.3	2.2	0.0	0.1	-1.4	1.2	1.4	-0.5	0.2	-3.0	-1.5
Net development expenditure	7.0	7.0	8.1	16.4	38.5	7.9	7.3	8.7	15.5	39.3	9.2	10.4
% of GDP	2.6	2.6	2.9	5.7	3.5	2.8	2.6	3.0	5.1	3.4	3.1	3.5
Overall balance	-13.0	-6.1	-1.9	-16.5	-37.4	-11.8	-3.8	-4.7	-16.9	-37.2	-17.7	-15.0
% of GDP	-4.9	-2.2	-0.7	-5.7	-3.4	-4.2	-1.4	-1.6	-5.6	-3.2	-6.1	-5.0

Source: MOF

While the figure seems elevated, it is worth pointing out that it is a net absolute figure and a function of revenue and costs. In other words, a quarter of better revenue with lower expenditure could rapidly buffer the fiscal position. Revenue collection should improve in 2H due to a few reasons. The first is that the fiscal deficit of RM38.7bn assumes an average Brent price of US$30/bbl. However, the current Brent price is hovering at US$46.83 while the average year-to-date is US$42.69. Under this scenario, there should be additional revenue for the government in 2H.

Fig 30: Oil price so far this year



Source: Bloomberg

Meanwhile, we understand that GST registration has exceeded the 400k count that the government has set to achieve. Taken in combination with the better private consumption growth in 2QCY16 onwards and 2HCY16 GST collection could also rise. Hence, we are hopeful that the government's recalibrated Budget 2016 announced in January this year could be attained.

Fig 31: Revised Government's finance

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

Source: Revised budget 2016, MOF

Key macro expectations

In our economic report dated 19 July 2016 titled, '*Real GDP growth forecast revision: External economic uncertainty may slow Malaysia's GDP*', we have revised down our 2016 GDP outlook due to, as the title suggests, the external sector. More specifically, we expect real GDP to expand by 4.2% this year, down from 4.5% that was our forecast for 2016 right up to July. We have also introduced 2017 GDP growth of 4.4%.

Fig 32: Malaysia's GDP growth forecasts

	%yoy				% of GDP				% contribution points to GDP			
	2014	2015	2016F	2017F	2014	2015	2016F	2017F	2014	2015	2016F	2017F
GDP by Expenditure Components												
Total Consumption	6.4	5.6	4.9	4.8	65.4	65.8	66.3	66.6	4.2	3.7	3.2	3.2
Private consumption expenditure	7.0	6.0	5.5	5.4	51.8	52.4	53.0	53.5	3.6	3.1	2.9	2.9
Public consumption expenditure	4.4	4.3	2.5	2.5	13.6	13.5	13.3	13.0	0.6	0.6	0.3	0.3
Total Investment	4.8	3.7	2.3	3.7	26.1	25.8	25.3	25.1	1.3	1.0	0.6	0.9
Private investment expenditure	11.0	6.4	3.0	4.0	16.6	16.9	16.7	16.6	1.8	1.1	0.5	0.7
Public investment expenditure	-4.7	-1.0	1.0	3.0	9.5	8.9	8.6	8.5	-0.5	-0.1	0.1	0.3
Domestic Demand	5.9	5.1	4.2	4.5	91.5	91.6	91.6	91.7	5.4	4.7	3.8	4.1
Net exports	12.8	-3.7	4.5	3.2	9.3	8.6	8.6	8.5	1.1	-0.3	0.4	0.3
Exports	5.1	0.7	2.0	2.5	76.1	73.0	71.4	70.1	3.9	0.5	1.5	1.8
Imports	4.2	1.3	1.7	2.4	66.8	64.4	62.8	61.6	2.8	0.8	1.1	1.5
Changes in inventories	170.6	-76.0	-3.3	0.0	-0.8	-0.2	-0.2	-0.2	-0.6	0.6	0.0	0.0
GDP (2010 real prices)	**6.0**	**5.0**	**4.2**	**4.4**	**100.0**	**100.0**	**100.0**	**100.0**	**6.0**	**5.0**	**4.2**	**4.4**
GDP By Kind of Economic Activity												
Agriculture, Forestry and Fishing	2.1	1.0	-0.3	1.0	9.2	8.8	8.5	8.2	0.2	0.1	0.0	0.1
Mining and Quarrying	3.3	4.7	2.0	2.5	9.0	8.9	8.8	8.6	0.3	0.4	0.2	0.2
Manufacturing	6.2	4.9	4.5	4.6	23.0	23.0	23.1	23.1	1.4	1.1	1.0	1.1
Construction	11.8	8.2	6.3	6.5	4.3	4.4	4.5	4.6	0.5	0.3	0.3	0.3
Services	6.5	5.1	5.0	5.1	53.5	53.5	54.0	54.3	3.5	2.8	2.7	2.7
Import duties	10.0	18.6	1.4	0.0	1.1	1.3	1.3	1.2	0.1	0.2	0.0	0.0
GDP (2010 real prices)	**6.0**	**5.0**	**4.2**	**4.4**	**100.0**	**100.0**	**100.0**	**100.0**	**6.0**	**5.0**	**4.2**	**4.4**

Source: BNM, Affin Hwang forecasts

The slower GDP growth, dissipated base effect from GST and lower transport related costs have prompted us to peg our inflation expectation to 2.5% for 2016, which is lowered from the 2.5-3.0% range prior to July. The 25 bps OPR cut in July took us by surprise and we view that as a one-off event, as the BNM probably decided to take out an insurance policy for slower global growth accorded to it from the policy flexibility due to low inflation.

We have kept our Ringgit view where we believe that it should end the year at RM3.95 to the USD. This is premised on a sustained current account surplus, positive interest-rate differential over the developed world including US Treasury yields and large foreign exchange reserves. However, short-term Ringgit movements would be dictated by immediate portfolio-fund flows.

We have revised down our current account surplus expectation in August from RM20-25bn to RM15bn for 2016, or estimated at about 1.3% of GNI. This is due to our expectations of slower manufactured products with the tepid global trade environment. Also, we believe that the government's 3.1% fiscal deficit target for 2016 is achievable with a pick-up in revenue momentum in 2HCY16 especially with a higher Brent price.

Fig 33: BNM's Key Economic Forecasts

Malaysia - Key Economic Indicators

	2013	2014	2015p	2016f
Population (million persons)	30.2	30.6	31.0	31.4
Labour force (million persons)	13.6	14.0	14.2	14.6
Employment (million persons)	13.2	13.5	13.8	14.1
Unemployment (as % of labour force)	3.1	2.9	3.2	3.3-3.5
Per Capita Income (RM)	32,596	34,945	36,285	37,930
(USD)	10,345	10,677	9,291	8,821
National Product (% change)				
Real GDP at 2010 prices[1]	4.7	6.0	5.0	4.0-4.5
(RMbn)	955.1	1,012.5	1,062.8	1,106.1
Agriculture, forestry and fishery	2.0	2.1	1.2	-0.3
Mining and quarrying	1.2	3.5	4.7	3.5
Manufacturing	3.4	6.2	4.9	4.1
Construction	10.6	11.7	8.2	7.9
Services	5.9	6.6	5.1	4.4
Nominal GNI	5.3	8.7	5.2	5.9
(RMbn)	984.6	1,069.8	1,125.1	1,191.0
Real GNI	5.2	6.1	6.8	3.8
(RMbn)	916.7	972.6	1,038.5	1,077.7
Real aggregate domestic demand[2]	7.3	5.9	5.1	4.3
Private expenditure	8.5	7.9	6.1	5.2
Consumption	7.2	7.0	6.0	5.1
Investment	12.8	11.1	6.4	5.5
Public expenditure	4.0	0.4	2.1	1.6
Consumption	5.8	4.3	4.4	2.0
Investment	1.8	-4.7	-1.0	1.1
Gross national savings (as % of GNI)	30.4	30.4	28.9	28.3
Balance of Payments (RMbn)				
Goods balance	96.6	113.3	109.6	99.5
Exports	637.7	678.9	685.4	707.6
Imports	541.1	565.5	579.8	608.1
Services balance	-9.6	-10.7	-21.0	-19.2
Primary Income, net	-34.0	-36.6	-32.0	-38.0
Secondary income, net	-17.5	-17.4	-21.9	-23.1
Current account balance	35.5	48.6	34.7	19.1
(as % of GNI)	3.5	4.4	3.0	1.0-2.0
Bank Negara Malaysia international reserves,net[3]	441.9	405.3	409.1	-
(in months of retained imports)	9.5	8.3	8.4	-
Prices (% change)				
CPI (2010=100)[4]	2.1	3.2	2.1	2.0-3.0
PPI (2005=100)[5]	-1.7	1.4	-4.8	-
Real w age per employee in the manufacturing sector	5.8	1.5	3.7	-

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

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

2 Exclude stocks

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

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

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

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

p Preliminary

f Forecast

Source: BNM

Flatter trajectory

Reduction in gradient for growth in 2016

Our original forecast for 2016 fully diluted EPS growth was 7.4% in our strategy report titled, '***Finding a firmer footing***', published on 5 November 2015. We have tracked the evolution of our forecasts since then and the rate of growth has gone up to as high as 8.2%, but has settled at 3% prior to the 2QCY16 results season.

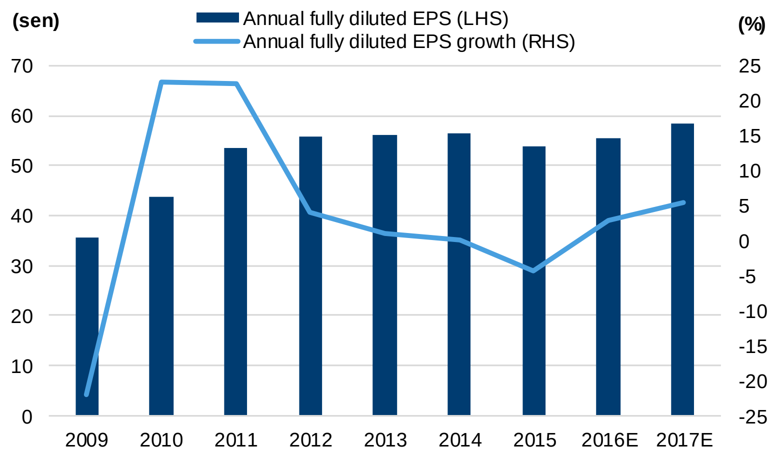
Fig 34: Evolution of Affin Hwang's 2016E EPS growth expectations

Date	Report	2016E EPS growth
5-Nov-15	***Finding a firmer footing***	7.4%
3-Dec-15	***The Ringgit awakens?***	8.2%
20-Jan-16	***De-coupling***	7.8%
29-Jan-16	***Dodging a bullet***	7.8%
3-Mar-16	***Breathing space***	8.5%
2-Jun-16	***Battling perceptions***	3.0%
24-Jun-16	***Her subjects have spoken***	3.0%
14-Jul-16	***An insurance policy***	3.0%

Source: Affin Hwang

Regretfully, the just-concluded 2QCY16 results have prompted us to cut earnings again, giving rise to an aggregate fully-diluted EPS growth of just 1.5% now. We have, therefore, recalibrated our expectation and we are just hoping that 2016 EPS would not dip into recessionary territory. If it pans out, it would still represent a turnaround in earnings from 4% contraction in 2015 to some growth in 2016 where optimism should return for a sustained recovery into 2017.

Fig 35: Annual fully-diluted EPS growth



Source: Bloomberg, Affin Hwang forecasts

Contribution to 2016 growth

Three months ago, we introduced a breakdown of contribution to market EPS growth by sectors in order to give better insight and more transparency into where our forecast of a turnaround in growth is coming from.

Currently, the three largest contributors are from plantation, utilities and gaming totalling 3.5 ppts. Three months ago, the three sectors contributing the most to growth were identical and in the same order, though collectively they made up a bigger slice at 3.9 ppts of growth. The reduction is due to cut in our plantation sector forecast.

On the other hand, the three largest drags to market EPS growth currently are financials, consumer and telcos with a total subtraction of 2.7 ppts. Three months ago the list was different only for the third place where property was the culprit and collectively subtracted 2.2ppts to growth. There was further deterioration from financials and telcos, but drag from the consumer sector actually lightened.

The slower growth forecast now also means that of the total 18 sectors under coverage, there are now ten sectors with positive growth contribution versus 12 sectors previously.

Fig 36: Breakdown of contribution to 2016E EPS growth by sector

Sector	Rating	Market Cap (RMm)	Weightage	Previous sector contribution to EPS growth (%)	New sector contribution to EPS growth (%)
Auto & Autoparts Sector	UW	8,295	0.69	0.3	0.3
Banks Sector	OW	275,562	22.89	(1.2)	(1.9)
Building Materials Sector	N	6,920	0.57	0.1	0.1
Const & Infra Sector	OW	31,671	2.63	(0.0)	(0.1)
Consumer Sector	N	52,308	4.35	(0.9)	(0.5)
Gaming Sector	OW	60,511	5.03	0.5	0.5
Healthcare Sector	OW	58,758	4.88	0.2	0.2
Media Sector	N	19,608	1.63	0.0	0.0
MREIT Sector	OW	26,950	2.24	0.2	0.2
Oil & Gas Sector	UW	79,117	6.57	0.1	(0.0)
Plantation Sector	N	124,495	10.34	2.5	2.1
Property Sector	OW	35,282	2.93	(0.1)	(0.2)
Rubber Products Sector	N	21,317	1.77	0.1	0.1
Technology Sector	N	9,570	0.79	(0.0)	(0.0)
Telecoms Sector	N	159,642	13.26	0.0	(0.4)
Timber Sector	OW	3,254	0.27	(0.0)	(0.1)
Transport Sector	UW	54,713	4.54	0.2	0.2
Utilities Sector	OW	175,892	14.61	0.8	0.8
Others					
TOTAL		**1,203,864**		**3.0**	**1.5**

Source: Affin Hwang estimates and forecasts

Sector and stock positioning

Sector changes

We have made two changes to our sector positioning. Unfortunately, both involve downgrades from Neutral to Underweight, namely autos and transport. The reduction in autos is due to the fact that all three companies under our coverage are now Sells while for transport we have cut our rating on heavyweight MISC to Sell thus prompting the sector downgrade.

Post these changes, our 18 sectors are distributed along the lines of 8 on Overweight, 7 that are Neutral and the remaining 3 on Underweight.

Fig 37: Positioning for the eighteen sectors under coverage

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

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

Despite an addition of 2 stocks to our coverage universe, the distribution of companies across ratings has deteriorated. Of the 100 companies under our coverage, 35% are Buys, 44% Holds and 21% Sells. This compares with 40%, 41%, and 19%, respectively, going in to the quarter.

Fig 38: Breakdown of our sector coverage by recommendation

Sector	Rating	% of market cap	Total mkt cap (RMbn)	Rating				% of rating				Rating as a % of mkt cap			
				Buy	Hold	Sell	Total	Buy	Hold	Sell	Total	Buy	Hold	Sell	Total
Auto & Autoparts	N	0.7%	8,295	-	-	3	3	-	-	100	100	-	-	100	100
Banks & Financial Services	OW	22.9%	275,562	5	4	1	10	50	40	10	100	53	45	2	100
Building Materials	N	0.6%	6,920	-	1	1	2	-	50	50	100	-	97	3	100
Construction & Infrastructure	OW	2.6%	31,671	7	1	-	8	88	13	-	100	99	1	-	100
Consumer	N	4.3%	52,308	1	4	4	9	11	44	44	100	11	59	31	100
Gaming	OW	5.0%	60,511	1	2	-	3	33	67	-	100	43	57	-	100
Healthcare	OW	4.9%	58,758	1	1	-	2	50	50	-	100	8	92	-	100
Media	N	1.6%	19,608	1	-	3	4	25	-	75	100	76	-	24	100
MREIT	OW	2.2%	26,950	2	2	-	4	50	50	-	100	41	59	-	100
Oil & Gas	UW	6.6%	79,117	2	4	2	8	25	50	25	100	2	28	70	100
Plantation	N	10.3%	124,495	-	4	3	7	-	57	43	100	-	47	53	100
Property	OW	2.9%	35,282	5	2	-	7	71	29	-	100	72	28	-	100
Rubber Products	N	1.8%	21,317	1	4	-	5	20	80	-	100	27	73	-	100
Technology	N	0.8%	9,570	3	3	2	8	38	38	25	100	45	34	21	100
Telecoms	N	13.3%	159,642	-	4	-	4	-	100	-	100	-	100	-	100
Timber	OW	0.3%	3,254	3	-	-	3	100	-	-	100	100	-	-	100
Transports & Logistics	N	4.5%	54,713	1	2	2	5	20	40	40	100	1	18	81	100
Utilities	OW	14.6%	175,892	2	6	-	8	25	75	-	100	47	53	-	100
Total		100.0%	1,203,864	35	44	21	100								

Source: Affin Hwang

The five biggest sectors under coverage of financials, utilities, telcos, plantation and oil & gas make up 67.7% of our universe market cap of RM1.2tn. Meanwhile, the RM1.2tn represents 71.2% of the total Bursa Malaysia market capitalisation of listed companies of RM1.69tn.

Fig 39: Summary of sector valuation

Sector	Rating	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Banks & Financial Services	OW	275,562.2	(5.5)	8.0	13.6	12.6			3.8	4.0	1.5	1.4	10.1	10.3
Auto & Autoparts	N	8,294.7	1,645.6	56.9	25.7	16.4	15.6	12.4	2.7	3.9	1.1	1.3	3.5	5.9
Building Materials	N	6,920.2	27.7	1.7	21.1	20.7	12.1	11.8	4.0	4.0	2.3	2.2	9.1	9.1
Construction & Infrastructure	OW	31,670.6	(10.1)	15.9	20.1	17.3	14.8	7.5	2.8	2.9	1.3	1.2	6.9	7.4
Consumer	N	52,308.2	(3.0)	6.5	23.5	22.1	13.3	10.5	4.3	4.5	17.3	18.5	21.6	33.1
Gaming	OW	60,510.9	18.8	10.3	17.2	15.6	6.3	5.4	1.1	1.1	0.6	0.6	4.5	4.7
Healthcare & Pharma.	OW	58,757.7	17.4	15.7	47.7	41.2	22.6	19.7	0.6	0.7	2.4	2.3	5.1	5.6
Media	N	19,607.5	6.4	14.0	20.4	17.9	7.7	1.6	5.0	5.4	5.4	4.9	20.7	21.1
MREIT	OW	26,950.5	32.1	2.1	18.6	18.2	14.7	14.3	5.5	5.8	1.1	1.1	6.8	7.0
Oil & Gas	UW	79,116.9	(1.6)	2.4	22.8	22.3	13.0	9.2	2.1	2.1	1.9	1.8	4.9	5.1
Plantation	N	124,494.6	30.1	5.3	19.9	18.9	14.0	8.0	2.7	3.0	2.1	2.2	8.8	10.4
Property	OW	35,281.6	(13.5)	3.1	11.5	11.2	9.9	7.1	4.1	4.2	0.9	0.9	7.8	7.9
Rubber Products	N	21,317.4	9.1	9.3	20.2	18.5	18.4	10.4	1.6	1.8	5.0	4.5	16.5	16.1
Technology	OW	9,569.9	(4.9)	4.9	14.6	13.9	8.7	5.9	2.6	2.9	2.8	2.6	17.1	16.8
Telecoms	N	159,642.5	(6.1)	8.1	25.3	23.4	10.5	10.0	3.1	3.3	4.8	4.7	18.0	19.1
Timber	OW	3,254.1	(35.3)	14.6	12.7	11.1	7.5	5.3	3.0	3.0	1.1	1.0	5.2	6.0
Transports & Logistics	N	54,713.3	5.9	(9.8)	15.4	17.1	9.3	9.5	1.1	1.0	1.1	1.1	8.8	7.3
Utilities	OW	175,891.6	3.9	1.7	15.0	14.7	8.9	6.4	2.6	2.6	1.9	1.8	10.5	9.9
Coverage		**1,203,864.5**	**1.5**	**5.6**	**17.8**	**16.8**	**12.5**	**9.4**	**3.1**	**3.3**	**2.1**	**2.0**	**9.1**	**9.3**

Source: Bloomberg, Affin Hwang forecasts

Stock lists

We have initiated replacements in our usual list of top picks of 20 stocks. The two removals are Carlsberg and Top Glove. We took out Carlsberg due to its strong share price performance since our inclusion into the list and at current pricing levels, we see its upside potential as limited. As for Top Glove, we have turned more cautious on the glove sector given the recent overcapacity due to overzealous expansion, especially for nitrile gloves. However, we remain bullish on the glove sector due to the structural demand stemming from better healthcare services. In their places, we have added IOI Properties and Tiong Nam Logistics.

IOI Properties. IOI Properties is the largest property company under our coverage with a market capitalisation in excess of RM11bn. The stock has been beating our forecasts with earnings growth coming from all three of its core segments of property development, property investments and leisure & hospitality property assets. Its property development townships and landbanks could be found throughout Malaysia and provide good exposure to the strong household formation due to the young population base. In addition, its investment properties, underpinned by its IOI Malls, continue to build strong brand equity. It also has overseas developments such as in Singapore that contribute favourable foreign exchange earnings to its P&L. Lastly, valuation is inexpensive trading at low teens PE for a company with a good and stable earnings profile and rich asset value due to its large landbank and property assets.

Tiong Nam. We have included Tiong Nam as one of our top picks as it offers exposure to the logistics business. Tiong Nam owns 77 warehouses and has a fleet of more than 2,000 trucks in Malaysia, Thailand and Singapore. Demand for logistics outsourcing and e-commerce fulfilment continues to rise. In addition, it is tapping into the expanding cold-room logistics space. Further opportunities lie in halal-logistics services. Besides logistics, it also has a property business focusing on industrial and commercial development that has synergistic benefits to its logistics and warehousing business. Valuation is also inexpensive trading at a mid-single digit PER, while offering double-digit earnings growth on our forecasts.

As for our top sell list, it remains unchanged with a list of six companies.

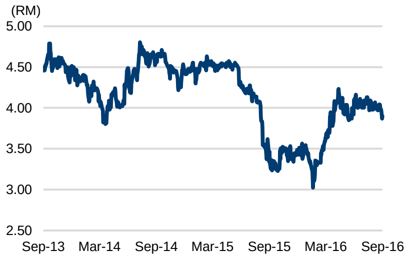
Fig 40: List of our top buys and top sells

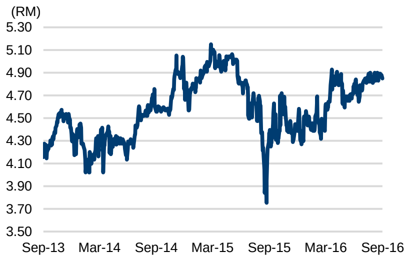
Stock	Rating	Price	TP	Upside	Mkt Cap	Core PE (x)		Core EPS		Core EPS Growth (%)		PBV		DPS(sen)		Div. Yield (%)		ROE (%)	
		(RM)	(RM)	(%)	(RMm)	CY16	CY17	CY16	CY17	CY16	CY17	CY16	CY17	FY16	FY17	FY16	FY17	FY16	FY17
Top Buys																			
AEON CREDIT	BUY	15.08	14.80	(1.9)	2,171.5	9.2	8.2	1.65	1.83	10.3	11.5	2.3	2.0	63.0	69.7	4.2	4.6	27.3	25.6
AFG	BUY	3.90	4.50	15.4	6,036.4	11.1	10.7	0.35	0.36	2.6	3.3	1.2	1.1	14.9	15.8	3.8	4.0	10.7	10.4
CIMB	BUY	4.77	5.30	11.1	41,636.7	10.3	9.7	0.46	0.49	37.6	5.8	0.9	0.9	17.0	14.6	3.6	3.1	9.1	9.1
GAMUDA	BUY	4.85	5.70	17.5	11,737.8	20.4	17.8	0.24	0.27	(8.7)	14.1	1.7	1.6	12.0	12.0	2.5	2.5	9.7	10.4
GENTING MALAYSIA	BUY	4.41	5.00	13.4	26,184.6	17.8	15.7	0.25	0.28	14.5	13.3	1.4	1.4	7.1	7.7	1.6	1.7	8.1	8.7
INARI	BUY	3.32	3.54	6.6	3,177.1	19.0	15.8	0.18	0.21	4.1	20.3	3.5	3.0	9.0	9.4	2.7	2.8	23.8	24.5
IOI PROPERTIES	BUY	2.58	2.89	12.0	11,413.0	11.6	11.9	0.22	0.22	4.8	(2.3)	0.8	0.7	8.5	8.5	3.3	3.3	7.4	6.2
JAKS RESOURCES	BUY	1.01	1.60	58.4	442.7	9.9	6.4	0.10	0.16	483.4	53.9	0.6	0.5	-	-	-	-	6.3	8.2
KPJ	BUY	4.25	5.01	17.9	4,511.4	30.6	28.3	0.14	0.15	26.2	7.9	3.1	2.9	7.5	8.0	1.8	1.9	9.5	9.7
PUBLIC BANK	BUY	19.90	21.80	9.5	77,254.6	16.4	15.4	1.22	1.29	(7.2)	6.1	2.3	2.1	57.0	59.0	2.9	3.0	14.3	14.0
PETRA ENERGY	BUY	0.96	1.48	55.0	307.3	7.9	4.9	0.12	0.19	2.5	59.5	0.5	0.5	2.4	3.9	2.5	4.1	6.9	10.0
PAVILION REIT	BUY	1.79	2.11	17.9	5,410.3	20.1	18.8	0.09	0.10	11.5	6.7	1.4	1.4	9.5	10.9	5.3	6.1	7.0	7.5
SUNWAY CONSTRUCTION	BUY	1.64	2.03	23.8	2,120.4	14.8	12.5	0.11	0.13	13.6	18.0	4.1	3.5	5.5	6.5	3.4	4.0	27.3	27.9
SCICOM	BUY	2.14	2.62	22.4	760.7	16.7	16.1	0.13	0.13	19.7	3.5	7.9	6.4	9.1	8.7	4.3	4.0	47.7	39.9
SUNWAY	BUY	3.09	3.90	26.2	6,342.6	9.9	8.8	0.31	0.35	(5.8)	12.1	0.8	0.8	10.0	11.0	3.2	3.6	8.0	8.5
TA ANN	BUY	3.53	4.67	32.3	1,570.4	12.0	11.0	0.29	0.32	(38.1)	9.2	1.0	0.9	17.0	17.0	4.8	4.8	9.6	9.9
TENAGA	BUY	14.66	16.50	12.6	82,735.3	11.1	10.7	1.32	1.36	13.6	3.2	1.5	1.4	33.4	36.2	2.3	2.5	13.5	12.6
TIONG NAM	BUY	1.60	2.10	31.3	694.2	7.4	6.7	0.22	0.24	24.3	9.3	1.0	0.9	5.8	6.8	3.6	4.2	14.2	14.0
UOA DEVELOPMENT	BUY	2.49	2.64	6.0	4,064.8	11.2	9.4	0.22	0.27	(21.6)	19.8	1.2	1.1	12.0	14.0	4.8	5.6	9.8	11.1
WCT	BUY	1.56	2.00	28.2	1,961.0	18.6	13.1	0.08	0.12	(56.2)	41.7	0.8	0.7	6.0	8.0	3.8	5.1	3.7	5.5
Top Sells																			
MAHB	SELL	6.30	5.50	(12.7)	10,452.9	80.8	90.0	0.08	0.07	nm	(10.3)	1.4	1.4	4.0	4.0	0.6	0.6	1.8	1.6
MCIL	SELL	0.72	0.50	(30.6)	1,214.8	11.5	11.5	0.06	0.06	(8.0)	(0.4)	1.3	1.2	4.3	4.4	6.0	6.1	11.1	10.3
MEDIA PRIMA	SELL	1.41	1.03	(27.0)	1,564.0	13.4	13.7	0.11	0.10	(15.2)	(1.9)	0.9	0.9	7.0	6.9	5.0	4.9	6.7	6.2
STAR	SELL	2.63	2.13	(19.0)	1,942.4	19.1	16.5	0.14	0.16	(23.9)	15.2	1.6	1.6	18.0	18.0	6.8	6.8	8.6	9.6
UMW-OG	SELL	0.90	0.73	(18.9)	1,945.8	(11.0)	(14.1)	(0.08)	(0.06)	61.9	(22.0)	0.6	0.5	-	-	-	-	(5.2)	(3.9)
UNISEM	SELL	2.64	1.98	(25.0)	1,937.3	13.2	15.5	0.20	0.17	(9.7)	(15.0)	1.7	1.7	12.3	10.2	4.7	3.9	13.5	10.9

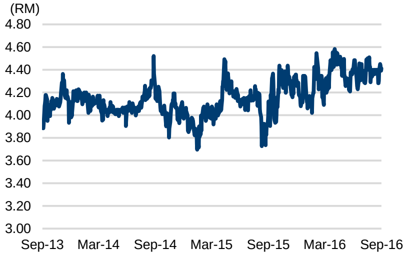
Source: Affin Hwang forecasts, Bloomberg
Note: In our top Buys, we have added IOI Properties and Tiong Nam and removed Carlsberg and Top Glove.

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

Fig 41: Individual top buys and top sells

Top BUY	Rating	Analysts' Comments
AEON CREDIT (ACSM MK) Share Price as at 2 September 2016 : RM15.08 	**BUY**	We have a BUY rating on AEONCS. Its 2017-19E ROEs are expected to stay above 20%, underpinned by a high effective interest rate of 16-17% on its robust receivable portfolio growth (at circa 20% p.a.), which is currently being funded by a cost of debt of 4.2%. Despite concerns of lower business volumes, we see various growth opportunities as the company diversifies and expands from the low-to-middle-income and small-business segments. NPLs are expected to remain manageable – its NPL ratio may stabilize at around 2.5-2.6% given management's tight credit-screening policy and increased collection efforts. Key risk would be lower-than-expected receivables growth.
AFG (AFG MK) Target Price : RM4.50 Share Price as at 2 September 2016 : RM3.90 	**BUY**	We have a BUY rating on AFG, with a 12-month TP of RM4.50, based on a 1.31x CY16E P/BV target on CY16E ROE of 10.6%. Being the smallest anchor bank, AFG does not need to compete on volume with the big banks. Its key competitive edge is in focusing on being a niche retail-banking (consumer and SMEs) solutions provider. Given its size, management is able to leverage on the 'risk-adjusted return' model to improve its margins and ROE by focusing more on SMEs, commercial, personal loans, credit cards and share-margin financing rather than relying entirely on volume growth. Risk of Basel-3 equity capital-raising is not foreseen in the near term given its compliance. Asset quality is intact with the gross-impaired-loan ratio at 1.2% and loan-loss coverage (including regulatory reserves) at 119.2%. Key risks would be weaker loan growth and NIM pressure.

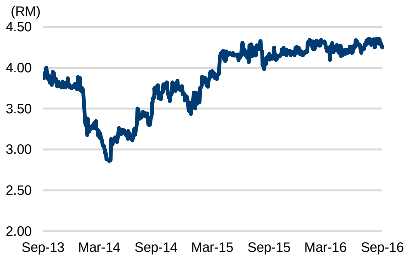
Top BUY	Rating	Analysts' Comments
CIMB Group (CIMB MK) Target Price : RM5.30 Share Price as at : RM4.77 2 September 2016 	**BUY**	We maintain our BUY rating on CIMB Group with a 12-month target price of RM5.30 (based on an implied 2017E P/BV target of 1.0x and ROE of 9.4%). We remain upbeat on management's initiatives and efforts to bring down operational costs (expectation of RM500-600m cost savings p.a.), improve RWA and optimize capital ratios as well as to maintain the group's asset quality (a potential improvement in credit costs given the absence of hefty provisions at CIMB Niaga). Meanwhile, the Target18 (T18) initiatives are expected to reposition the CIMB Group in the face of increased banking sector competition and challenges in the region. Key risks would be a larger-than-expected NIM compression and deterioration in asset quality.
GAMUDA (GAM MK) Target Price : RM5.70 Share Price as at 2 : RM4.85 September 2016 	**BUY**	Gamuda is our top BUY among the large-cap Malaysian construction stocks with a fully-diluted RNAV-based 12-month target price of RM5.70. Gamuda and its partners have been appointed as the project-delivery partner for the RM30bn Klang Valley Mass Rapid Transit Line 2 (MRT2) and RM27bn Penang Transport Master Plan (PTMP). The MMC Gamuda Joint Venture was also awarded the RM15.47bn underground works contract for MRT2. Naim-Gamuda JV also clinched the RM1.57bn Pan-Borneo Highway (Sarawak) package. The three projects should spur long-term earnings growth of its construction division. The potential sale of its 40% stake in the Splash water supply concession will likely provide the funding for its PTMP project. Key risks would be delays in implementing the MRT2 and PTMP projects.

Top BUY	Rating	Analysts' Comments
Genting Malaysia (GENM MK) **Target Price : RM5.00** **Share Price as at 2 September 2016 : RM4.41** 	**BUY**	We like GENM for the potential in earnings growth from additional gaming facilities and non-gaming revenue (such as retail and theme parks). Management reiterated its guidance that the new facilities, which include the retail components and additional gaming capacity under the Genting Integrated Tourism Plan (GITP), should begin opening progressively by year end, while the Fox World theme park would be opened by end-2017. Our SOTP-based 12-month target price of RM5.00 translates to a 2017E PER of 17.8x, which is comparable to the forward PER of US gaming companies and lower than that of Genting Singapore. Key risk would be a delay in execution of the GITP.
INARI AMERTRON (INRI MK) Target Price : RM3.54 Share Price as at 2 September 2016 : RM3.32 	**BUY**	Inari is a leading RF-test house in the region and is poised to further consolidate its position given its solid working relationship with its key customer Broadcom, also a leader in the RF industry. We project that Inari will achieve a 3-year net-profit CAGR of 17% over 2016-19E, which we believe will continue to be driven by RF expansion in the near term. Longer term, Inari is well positioned to benefit from the Internet of Things, through its fiber-optic division, in our view. Our 12-month target price of RM3.54 is based on a 18x CY17E PER. With the shares trading at 13x CY17E EPS, we believe valuations are attractive considering its growth prospects and exposure to the explosive data story. Risk: rapid ASP erosion.

Top BUY	Rating	Analysts' Comments
IOI PROP (IOIPG MK)* Target Price : 2.89 Share Price as at : 2.58 2 September 2016  **new addition to our Top BUY list*	**BUY**	IOI Properties is seeing strong property development sales especially for The Triling@Clementi project in Singapore. It also benefits from the weak Ringgit for its overseas projects. The higher rental income and occupancy rate for its property investments such as the IOI Resort City should provide a steady stream of recurrent earnings. Its low net gearing puts the group in a strong position to expand via new land bank acquisitions especially in Xiamen, China. Shares are trading at a FY17E PER of 12x, which is undemanding, while its net yield of over 3.5% is attractive, in our view. BUY with a 12-month target price of RM2.89, based on a 40% discount to RNAV. Risk would be lower-than-expected contribution from the investment-property segment.
JAKS RESOURCES (JAK MK) Target Price : RM1.60 Share Price as at : RM1.01 2 September 2016 	**BUY**	We have a BUY rating on JAKS Resources with a 12-month TP of RM1.60, based on a 20% discount to our RNAV (realisable net asset value) valuation of RM2.00. We expect earnings contributions from the Vietnam engineering, procurement and construction (EPC) contract to gather pace from 2H16 onwards. We believe once management secures the go ahead for the plant's detailed design in 3Q16, this would pave the way for other major infrastructure works to commence in 4Q. We gather from management that work is progressing on infrastructure-related work such as the jetty and the workers' living quarters, while piling works should commence soon. Positive earnings surprises from the construction of non-technical work on the Vietnam project would be the key rerating catalyst for JAKS, in our view. Key risk: slower-than-expected recognition in earnings from the Vietnam EPC contract.

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

Target Price : RM5.01
Share Price as at : RM4.25
2 September 2016


</td><td>BUY</td><td>We believe the private hospital industry has robust earnings-growth prospects, based on expected secular demand growth for private healthcare. KPJ has clear expansion plans, in our view, based on the expected secular demand growth in its key home markets. The group has laid out plans to develop 8 new hospitals and expand 8 of its existing hospitals, which should add a total of 1,645 beds to its network in Malaysia. We reaffirm our BUY rating on KPJ with an SOTP-based 12-month TP of RM5.01. We like KPJ for its strong expansion plans and also its cheap valuation among regional peers. Key risks would be margin compression and a decline in patient volumes.</td></tr>
</table>

Top BUY	Rating	Analysts' Comments
Pavilion REIT (PREIT MK) Target Price : RM2.11 Share Price as at : RM1.79 2 September 2016  	**BUY**	We have a BUY rating on PavREIT with a DDM-based 12-month target price of RM2.11 (based on 7.6% cost of equity, 6% equity risk premium and 3% terminal growth rate). We expect a continual rerating of the stock, driven by PavREIT's asset-injection pipeline and the sustainability of its yields at 5-6% for 2016-18E. Our conviction on PavREIT is based on its dominance in the upmarket retail sector, underpinned by its: i) strategically-located prime assets (malls and office towers) in Bukit Bintang (the heart of KL's shopping district); ii) robust organic and inorganic growth plans (Pavilion Extension and Fahrenheit 88); and iii) high occupancy rates, with an ability to attract new tenants and the sustainability of existing tenancies. Key risk would be a sharp slowdown in upper-middle-class and upper-class retail spending.
Petra Energy (PENB MK) Target Price : RM1.48 Share Price as at : RM0.96 2 September 2016  	**BUY**	PENB reported a small core net profit of RM2.3m in 2Q16 after incurring a core net loss of RM3.0m in 1Q16. Even though small, the turnaround on the back of lower revenue qoq and yoy is positive, in our view. The KBM (Kapal, Banang and Meranti) RSC contributed a profit of RM12.1m in 2Q16, which is up 20% from 1Q16. We expect the recovery in profitability driven by higher crude oil prices (vs. our 2016/17/18E assumption of US$40/50/55 per barrel) and its RSC earnings. We maintain our forecasts and BUY rating with an SOTP-based 12-month TP of RM1.48. Key risk would be lower capex by Petronas.

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

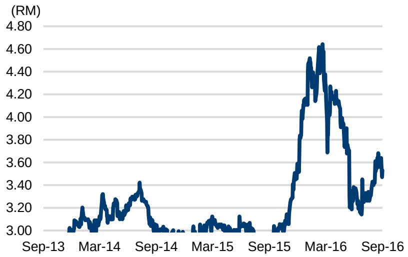
Target Price : RM21.80
Share Price as at : RM19.90
2 September 2016
</td><td>BUY</td><td>We have a BUY rating on PBB with a 12-month target price of RM21.80, based on a 2.5x P/BV target with a 2016E ROE of 14.5%. Public Bank's operations remained intact throughout 2Q16, supported by robust non-interest income growth and fund-based income. This is a highly defensive stock in nature, in our view, supported by a well-established franchise in the retail market, an above-industry loan and deposit growth track record, sound asset quality (backed by the lowest GIL of 0.49% and a high LLC of 116.3%), a well-capitalised balance sheet (CET 1 at 11.05%) and well-contained overhead, with the lowest CIR at 32.3% vs. the industry at 48.8%. Key risk would be a deterioration in macroeconomic trends.</td></tr>
<tr><td>Scicom (SCIC MK)

Target Price : RM2.62
Share Price as at : RM2.14
2 September 2016
</td><td>BUY</td><td>Scicom specializes in business-process outsourcing (BPO) and we see the company as an attractive e-government service play. The company has seen earnings increase by about 50% in FY14-15 and by about 19% in FY16 after being granted the Education Malaysia Global Services (EMGS) contract, which effectively commenced in 2013. Moving forward, we believe earnings should continue to expand due to the increase in international students, in line with the government's Economic Transformation Programme (ETP) target to achieve 200,000 students by 2020 as well as margin improvement due to increasing economies of scale and the expansion in services provided. Another key catalyst would be the eventual extension of its e-government services to regional shores. Reaffirm BUY with a 12-month target price of RM2.62, based on a PER of 20x applied to our CY16E EPS. Key risk would be a loss of BPO customers.</td></tr>
</table>

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

Target Price : RM3.90
Share Price as at : RM3.09
2 September 2016
</td><td>BUY</td><td>We like Sunway not only as a proxy to an integrated township developer, but also as a diversified player with exposure to the construction sector as well as investment properties. It has a total landbank of more than 3,000 acres with a potential effective GDV of RM32bn. Its property development segment has unbilled sales of RM1.5bn while Sunway Construction has an outstanding record-high orderbook at RM4.9bn as at end-June. Given its diversified exposure, we believe that any slowdown in one of the segments can be cushioned by other segments. However, a key risk is the company's vast exposure in Iskandar Johor – which may see a prolonged oversupply situation. We reiterate our BUY call on Sunway. Our 12-month target price of RM3.90 is based on a 30% discount to our RNAV.</td></tr>
<tr><td>Sunway Construction (SCGB MK)

Target Price : RM2.03
Share Price as at : RM1.64
2 September 2016
</td><td>BUY</td><td>SCGB is among our top BUYs for mid-cap construction stocks. We reiterate our 12-month target price of RM2.03, based on a 10% discount to our RNAV. We believe its prospects to win new infrastructure projects are good as a pre-qualified contractor for the LRT Line 3 and commercial building projects to be rolled out this year. We believe SCGB provides pure construction exposure to the cyclical upturn for the sector. Its precast concrete division benefits from the weak Ringgit as it derives revenue in SGD. We also believe that its strong net cash position will support a high dividend payout and an attractive net yield of over 3% in 2016E. Key risk to our call would be public-infrastructure project-implementation delays.</td></tr>
</table>

Top BUY	Rating	Analysts' Comments
Ta Ann (TAH MK) Target Price : RM4.67 Share Price as at : RM3.53 2 September 2016  	**BUY**	We continue to like Ta Ann for its rising plantation earnings prospects given its increasing matured plantation areas, FFB and CPO production, coupled with an attractive 2017E yield of 4%, on our forecasts. Given the soft timber division, we expect Ta Ann's earnings contribution from the plantation division to surpass that of its timber business. We reiterate our BUY recommendation on Ta Ann. Our SOTP-derived 12-month target price of RM4.67 is based on 10x our 2017E EPS for its timber division, 15x for its plantation division and 1x for BV for its forest plantation. Key risk would be major disruptions in log and palm-oil harvesting due to bad weather conditions.
Tenaga (TNB MK) Target Price : RM16.50 Share Price as at : RM14.66 2 September 2016  	**BUY**	We have a BUY rating on Tenaga with a DCF-derived (WACC: 8.1%, LT growth: 3.0%) 12-month TP of RM16.50. Our TP translates into an FY17E PE of 12x, which is below TNB's forward PE range of 13-16x prior to the gas shortage issues in FY11-13. We still like TNB for its undemanding valuation and growing market share (the 1,000MW Manjung 5 is targeted to be completed in October 2017). In the medium term, management sees potential for new plants and O&M services via Gama Enerji (1,027MW gross capacity) in Turkey. In addition, TNB expects its new venture in India to turn profitable by FY18 upon debt restructuring and new hydro capacity coming on-stream. Risk includes delays in implementing the Incomplete-Cost Pass-Through (ICPT) mechanism.

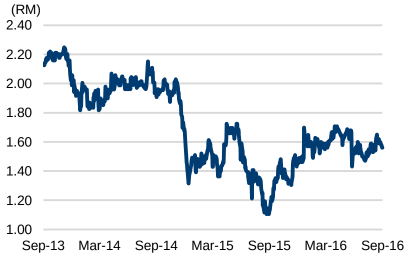
<table>
<tr><th>Top BUY</th><th>Rating</th><th>Analysts' Comments</th></tr>
<tr><td>TIONG NAM (TNL MK)*

Target Price : RM 2.10
Share Price as at : RM1.60
2 September 2016

*new addition to our Top BUY list</td><td>BUY</td><td>We like TNL for its resilient and stable logistics and warehousing segment. Rising logistics outsourcing, growing e-commercie fulfilment and increasing cold-room requirements should boost demand for TNL's strategically located storage space. Its committed and transparent capacity-expansion plan increases earnings visibility, while an improving services mix gives room for margin expansion. We expect TNL's capacity to grow at 9% CAGR over FY17-21E and operating margins to expand on ongoing productivity gains and lower labour costs driven by higher automation efforts. Aside from logistics, its property development segment is a sizeable earnings driver. We expect the revenue cover of more than a year to sustain earnings visibility in the near-term, while future growth prospects should be underpinned by an undeveloped land bank of more than 150 acres. We have an SOTP-based 12-month target price of RM2.10. Key risk would be weak property sales.</td></tr>
<tr><td>UOA Development (UOAD MK)

Target Price : RM2.64
Share Price as at : RM2.49
2 September 2016
</td><td>BUY</td><td>We like UOA Development for its strong management, good product branding as well as net cash position (RM652m as at end-June 2016). Being a niche property player focusing on the greater KL segment as well as mid-to-high income projects, we see it as partially sheltered from the slowdown in the Johor property segment, as well as the tight credit approval process. The group targets to launch another RM1.5bn worth of properties in 2H16. Next key catalyst would be its Jalan Ipoh development, which is expected to mirror the success of Bangsar South Development. Our 12-month target price of RM2.64 is based on a 30% discount to our RNAV. Key risk would be a sharper-than-expected slowdown in the Klang Valley property market.</td></tr>
</table>

<table>
<tr><th>Top BUY</th><th>Rating</th><th>Analysts’ Comments</th></tr>
<tr><td>WCT (WCTHG MK)

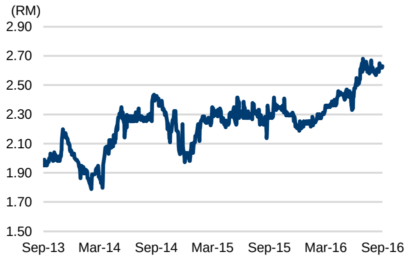
Target Price : RM2.00
Share Price as at : RM1.56
2 September 2016

</td><td>BUY</td><td>WCT is one of our top BUYs among the mid-cap construction stocks with a 12-month target price of RM2.00, based on a 10% discount to our RNAV of RM2.22. WCT clinched RM3.4bn of new contracts in 2015 to extend its order book to RM5.6bn. We believe WCT’s prospects to secure more local contracts have improved after it was pre-qualified to bid for the MRT2, LRT3, WCE, SUKE, DASH and PBH projects. The potential construction and shopping mall REIT listings in 1H17 should unlock values and reduce its gearing. We expect strong 3-year core EPS CAGR of 38% in 2016-18E. Key risk would be weak property sales.</td></tr>
</table>

Source: Bloomberg, Affin Hwang

Top Sell	Rating	
Malaysian Airports (MAHB MK) Target Price : RM5.50 Share Price as at : RM6.30 2 September 2016 	**SELL**	We remain wary on potential drag from the ISG slowdown due to the current turmoil prevailing in Turkey. Poor domestic sentiment could also affect domestic passenger movements. We are less upbeat on MAHB due to bulging operational costs in staff salaries, maintenance and utilities from the commissioning of KLIA2, which could amplify earnings drag on softer passenger-movement growth. A steep increase in depreciation charges from ISG and KLIA could limit earnings growth. We reaffirm our SELL rating and DCF-based 12-month target price of RM5.50 (WACC: 6.7%; terminal growth: 5.0%). Upside risk would be a strong rebound in passenger traffic.
MCIL (MCIL MK) Target Price : RM0.50 Share Price as at : RM0.72 2 September 2016 	**SELL**	We maintain our SELL rating on Media Chinese International Limited (MCIL), attributable to: 1) weakness in its core print division; 2) potentially cautious ad spending in the Malaysia segment given poor consumer sentiment and uncertainties in the market; 3) a potential ad spending slowdown in the HK/China market as advertisers cut their ad budgets in view of the slow property market as well as slumping luxury retail sales; and 4) negative effects on hard-copy circulation due to the continual shift in reader preferences to reading on mobile devices or over the Internet. Our 12-month target price on the stock is at RM0.50, based on 8x 2017E EPS. Upside risk would be a sharp rebound in the print division.

<table>
<tr><th>Top Sell</th><th>Rating</th><th></th></tr>
<tr><td>Media Prima (MPR MK)

Target Price : RM1.03
Share Price as at : RM1.41
2 September 2016
</td><td>SELL</td><td>We are still not upbeat on Media Prima as earnings continue to disappoint. The weak consumer sentiment, continued market uncertainties coupled with the change in media consumption habits have impacted Media Prima's revenue. We are keeping our SELL rating on the stock with a 12-month target price of RM1.03, based on a PER of 10x applied to our 2017E EPS. Upside risk would be better-than-expected improvement in MPR's TV and print segments.</td></tr>
<tr><td>Star (STAR MK)

Target Price : RM2.13
Share Price as at 2 September 2016 : RM2.63
</td><td>SELL</td><td>We remain cautious on Star because of: 1) the ongoing challenging outlook for the media industry with adex potentially affected in the quarters ahead from continued uncertainties in the market coupled with poor business and consumer sentiment; 2) it being adversely affected by the shift in adex revenue towards the broadcast segment from print; and 3) negative effects on hard-copy circulation due to the continual shift in reader preferences to reading on mobile devices or over the Internet. We maintain our SELL call on Star with 12-month target price at RM2.13, which is based on a PER of 13.4x applied to our 2017E EPS. Upside risk would be a sharp rebound in adex revenues.</td></tr>
</table>

Top Sell	Rating	
UMWOG (UMWOG MK) Target Price : RM0.73 Share Price as at : RM0.90 2 September 2016 	**SELL**	UMWOG posted a lower core net loss of RM64.8m in 2Q16 compared to the RM92.3m 1Q16. The Petronas contract for NAGA 6 secured in May is positive. But rig utilization is expected to remain low and losses are expected to continue until crude-oil prices improve more significantly and the oil majors, including Petronas, increase their capital and operating expenditures. We maintain our 2016/17/18E core net loss forecasts and SELL rating with a 12-month TP of RM0.73, based on 0.5x 2016E P/BV. Upside risk: a sharp rebound in oil prices, leading to stronger-than-expected demand for jack-up rigs.

Source: Bloomberg, Affin Hwang

Fig 42: Affin Hwang's stock universe

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Auto & Autoparts					**8,295**	**1,645.6**	**56.9**	**92.9**	**48.1**	**25.7**	**16.4**	**15.6**	**12.4**	**2.7**	**3.9**	**1.1**	**1.3**	**3.5**	**5.9**
APM AUTOMOTIVE	SELL	3.48	3.10	(10.92)	701.39	11.5	7.0	12.5	7.0	10.1	9.4	3.1	2.4	5.6	5.7	0.7	0.6	6.7	6.7
MBMR	SELL	2.60	1.98	(23.85)	1,015.85	6.9	30.0	6.9	30.0	11.8	9.1	40.7	26.7	2.7	3.1	0.5	0.6	4.0	6.1
UMW	SELL	5.63	4.52	(19.72)	6,577.50	(667.6)	67.7	246.8	67.7	29.8	17.8	16.8	13.1	3.6	5.3	0.9	1.0	2.9	5.6
Banks & Financial Services					**275,562**	**(5.5)**	**8.0**	**3.0**	**9.5**	**13.6**	**12.6**			**3.8**	**4.0**	**1.5**	**1.4**	**10.1**	**10.3**
AEON CREDIT	BUY	15.08	14.80	(1.86)	2,171.52	10.7	10.5	10.3	11.5	8.5	7.7	0	0	4.2	4.6	2.3	2.0	27.3	25.6
AFG	BUY	3.90	4.50	15.38	6,036.37	2.6	3.3	2.6	3.3	11.1	10.7	0	0	3.8	4.0	1.2	1.1	10.7	10.4
AMMB	HOLD	4.28	4.75	10.98	12,900.71	(5.0)	9.0	(5.0)	9.0	9.3	8.5	0	0	3.9	4.1	0.8	0.7	8.4	8.5
BURSA M'SIA	HOLD	8.70	8.60	(1.15)	4,665.57	6.6	7.7	6.5	7.7	22.1	20.5	12.6	11.6	3.7	3.7	5.8	5.4	26.5	26.6
CIMB	BUY	4.77	5.30	11.11	41,636.67	37.8	5.8	37.6	5.8	10.3	9.7	0	0	3.6	3.1	0.9	0.9	9.1	9.1
HONG LEONG BANK	HOLD	13.10	13.60	3.82	28,484.99	(4.7)	10.2	(2.6)	7.4	12.3	11.2	0	0	2.6	3.0	1.2	1.1	11.3	12.0
MAYBANK	HOLD	7.75	7.50	(3.23)	77,568.42	(17.2)	11.6	(18.7)	11.6	13.0	11.7	0	0	6.5	7.1	1.2	1.2	9.5	10.2
MBSB	SELL	0.88	0.78	(10.86)	5,073.93	(52.9)	14.3	(52.9)	11.9	20.8	18.2	0	0	1.5	1.6	0.5	0.4	4.7	5.0
PUBLIC BANK	BUY	19.90	21.80	9.55	77,254.55	(7.2)	6.1	(7.2)	6.1	16.4	15.4	0	0	2.9	3.0	2.3	2.1	14.3	14.0
RHB BANK	BUY	4.93	5.50	11.56	19,769.53	14.5	3.6	(8.3)	(1.1)	7.4	7.2	0	0	2.0	2.2	0.5	0.5	7.4	7.9
Building Materials					**6,920**	**27.7**	**1.7**	**28.2**	**2.2**	**21.1**	**20.7**	**12.1**	**11.8**	**4.0**	**4.0**	**2.3**	**2.2**	**9.1**	**9.1**
CHOO BEE	SELL	1.58	0.94	(40.51)	173.64	78.3	19.6	51.6	19.6	16.3	13.6	7.5	6.6	3.8	3.8	0.4	0.4	2.4	2.9
LAFARGE	HOLD	7.94	8.60	8.31	6,746.58	27.5	1.6	27.5	1.6	21.1	20.8	12.2	12.0	4.4	4.4	2.1	2.1	10.0	9.9
Construction & Infrastructur					**31,671**	**(10.1)**	**15.9**	**(11.2)**	**18.1**	**20.1**	**17.3**	**14.8**	**7.5**	**2.8**	**2.9**	**1.3**	**1.2**	**6.9**	**7.4**
BENALEC	HOLD	0.43	0.53	23.26	349.06	84.9	122.2	88.2	122.2	31.9	14.3	12.9	4.6	2.7	5.8	0.6	0.6	1.9	4.0
EVERSENDAI	BUY	0.43	0.67	55.81	332.82	(154.0)	(346.2)	3.5	14.3	(11.0)	4.5	6.3	5.8	9.3	9.3	0.3	0.3	(3.0)	7.1
GABUNGAN AQRS	BUY	1.00	1.38	38.00	390.87	(383.3)	4.7	(1,044.4)	4.7	11.8	11.2	6.8	7.3	-	-	1.1	1.0	11.6	10.9
GAMUDA	BUY	4.85	5.70	17.53	11,737.83	(5.4)	13.2	(8.7)	14.1	19.1	16.9	21.1	11.0	2.5	2.5	1.7	1.6	9.7	10.4
IJM CORP	BUY	3.37	3.76	11.57	12,136.79	5.1	13.2	4.9	13.2	21.7	19.2	12.7	2.8	3.0	3.0	1.0	1.0	6.4	5.6
MRCB	BUY	1.27	1.46	14.96	2,641.87	(68.1)	(3.4)	(79.5)	55.3	21.5	22.3	18.9	16.2	2.0	2.0	1.1	1.0	5.6	5.1
SUNWAY CONSTRUCTION	BUY	1.64	2.03	23.78	2,120.36	12.8	18.0	13.6	18.0	14.8	12.5	7.3	5.4	3.4	4.0	4.1	3.5	27.3	27.9
WCT	BUY	1.56	2.00	28.21	1,961.01	(60.4)	56.6	(56.2)	41.7	20.5	13.1	16.9	13.9	3.8	5.1	0.8	0.7	3.7	5.5

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 2 September 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Consumer					**52,308**	**(3.0)**	**6.5**	**(6.7)**	**16.3**	**23.5**	**22.1**	**13.3**	**10.5**	**4.3**	**4.5**	**17.3**	**18.5**	**21.6**	**33.1**
AEON CO	HOLD	2.76	2.70	(2.17)	3,875.04	(22.1)	79.7	(22.9)	79.7	37.3	20.8	9.0	6.8	0.9	1.6	1.8	-	4.8	0
BAT	SELL	49.50	47.90	(3.23)	14,133.74	(18.9)	0.5	(19.1)	0.5	19.1	19.0	15.8	15.7	5.1	5.2	24.8	23.9	129.4	125.5
BONIA	SELL	0.56	0.47	(16.07)	451.52	(10.6)	30.8	(10.8)	21.4	14.4	11.0	5.9	2.4	1.2	1.8	0.9	0.8	5.9	7.3
CARLSBERG	HOLD	14.80	14.40	(2.70)	4,587.27	12.3	2.8	7.7	2.8	18.7	18.2	10.0	10.1	5.4	5.5	5.6	14.6	29.9	80.3
HEINEKEN	BUY	18.24	17.92	(1.75)	5,510.27	13.0	3.9	12.6	3.9	20.3	19.6	9.6	4.7	4.6	4.6	12.4	12.7	61.1	65.0
HAI-O	SELL	3.23	2.40	(25.70)	652.18	18.3	11.8	18.2	11.8	15.6	14.0	7.3	2.2	4.5	4.7	2.0	2.1	12.8	15.2
MSM	HOLD	5.00	4.72	(5.60)	3,514.90	(38.2)	53.0	(37.9)	53.0	20.2	13.2	9.1	6.9	3.2	4.9	1.5	1.6	7.4	11.8
NESTLE	HOLD	80.02	78.80	(1.52)	18,764.69	14.8	10.4	14.7	10.4	27.7	25.1	17.2	15.8	3.6	3.9	21.9	21.2	79.2	84.5
PARKSON	SELL	0.72	0.67	(6.94)	818.63	(55.0)	(958.8)	17.3	53.7	(84.7)	9.9	17.7	2.8	0.7	2.1	0.3	0.3	(0.4)	3.0
Gaming					**60,511**	**18.8**	**10.3**	**14.3**	**10.0**	**17.2**	**15.6**	**6.3**	**5.4**	**1.1**	**1.1**	**0.6**	**0.6**	**4.5**	**4.7**
BTOTO	HOLD	3.40	3.20	(5.88)	4,627.71	(7.6)	1.2	(10.2)	(2.4)	15.9	15.7	7.9	2.7	5.4	5.3	6.2	5.8	39.8	36.3
GENTING	HOLD	7.92	9.00	13.64	29,698.57	25.2	9.4	20.1	9.4	17.0	15.5	5.0	4.4	0.4	0.4	0.5	0.5	3.0	3.1
GENTING MALAYSIA	BUY	4.41	5.00	13.38	26,184.57	11.9	13.3	14.5	13.3	17.8	15.7	9.4	8.2	1.6	1.7	1.4	1.4	8.1	8.7
Healthcare & Pharma.					**58,758**	**17.4**	**15.7**	**30.0**	**15.8**	**47.7**	**41.2**	**22.6**	**19.7**	**0.6**	**0.7**	**2.4**	**2.3**	**5.1**	**5.6**
IHH	HOLD	6.59	7.01	6.37	54,246.32	18.0	16.4	30.8	16.4	49.2	42.2	23.6	20.5	0.5	0.6	2.4	2.3	4.8	5.4
KPJ	BUY	4.25	5.01	17.88	4,511.37	11.4	7.9	26.2	7.9	30.6	28.3	15.9	14.4	1.8	1.9	3.1	2.9	9.5	9.7
Media					**19,608**	**6.4**	**14.0**	**(2.5)**	**10.9**	**20.4**	**17.9**	**7.7**	**1.6**	**5.0**	**5.4**	**5.4**	**4.9**	**20.7**	**21.1**
ASTRO	BUY	2.86	3.20	11.89	14,886.35	14.7	15.5	2.2	14.3	21.4	18.5	8.4	0.7	4.5	4.9	13.8	11.3	64.7	61.2
MCIL	SELL	0.72	0.50	(30.56)	1,214.81	(3.9)	2.0	(8.0)	(0.4)	11.8	11.5	5.1	1.2	6.0	6.1	1.3	1.2	11.1	10.3
MEDIA PRIMA	SELL	1.41	1.03	(26.95)	1,563.97	(16.1)	(1.9)	(15.2)	(1.9)	13.4	13.7	4.6	4.3	5.0	4.9	0.9	0.9	6.7	6.2
STAR	SELL	2.63	2.13	(19.01)	1,942.42	(23.4)	15.2	(23.9)	15.2	19.1	16.5	7.7	7.0	6.8	6.8	1.6	1.6	8.6	9.6
MREIT					**26,950**	**32.1**	**2.1**	**103.7**	**4.4**	**18.6**	**18.2**	**14.7**	**14.3**	**5.5**	**5.8**	**1.1**	**1.1**	**6.8**	**7.0**
AXIS REIT	HOLD	1.80	1.67	(7.22)	1,989.31	(1.2)	12.6	5.4	12.6	20.7	18.4	17.7	16.6	4.9	5.4	1.5	1.5	7.2	8.1
IGB REIT	BUY	1.63	1.72	5.52	5,685.89	15.1	7.8	15.1	7.8	19.3	17.9	15.0	14.0	5.7	6.1	1.6	1.6	8.0	8.7
KLCC	HOLD	7.68	8.00	4.17	13,864.96	39.2	1.0	596.4	1.2	18.3	18.2	13.5	13.6	4.8	5.0	1.1	1.1	6.3	6.3
PAVILION REIT	BUY	1.79	2.11	17.88	5,410.32	(4.9)	6.7	11.5	6.7	20.1	18.8	16.6	15.5	5.3	6.1	1.4	1.4	7.0	7.5

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 2 September 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Oil & Gas					**79,117**	**(1.6)**	**2.4**	**(25.4)**	**4.3**	**22.8**	**22.3**	**13.0**	**9.2**	**2.1**	**2.1**	**1.9**	**1.8**	**4.9**	**5.1**
ALAM MARITIM	HOLD	0.27	0.36	33.33	249.60	(193.8)	(20.0)	(304.5)	(20.0)	(6.0)	(7.5)	950.8	806.1	-	-	0.3	0.3	(4.7)	(3.6)
BUMI ARMADA	HOLD	0.76	0.64	(15.23)	4,429.03	(180.0)	109.4	167.8	109.4	23.6	11.3	16.2	9.3	0.7	1.3	0.5	0.5	2.3	4.7
DIALOG	HOLD	1.53	1.45	(5.23)	8,086.18	7.3	12.7	9.8	18.8	25.9	23.0	23.2	10.4	1.6	1.8	3.4	3.0	13.4	13.6
MMHE	BUY	1.00	1.25	25.00	1,600.00	66.7	15.6	(50.9)	15.6	22.2	19.2	6.6	5.5	-	-	0.6	0.5	2.5	2.7
PCHEM	SELL	6.67	5.29	(20.69)	53,360.00	(11.1)	1.9	(11.0)	1.9	21.4	21.0	11.9	11.7	2.4	2.5	1.9	1.8	9.1	8.7
PETRA ENERGY	BUY	0.96	1.48	54.97	307.30	(24.4)	59.5	2.5	59.5	7.9	4.9	15.7	13.4	2.5	4.1	0.5	0.5	6.9	10.0
SAPURA KENCANA	HOLD	1.52	1.36	(10.53)	9,139.02	(106.2)	(335.5)	(79.8)	(152.5)	240.0	(101.9)	11.8	1.2	0.3	0.0	0.7	0.6	0.3	(0.6)
UMW-OG	SELL	0.90	0.73	(18.89)	1,945.80	(52.4)	(22.0)	61.9	(22.0)	(11.0)	(14.1)	23.4	19.5	-	-	0.6	0.5	(5.2)	(3.9)
Plantation					**124,495**	**30.1**	**5.3**	**30.0**	**28.9**	**19.9**	**18.9**	**14.0**	**8.0**	**2.7**	**3.0**	**2.1**	**2.2**	**8.8**	**10.4**
FELDA	SELL	2.21	1.41	(36.20)	8,062.41	34.4	118.6	17.0	118.6	51.4	23.5	17.7	12.2	3.6	3.6	1.2	1.2	2.4	5.1
GENTING PLANT	SELL	10.44	9.56	(8.43)	8,266.77	8.5	95.7	13.3	91.3	40.6	20.8	23.4	14.2	1.1	1.1	1.9	1.7	4.5	8.2
HAP SENG PLANT	HOLD	2.40	2.33	(2.92)	1,919.92	5.3	30.7	4.1	30.7	18.9	14.5	10.8	8.6	4.2	4.6	1.0	0.9	5.1	6.4
IJM PLANT	HOLD	3.35	3.53	5.37	2,949.94	153.2	58.5	90.3	62.6	28.1	17.7	17.6	3.0	2.6	3.0	1.7	1.6	6.0	8.8
IOI CORP	HOLD	4.41	4.15	(5.90)	28,496.61	150.4	41.4	79.6	19.4	28.5	20.2	19.7	8.5	2.3	2.7	4.9	4.4	17.6	22.4
KUALA LUMPUR KEPONG	HOLD	23.72	21.70	(8.52)	25,321.22	38.7	(11.4)	15.9	26.3	17.8	20.1	11.8	9.1	2.2	2.5	3.1	4.0	17.4	19.8
SIME DARBY	SELL	7.82	7.16	(8.44)	49,477.71	9.2	12.1	17.8	27.3	18.7	16.7	12.1	6.2	3.6	3.8	1.4	1.4	7.5	8.1
Property					**35,282**	**(13.5)**	**3.1**	**(1.6)**	**8.0**	**11.5**	**11.2**	**9.9**	**7.1**	**4.1**	**4.2**	**0.9**	**0.9**	**7.8**	**7.9**
AMCORP PROP	HOLD	0.84	0.89	5.95	506.38	10.6	64.2	15.1	64.2	6.4	3.9	8.2	3.3	6.4	10.4	0.5	0.4	7.3	10.8
E&O	BUY	1.67	2.35	40.72	2,107.68	(35.7)	31.3	(29.9)	43.0	45.4	34.6	48.2	9.0	1.2	1.2	1.5	1.4	2.3	3.2
IOI PROPERTIES	BUY	2.58	2.89	12.02	11,412.96	(8.9)	(12.5)	4.8	(2.3)	10.4	11.9	9.1	4.6	3.3	3.3	0.8	0.7	7.4	6.2
SP SETIA	HOLD	3.33	3.25	(2.40)	9,382.85	(8.6)	2.5	(4.2)	2.4	13.5	13.2	10.2	8.5	4.2	4.2	1.2	1.4	8.6	10.1
SUNWAY	BUY	3.09	3.90	26.21	6,342.62	(20.1)	12.1	(5.8)	12.1	9.9	8.8	9.3	8.2	3.2	3.6	0.8	0.8	8.0	8.5
TROPICANA	BUY	1.02	1.73	69.61	1,464.31	(11.7)	6.6	103.3	6.6	7.4	7.0	10.1	9.7	6.4	6.4	0.6	0.6	7.8	7.9
UOA DEVELOPMENT	BUY	2.49	2.64	6.02	4,064.81	(21.6)	19.8	(21.6)	19.8	11.2	9.4	5.9	5.5	4.8	5.6	1.2	1.1	9.8	11.1

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 2 September 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Rubber Products					**21,317**	**9.1**	**9.3**	**7.6**	**9.6**	**20.2**	**18.5**	**18.4**	**10.4**	**1.6**	**1.8**	**5.0**	**4.5**	**16.5**	**16.1**
HARTALEGA	HOLD	4.50	4.00	(11.11)	7,385.00	11.3	9.4	10.7	9.4	26.7	24.5	23.1	5.2	1.5	1.6	4.7	4.1	17.4	16.7
KAREX	HOLD	2.45	2.30	(6.12)	2,455.82	9.7	12.9	8.2	17.7	34.4	30.5	29.2	14.4	0.6	0.7	4.6	4.0	13.4	13.0
KOSSAN	HOLD	6.60	6.40	(3.03)	4,220.49	0.3	16.0	0.4	16.0	20.7	17.8	17.7	15.5	2.5	2.8	3.9	3.5	18.6	19.4
SUPERMAX	HOLD	2.17	2.30	5.99	1,463.37	(17.5)	16.2	(17.5)	16.2	14.1	12.1	12.5	12.0	2.6	2.9	1.3	1.2	9.0	9.5
TOP GLOVE	BUY	4.60	6.30	36.96	5,792.76	20.2	3.1	18.0	3.1	15.3	14.9	15.6	10.0	3.3	3.4	3.0	2.7	19.9	18.3
Technology					**9,570**	**(4.9)**	**4.9**	**0.1**	**3.0**	**14.6**	**13.9**	**8.7**	**5.9**	**2.6**	**2.9**	**2.8**	**2.6**	**17.1**	**16.8**
AEMULUS	SELL	0.26	0.20	(23.08)	114.10	(75.9)	178.9	(76.0)	178.9	54.7	19.6	161.3	26.9	-	-	1.3	1.1	2.0	5.4
GLOBETRONICS	HOLD	2.99	3.58	19.73	842.83	(52.6)	99.2	(44.7)	74.5	24.9	12.5	27.6	16.7	4.1	7.2	2.8	2.7	11.1	21.6
INARI	BUY	3.32	3.54	6.63	3,177.13	4.1	22.0	4.1	20.3	19.2	15.8	15.0	6.3	2.7	2.8	3.5	3.0	23.8	24.5
KESM	BUY	7.92	11.00	38.89	340.68	74.7	21.5	59.6	21.5	11.4	9.4	1.4	1.1	1.3	1.6	1.2	1.1	10.4	11.4
MPI	HOLD	7.97	8.25	3.51	1,672.78	3.0	(13.4)	2.6	(20.9)	11.7	13.5	5.0	2.7	2.7	2.5	1.8	1.8	16.6	13.8
SCICOM	BUY	2.14	2.62	22.43	760.67	20.6	2.3	19.7	3.5	16.5	16.1	12.5	5.5	4.3	4.0	7.9	6.4	47.7	39.9
UCHI TECH	HOLD	1.63	1.69	3.68	724.38	(5.8)	(0.8)	(16.2)	(0.8)	13.4	13.5	9.8	10.1	6.7	6.7	3.1	3.1	27.1	26.8
UNISEM	SELL	2.64	1.98	(25.00)	1,937.31	(6.5)	(17.5)	(9.7)	(15.0)	12.8	15.5	5.5	5.9	-	-	1.7	1.7	13.5	10.9
Telecoms					**159,642**	**(6.1)**	**8.1**	**(1.0)**	**7.8**	**25.3**	**23.4**	**10.5**	**10.0**	**3.1**	**3.3**	**4.8**	**4.7**	**18.0**	**19.1**
AXIATA	HOLD	5.45	5.50	0.92	48,647.04	(29.4)	20.3	(18.5)	20.3	26.3	21.9	8.7	8.0	3.0	3.7	2.2	2.1	8.4	9.8
DIGI	HOLD	5.01	4.80	(4.19)	38,952.75	2.5	-	3.1	-	22.1	22.1	14.5	14.4	4.5	4.5	56.8	56.8	256.9	257.6
MAXIS	HOLD	6.17	6.35	2.92	46,338.39	13.2	2.7	11.8	2.7	23.5	22.9	13.1	13.0	3.2	3.2	9.3	9.2	39.6	39.9
TELEKOM	HOLD	6.84	6.80	(0.58)	25,704.28	10.2	9.2	9.8	9.2	33.2	30.4	7.9	7.5	3.0	3.2	3.4	3.4	10.1	11.1
Timber					**3,254**	**(35.3)**	**14.6**	**(14.7)**	**16.2**	**12.7**	**11.1**	**7.5**	**5.3**	**3.0**	**3.0**	**1.1**	**1.0**	**5.2**	**6.0**
JAYA TIASA	BUY	1.22	1.53	25.41	1,187.93	68.6	37.3	52.0	23.3	15.4	11.2	7.8	3.6	1.3	1.8	0.6	0.6	4.1	5.3
TA ANN	BUY	3.53	4.67	32.29	1,570.44	(41.4)	9.2	(38.1)	9.2	12.0	11.0	7.1	6.4	4.8	4.8	1.0	0.9	9.6	9.9
WTK	BUY	1.03	1.25	21.36	495.76	(42.3)	27.8	(50.2)	27.8	14.3	11.2	7.8	7.1	2.4	2.4	0.3	0.3	2.4	3.0

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 2 September 2016

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside /Downside (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Transports & Logistics					**54,713**	**5.9**	**(9.8)**	**28.9**	**(2.0)**	**15.4**	**17.1**	**9.3**	**9.5**	**1.1**	**1.0**	**1.1**	**1.1**	**8.8**	**7.3**
AIRASIA	HOLD	2.94	3.13	6.46	8,181.65	141.8	(33.3)	205.0	(19.1)	6.3	9.4	6.8	7.9	0.7	0.5	1.3	1.1	24.0	14.5
AIRASIA X	HOLD	0.40	0.47	17.50	1,659.26	(189.6)	23.2	(169.6)	56.0	4.2	3.4	5.5	5.1	-	-	(4.9)	(2.2)	(115.8)	(63.6)
MAHB	SELL	6.30	5.50	(12.70)	10,452.91	(704.7)	(10.3)	(1,425.4)	(10.3)	80.8	90.0	14.2	15.3	0.6	0.6	1.4	1.4	1.8	1.6
MISC	SELL	7.56	6.70	(11.38)	33,746.28	(2.5)	(8.2)	(23.7)	(0.2)	14.0	15.3	10.3	10.0	1.4	1.3	0.9	0.9	6.5	5.7
TIONG NAM	BUY	1.60	2.10	31.25	673.20	22.5	9.3	24.3	9.3	7.1	6.5	6.4	1.4	3.6	4.2	1.0	0.9	14.2	14.0
Utilities					**175,892**	**3.9**	**1.7**	**7.4**	**2.5**	**15.0**	**14.7**	**8.9**	**6.4**	**2.6**	**2.6**	**1.9**	**1.8**	**10.5**	**9.9**
GAS MALAYSIA	HOLD	2.69	2.36	(12.27)	3,453.96	20.9	5.0	20.9	5.0	26.9	25.6	12.2	11.9	3.7	3.9	3.3	3.3	12.2	12.8
JAKS RESOURCES	BUY	1.01	1.60	58.42	442.74	7.6	53.9	483.4	53.9	9.9	6.4	8.4	5.4	-	-	0.6	0.5	6.3	8.2
MALAKOFF	HOLD	1.66	1.65	(0.60)	8,300.00	(1.8)	-	(12.8)	-	17.3	17.3	7.7	7.2	4.3	4.3	1.0	0.8	5.7	4.7
MMC	HOLD	2.26	2.35	3.98	6,881.83	(74.6)	2.9	17.6	2.9	16.5	16.0	29.0	28.0	1.8	1.8	0.6	0.6	3.6	3.6
PETRONAS GAS	HOLD	21.94	20.24	(7.75)	43,413.38	(10.0)	(2.0)	(10.1)	(2.0)	24.3	24.8	15.1	14.7	2.5	2.4	3.5	3.4	14.6	13.7
TENAGA	BUY	14.66	16.50	12.55	82,735.34	14.2	3.2	13.6	3.2	11.1	10.7	6.7	4.3	2.3	2.5	1.5	1.4	13.5	12.6
YTL CORP	HOLD	1.70	1.70	-	18,349.79	(0.5)	7.5	5.0	7.5	18.3	17.0	7.7	3.6	7.1	7.1	1.0	1.0	5.7	5.9
YTL POWER	HOLD	1.52	1.60	5.26	12,314.51	(0.3)	(0.7)	(3.5)	(0.8)	11.2	11.3	9.6	4.8	6.6	6.6	1.0	1.0	8.9	8.6
Market Total					**1,203,864**	**1.5**	**5.6**	**(0.1)**	**7.5**	**17.8**	**16.8**	**12.5**	**9.4**	**3.1**	**3.3**	**2.1**	**2.0**	**9.1**	**9.3**

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 2 September 2016

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