Managing capital flight

Strategy

Malaysia Strategy

KLCI 1,619.12
@ 30 November 2016
POSITIVE (maintain)
KLCI Target: 1,760

Previous target: 1,760

Major financial markets in Malaysia have been affected by global portfolio rebalancing in the aftermath of the US Presidential Election. The fear of capital controls resurfacing has caused the Ringgit to be hit particularly hard, despite the BNM and government authorities repeatedly quelling the rumours. We believe with good reason that capital controls will not happen. Unlike in 1998, Malaysia runs a current-account surplus, has ample excess liquidity residing at the BNM, is on an improving fiscal trajectory, has structurally a broader and better-diversified economy, and its foreign reserves position remains strong. In our assessment, Malaysia is able to manage reasonable foreign outflows from the bond and equity markets, but the risk of contagion has risen. Valuation has become more attractive with the Ringgit being undervalued. We remain Positive on Malaysia.

Quantifying the risk of foreign-capital flight

Foreign holdings in total domestic government bonds in issue stood at 35.1% and in the equity market at 22.8% as at end-October 2016. Our assessment of foreign holdings of government securities at risk of flight is 5.2 ppts or RM33.2bn. Even if we include all foreign holdings of corporate bonds, the figure totals RM50.3bn. As for the stock market, 2.1 ppts of the total foreign stockholding could be at risk, or equivalent to RM34.7bn. Our assessment is based on the historical foreign holding patterns in both markets. Hence, a total of RM85bn could be at risk of flight, which amounts to 21% of BNM's latest RM407.8bn foreign reserves as of 15 November 2016. In other words, we believe that reasonable foreign outflows are manageable. However, the real risk is if a contagion were to prompt an en-mass exit of Ringgit held by Malaysians. Total M2 (excluding foreign currency deposits) stood at RM1.49tn at the end of October, or 3.7x the foreign currency reserves and 7.3x the excess liquidity in the system.

A welcome break nonetheless

The aggregate earnings of the 102 companies under our coverage saw a welcoming 14.9% yoy rise in 3Q16, from 5% yoy fall in 2Q16. However, the market is unlikely to be excited by this figure as the bulk of the growth came from lower forex losses. The 3Q16 earnings of RM15.8bn made up 22.7% of our going-in 2016E earnings (RM69.5bn), while 9M16 was at 67.8%. This prompts us to cut our 2016E earnings by 2.2% to RM68bn.

Resilient macro conditions

It is unfortunate that capital control fears have masked the resilience in Malaysia's economy. Its GDP growth has rebounded from the likely trough of 4% in 2Q16 to 4.3% in 3Q16. Meanwhile, the current-account surplus has also rebounded from a likely low point of RM1.9bn or 0.6% of GNI to RM6bn or 2% of GNI. We are hopeful that the government forecasts for GDP growth of 4-4.5% in 2016, rising to 4-5% in 2017, with inflation of 2-3% from 2.3% this year, the fiscal deficit falling from 3.1% to 3%, and a current account surplus of 1.1%, from 1.4%, are realistic.

Earnings growth, valuation and stocks

Our fully-diluted EPS growth for 2016E now falls to a 0.3% contraction (from no growth), while our 2017E is now at 4.5% (from 6.3%). EPS growth is broad with 15 of the 18 sectors contributing positively. We see more value now in Malaysia after the correction in the KLCI and the sharp fall in the Ringgit. The KLCI is trading at a PER of 17.6x in 2016E, which falls to 16.8x in 2017E, on our estimates. We make no change to our KLCI index target of 1,656 for 2016E and end-2017E of 1,760 points. We retain our top picks as listed on the right, which follow from the 8 investment themes that we continue to promote.

Affin Hwang's 8 investment themes

1. Developed nation by 2020
2. Ongoing investment cycle
3. Large middle-income society
4. Shift from public to private services
5. Private consumption
6. Young demographics
7. Rapid earnings growth
8. High dividend yield

Source: Affin Hwang

Key market statistics

	2016E	2017E
GDP growth (%)	+4.2	+4.4
KLCI EPS growth (%)	-0.3	+4.5

Source: BNM, Affin Hwang estimates and forecasts

Top calls for 2017

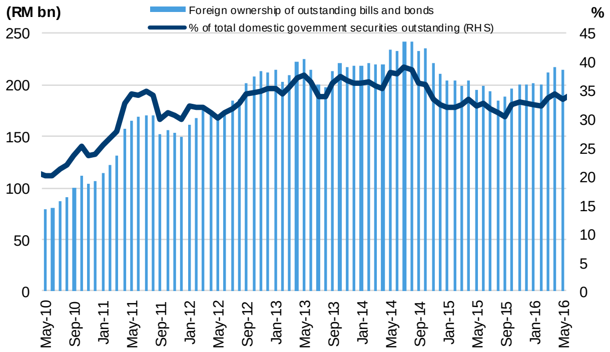
Stock	Rating	Price (RM)	TP (RM)
Top Buys			
GAMUDA	BUY	4.80	5.74
GENTING MALAYSIA	BUY	4.67	5.60
GLOBETRONICS	BUY	3.49	4.88
INARI	BUY	3.41	3.54
IOI PROPERTIES	BUY	2.09	2.89
JAKS RESOURCES	BUY	1.01	1.60
KPJ	BUY	4.20	5.01
PAVILION REIT	BUY	1.77	2.00
PUBLIC BANK	BUY	19.58	21.88
SCICOM	BUY	2.09	2.74
SUNWAY CONSTRUCTION	BUY	1.63	2.00
TA ANN	BUY	3.72	4.71
TENAGA	BUY	14.04	16.50
TIONG NAM	BUY	1.59	2.10
UOA DEVELOPMENT	BUY	2.37	2.64
WCT	BUY	1.77	2.13
WESTPORTS	BUY	4.37	4.90
YTL REIT	BUY	1.15	1.60
Top Sells			
MCIL	SELL	0.64	0.50
MEDIA PRIMA	SELL	1.09	1.00
STAR	SELL	2.35	2.00
UMW-OG	SELL	0.73	0.63
UNISEM	SELL	2.40	1.98
TELEKOM	SELL	6.17	5.85

Source: Affin Hwang, pricing as of 30 November 2016

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

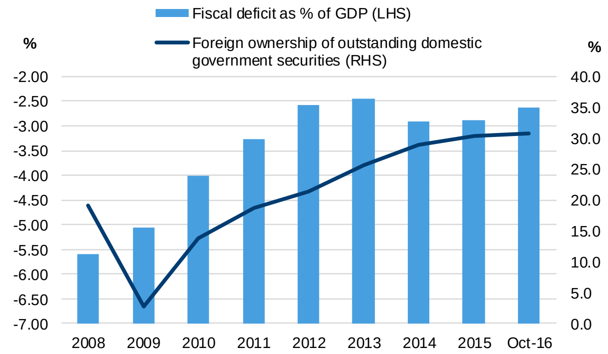
Focus Charts

Fig a: Historical foreign holdings of government securities



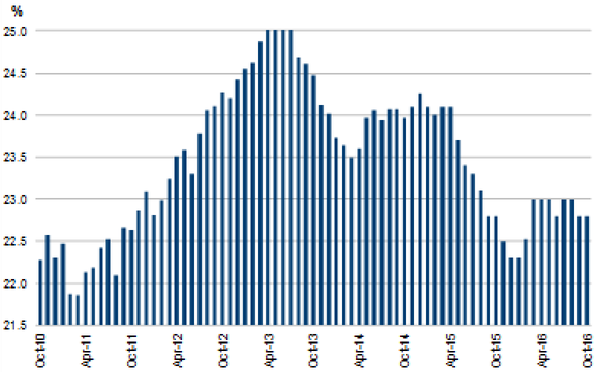
Source: Affin Hwang, BNM, BPAM

Fig b: Foreign holdings in bonds dictated by fiscal health



Source: Affin Hwang, BNM, BPAM

Fig c: Foreign stock holdings in Bursa Malaysia

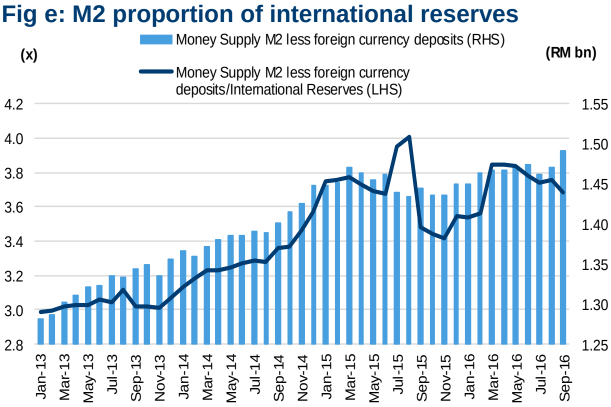


Source: Bursa Malaysia

Fig d: Evolution of BNM's foreign reserves

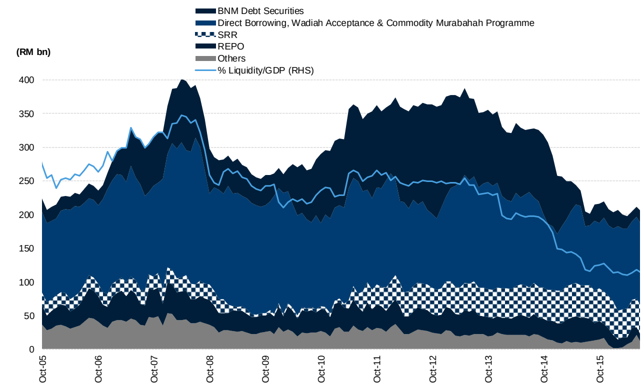
Source: BNM

Fig e: M2 proportion of international reserves



Source: BNM

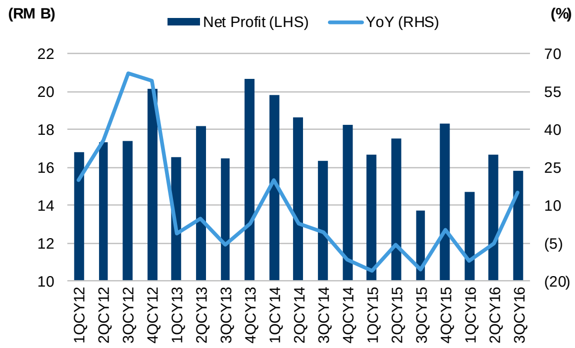
Fig f: Excess liquidity residing in the BNM



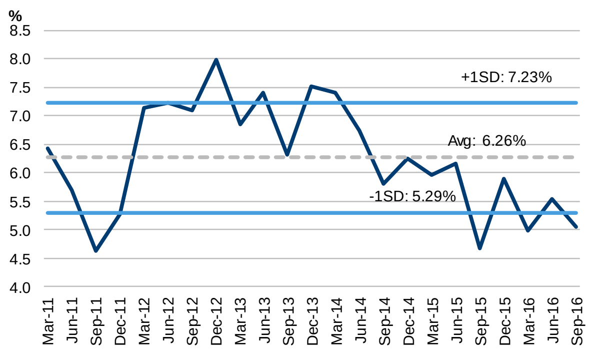
Source: Affin Hwang, BNM

Fig g: Punctuating the monotony

Fig h: Net profit as proportion of nominal GDP

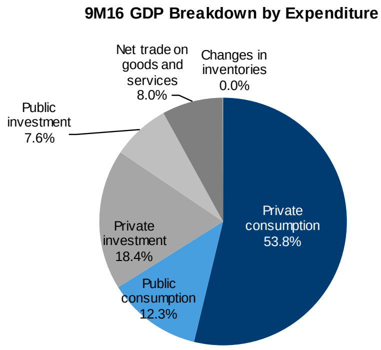


Source: Affin Hwang, Bloomberg



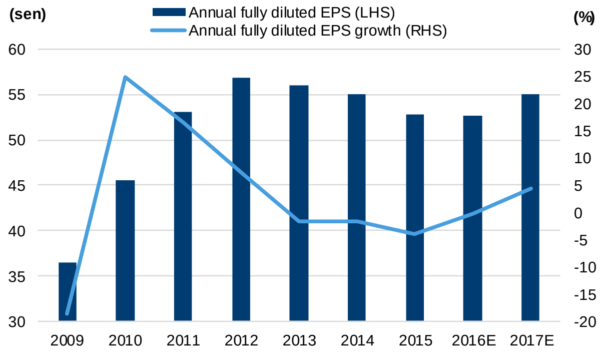
Source: Affin Hwang, Bloomberg, BNM

Fig i: GDP by expenditure



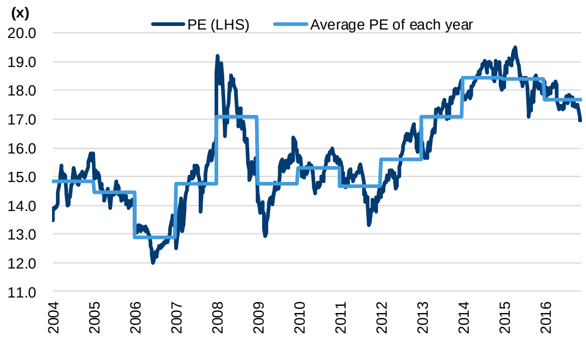
Source: Affin Hwang, BNM

Fig j: Annual fully-diluted EPS growth



Source: Affin Hwang

Fig k: Average yearly PER of the KLCI



Source: Affin Hwang, Bloomberg

Fig l: Sector positioning

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

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

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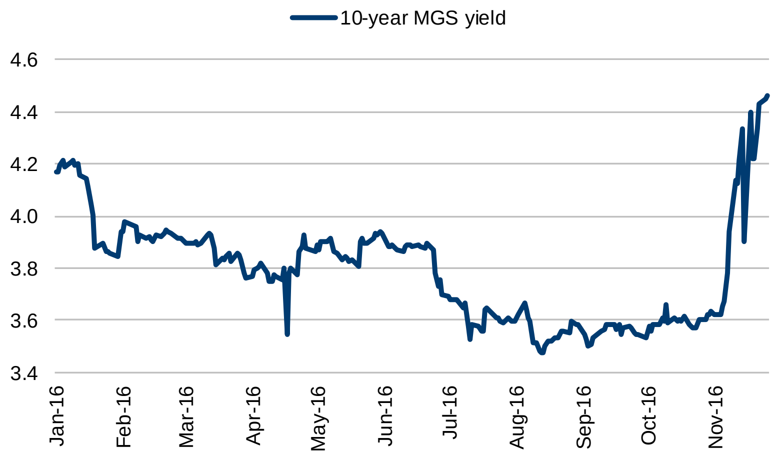
Quantifying the risk

Wrench in the works

In our Strategy Report published on 2 November 2016, 'Mind the gap', we pointed out how tough a year 2016 has been, with financial markets having to navigate Brexit, a surprise Overnight Policy Rate (OPR) cut by the Bank Negara Malaysia (BNM) raising concerns on growth, a Fitch rating worry, slower global growth prospects, assessing the Bank of Japan's unorthodox monetary policy stance, weak global trade, China's economic slowdown, the devaluation of the Yuan, a sharp downward adjustment in commodities, sharp foreign outflows from Malaysia, the devaluation of the Ringgit and lingering effects of the goods and services tax (GST) in Malaysia.

At the time, we were hoping that financial markets would have calmed down for the rest of the year. Little did we know that shortly a week later, the surprise outcome of the US Presidential Election threw a wrench into the works, with emerging markets taking the brunt of it. Over a short period of two weeks, the Malaysian financial markets were in turmoil. Portfolio rebalancing by global investors saw the 10-year Malaysian Government Securities (MGS) yield shoot up by 74bps from 8 November 2016 prior to the election results to 4.4% in two weeks. It is currently at a yield of 4.46% (as of 30 November 2016) or at its peak, representing 81 bps higher since that fateful day.

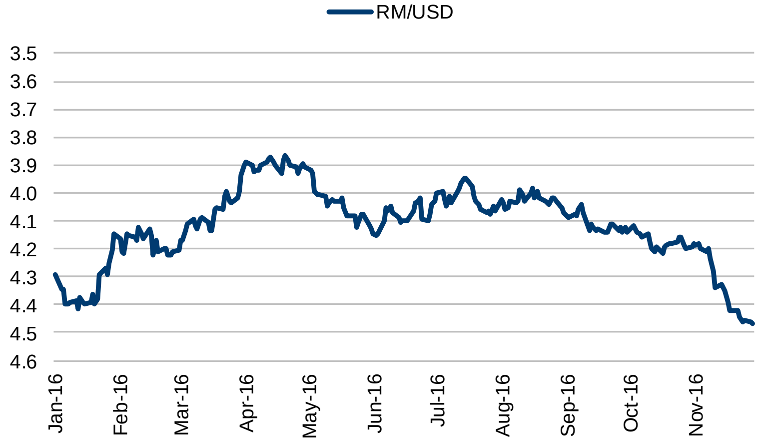
Fig 1: Sharp correction in 10-year MGS yield



Source: Bloomberg

The currency market weakened in tandem with global investors pulling out funds from the bond and stock markets. The Ringgit dropped from RM4.20/US$ on 8 November 2016 to RM4.42 in a matter of two weeks, and the pressure is still unrelenting, with the latest figure at RM4.47/US$ (as of 30 November 2016). Exacerbating the decline is sudden concern of capital controls resurfacing given the initial sharp fall in the Ringgit, putting persistent pressure on the Ringgit even until now.

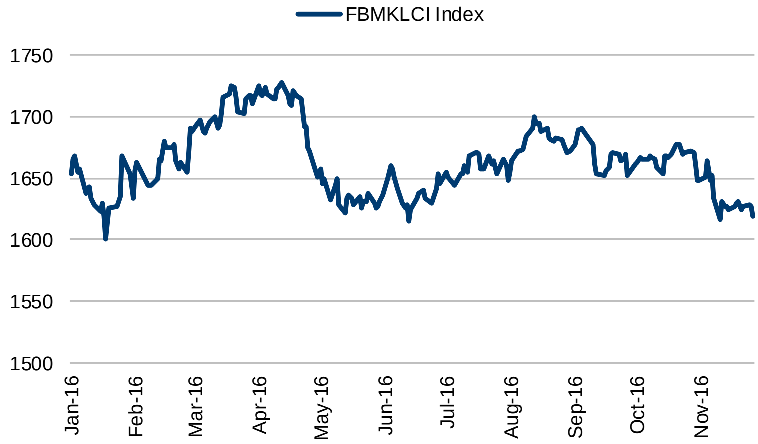
Fig 2: Ringgit has seen a sharp selldown



Source: Bloomberg

In contrast, the KLCI retraction seems mild. It has fallen from 1,663.82 points on 8 November 2016 to a trough of 1,616.64 on 14 November, or down 2.8%. It is now at 1,619.12 points.

Fig 3: KLCI's decline relatively mild



Source: Bloomberg

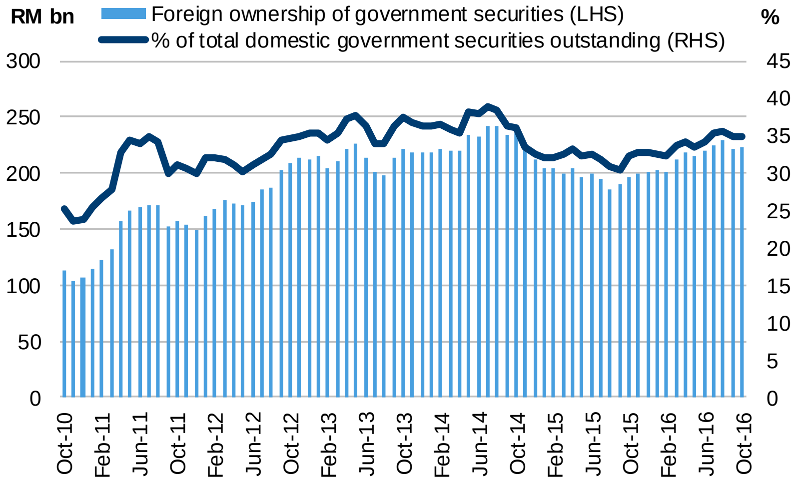
Threat of more outflows from bond market

The initial focal point is the impact of portfolio rebalancing of bonds and stocks being the cause, and the effect is the corresponding Ringgit weakness. However, the issue quickly shifted to the cause of Ringgit weakness having the effect on the stock and bond markets. This in turn prompts investors to further liquidate their Malaysian positions in anticipation of potential future losses from the currency, which further puts pressure on the Ringgit. This concern seems to be lingering and the vicious cycle needs to be broken to fend off further contagion.

The latest available data as of end-October puts foreign holdings of total domestic government issued debt at 35.1% or equivalent to RM224bn. This is relatively high and clearly is a risk if foreigners repatriate money from Malaysia. However, it is unfair to say that all of these holdings would leave the country given that many are genuine long-term funds, as echoed by the BNM. We attempt to quantify potential outflows from the bond market by examining the historical foreign holdings as a guide to money at risk of flight.

The most recent low point of foreign holdings corresponds to 29.9% in December 2011 while the peak was 39.1% in July 2014. Note that the foreign holdings were even low in the aftermath of the global financial crisis due to Malaysia's huge fiscal deficit, which was at 6.7% in 2009 but improved to 3.2% in 2015. Hence, foreign holdings gradually rose in tandem with the fiscal consolidation trajectory and improvement in creditworthiness.

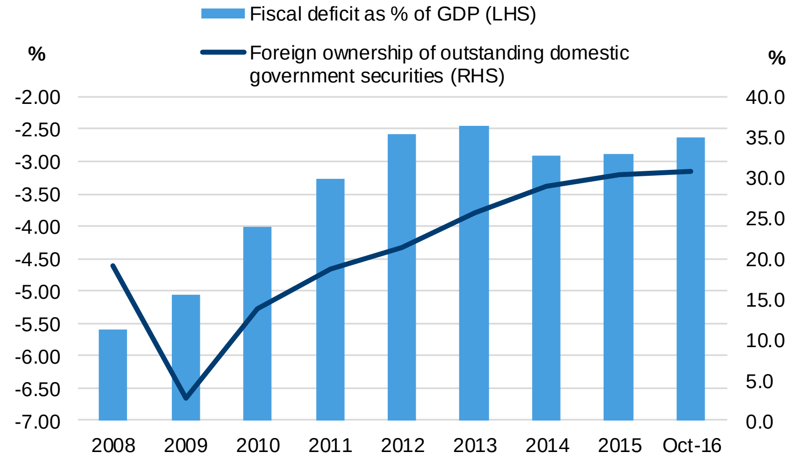
Fig 4: Historical foreign holdings of government securities



Source: Affin Hwang, BNM, BPAM

Therefore, it is fair to assume that about 30% of the foreign holdings in total Ringgit-denominated government issuance are long-term and sticky in nature, assuming that Malaysia retains its sovereign rating given by the credit agencies. In this case, we estimate there are 5.2ppts that are at risk of flight, which is equivalent to RM33.2bn.

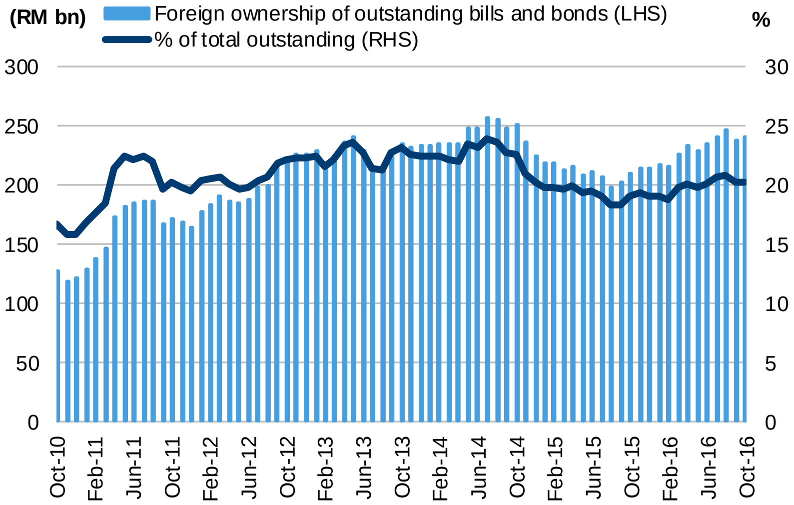
Fig 5: Foreign holdings in bonds dictated by fiscal health



Source: Affin Hwang, BNM, BPAM

Thus far, we have looked at total Federal government-issued debt as the basis of our analysis. The figure is slightly higher if we take into account foreign holdings of total domestic debt issuance, which essentially are risk-free securities issued by the Federal government plus corporate bonds. As of the latest data, foreign holdings of total debt securities are 20.3% or equivalent to RM241bn or just RM17.1bn more than foreign holdings of total Federal Ringgit debt issuance. Private debt securities are of course riskier than Federal issuance; hence, if we assume that all foreign holdings of corporate debt are flighty then we believe the potential outflow from the bond market is RM50.3bn.

Fig 6: Historical foreign holdings of total debt in Malaysia

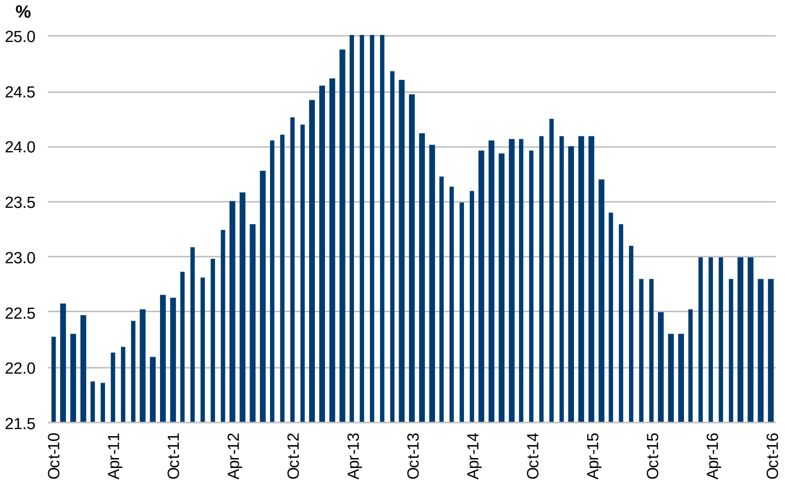


Source: Affin Hwang, BNM, BPAM

Threat of more outflows from equity market

We do a similar analysis on the equity market. As of end-October, total foreign shareholdings are 22.8%. The high water mark was 25.8% in May 2013 while the lowest point corresponds to 20.7% in February 2010. Assuming that the trough holdings correspond to equity-benchmarked funds that are less flighty in nature, we can identify that 2.1ppts of current foreign shareholdings are at risk of capital flight. This corresponds to RM34.7bn of the RM1.65 trillion Bursa Malaysia stock market capitalisation.

Fig 7: Foreign stock holdings in Bursa Malaysia



Source: Bursa Malaysia

Capital flight manageable

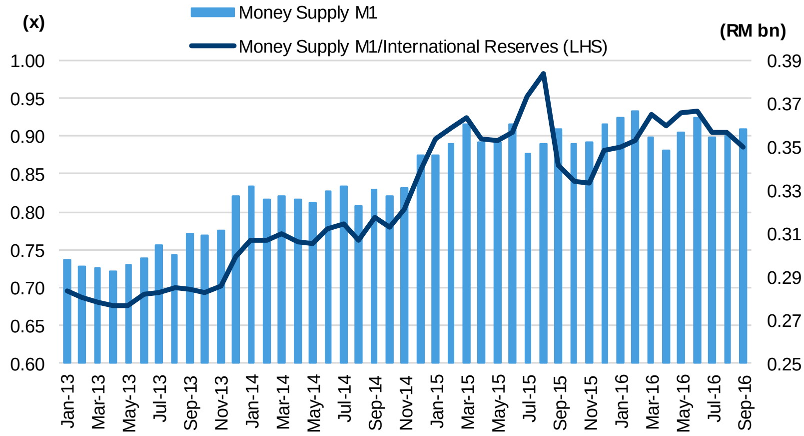
Potential capital flight from the debt and equity markets that are more hot money in nature round up to RM85bn. This is equivalent to 7.1% of GDP. It is a manageable figure, in our view. As of 15 November 2016, total international reserves at the BNM stood at RM407.8bn or US$98.3bn that is equivalent to 8.4 months of retained imports and 1.2x the short-term external debt. Hence, it becomes clear that the RM85bn amounts to 21% of BNM's international reserves, thus enabling the BNM to facilitate its outflow in an orderly manner.

Fig 8: Evolution of BNM's international foreign reserves

Source: BNM

However, we must not be naïve to think that an RM85bn exodus would not affect Malaysia. In reality, confidence in the Ringgit is of paramount importance. Money supply in Malaysia as identified by M1 totals RM361bn. This is still a manageable figure, in our view, as it constitutes 88.5% of international reserves and 1.8x of the excess liquidity residing in the BNM.

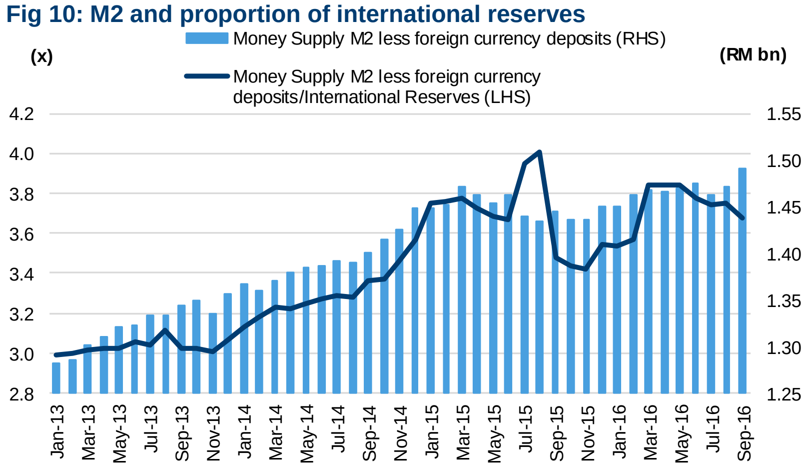
Fig 9: M1 and proportion of international reserves



Source: Affin Hwang, BNM

Technically, the BNM could release the additional liquidity to ensure effective functioning of financial intermediation even if all of M1 finds its way to the door. The M1 is defined as all Ringgit notes and coins in circulation plus current account balances. However, the risk is in M2, which is M1 and includes savings, fixed deposits, negotiable instruments of deposits, repurchase agreements and foreign currency deposits. The total outstanding M2 minus foreign currency deposits stood at RM1.49 trillion (excluding foreign currency deposits) as of end-October, which is 3.7x foreign currency reserves and 7.3x the excess liquidity in the system.

Fig 10: M2 and proportion of international reserves



Source: Affin Hwang, BNM

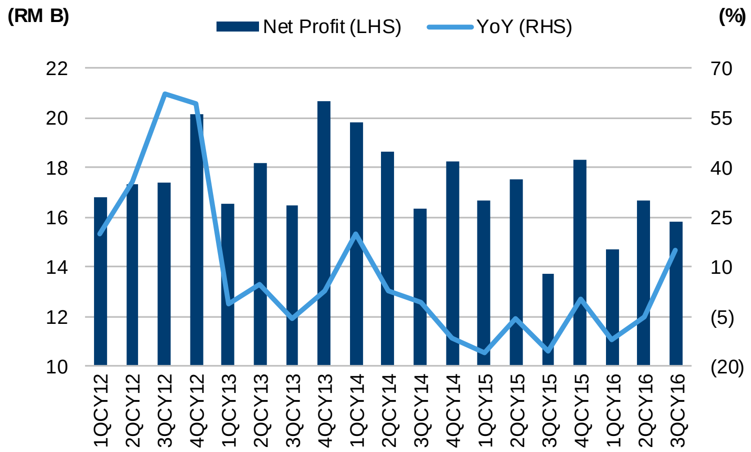
Hence, the key takeaway is that while our estimate finds that foreign outflow is manageable and should not affect the efficient functioning of financial intermediation, the risk is if Malaysians lose confidence in the Ringgit and head offshore en mass. That would cause a liquidity crunch, be enough to break financial intermediation and a financial crisis would likely ensue in Malaysia, in our view. We believe that the worst-case scenario is highly remote but do recognise it as a possibility, especially if the Ringgit slide is not arrested over a long period of time.

A welcome break

Some reprieve in 3Q16

We are relief when we saw the 14.9% yoy rise in 3Q16 for the aggregate net profit of our stock universe. This comes after moderation in the earnings declines of 11.9% in 1Q16 and 5% in 2Q16. It is a welcome break from one of the worst runs in corporate earnings, starting in 3Q14 and extending over 8 quarters. Note that our coverage universe has increased by two stocks to 102 companies since our 2Q16 results wrap. The new initiations are Westports and YTL Hospitality REIT. As such, we have adjusted the quarterly net profit performance retrospectively to include contributions from these two companies.

Fig 11: Punctuating the monotony



Source: Affin Hwang, Bloomberg

In absolute terms, 3Q16 net profit was RM15.8bn versus RM16.7bn in 2Q16 and RM13.8bn in 3Q a year ago. We have provided a breakdown of contribution to the 14.9% yoy growth in 3Q16 by sector. Despite the net profit growth, the bias was still very much on the downside in terms of the number of sectors that were in contraction mode. Of the 18 sectors under coverage, 11 subtracted from market growth with the balance of seven sectors showing expansion. The three largest contributors to net profit growth were Plantation, Utilities and Transport with total growth of 20 ppts. On the flipside, Telecoms, Consumer and Oil & Gas were the three biggest drags with a combined 7.7-ppt subtraction from market growth.

Fig 12: 3Q16 net profit contribution by sector

Sector	Rating	Market Cap (RMm)	Weightage	Net profit growth (%)	Sector contribution to growth (%)
Auto & Autoparts	UW	7,585	0.64	(383.3)	(0.9)
Banks	N	274,543	23.18	8.1	3.1
Building Materials	UW	6,302	0.53	(88.0)	(0.4)
Const & Infra	OW	31,455	2.66	(0.6)	(0.0)
Consumer	N	48,769	4.12	(38.2)	(2.0)
Gaming	OW	61,803	5.22	56.8	3.1
Healthcare	OW	58,795	4.96	31.4	0.4
Media	N	17,621	1.49	(79.5)	(1.4)
MREIT	OW	28,006	2.36	41.9	0.4
Oil & Gas	UW	123,103	10.40	(16.5)	(1.9)
Plantation	N	125,433	10.59	571.7	8.9
Property	OW	32,372	2.73	(14.0)	(0.7)
Rubber Products	N	22,820	1.93	(28.9)	(0.6)
Technology	N	9,597	0.81	(7.9)	(0.1)
Telecoms	UW	143,477	12.12	(27.6)	(3.8)
Timber	OW	3,436	0.29	(41.9)	(0.3)
Transport	UW	68,087	5.75	1,490.4	5.1
Utilities	OW	121,038	10.22	57.1	5.9
TOTAL		**1,184,242**		**14.9**	**14.9**

Source: Affin Hwang

The strong contribution from Plantation was due to smaller foreign exchange losses on borrowings by IOI Corp in 3Q16 versus 3Q15. Utilities were driven by Tenaga and the reason is the same as for IOI – lower foreign translation losses for its debt. Finally, the transport sector benefited from both airlines, Air Asia and Air Asia X, with the former due to a strong turnaround in its Indonesian associate while the latter was due to better operating conditions and smaller forex losses on debt.

On the other hand, the drag from Telecoms emanated from Axiata's higher depreciation, foreign currency translation and low contribution from the associate in India. Weakness in Consumer came from Parkson, which swung into losses in 3Q16 versus 3Q15. Also, BAT compounded the sector net profit weakness with a drop in cigarette volumes. Lastly, the oil and gas sector saw an unexpected swing into losses at Bumi Armada. This was caused by the timing of deployment of its FPSOs and impairment of doubtful debts.

Note that we have reclassified Gas Malaysia and Petronas Gas from Utilities to Oil & Gas, and the quarterly sectorial net profit has been adjusted retrospectively.

Despite the rebound to mid-teens growth from a contraction in 2Q16, we doubt that the market would get too excited given the current backdrop. This is because a large part of the improvement in the top three sectors came from lower currency translation losses. The bad news is that the Ringgit has weakened substantially since then. The Ringgit was trading at RM4.14/US$ at the end of 3Q16 but it is currently at RM4.47/US$. The mid-teens growth is also off a low net profit base of RM13.7bn in 3Q15, the lowest since 4Q11.

Overall performance

The 3Q16 net profit of RM15.8bn made up 22.7% of the RM69.5bn 2016 forecast we had immediately after the 2Q16 results season. The 9M16 net profit constituted 67.8% of this same figure. Hence, we cut our 2016 net profit forecast by 2.2% to RM68bn.

The table below shows the quarterly net profit breakdown by sector and the comparison against our forecasts. Following from that is a more detailed discussion of the overall performance of each sector in 3Q16.

Fig 13: Net profit performance by sector, 1QCY14 - 3QCY16

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	Net Profit 3QCY16	YoY %	% of Affin Forecast 1HCY16	Affin Forecast FY16
Auto & Autoparts Sector	N	284.4	198.8	245.8	141.3	218.1	116.0	31.8	(260.3)	44.3	13.1	(90.1)	-383.3%	(8.7)	375.8
Banks Sector	OW	5,547.0	5,679.6	5,701.1	5,460.8	5,286.7	5,249.7	5,317.1	5,154.4	5,079.7	4,828.3	5,747.4	8.1%	73.4	21,315.4
Building Materials Sector	N	76.9	80.2	58.3	52.7	77.6	67.1	68.1	44.1	23.5	28.3	8.2	-88.0%	18.2	330.1
Const & Infra Sector	OW	255.6	471.7	400.7	374.2	602.4	647.8	421.1	557.2	204.8	366.6	418.6	-0.6%	55.2	1,791.8
Consumer Sector	N	678.5	625.9	633.1	706.6	662.7	433.6	734.3	549.7	586.6	311.2	453.8	-38.2%	59.5	2,271.5
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	1,191.7	56.8%	70.4	3,435.4
Healthcare Sector	OW	189.3	242.8	176.0	289.2	205.4	264.1	156.6	440.4	269.7	276.4	205.8	31.4%	60.3	1,246.5
Media Sector	N	184.2	230.3	246.3	141.0	194.5	277.8	236.0	219.1	248.1	293.8	48.3	-79.5%	57.9	1,019.5
MREIT Sector	OW	223.5	344.4	313.9	702.3	229.2	279.6	132.5	551.2	278.6	222.5	188.1	41.9%	48.7	1,414.2
Oil & Gas Sector	UW	1,765.2	1,828.8	1,865.8	1,568.5	1,445.3	1,489.0	1,545.0	836.6	(212.2)	503.0	1,290.8	-16.5%	32.7	4,834.8
Plantation Sector	N	3,683.0	2,088.0	958.7	911.3	537.0	1,487.9	(214.7)	2,013.9	1,542.1	1,414.0	1,012.7	571.7%	71.1	5,583.5
Property Sector	OW	505.2	905.2	536.7	999.0	684.9	1,073.6	724.8	879.5	590.5	843.9	623.1	-14.0%	75.2	2,736.3
Rubber Products Sector	N	165.7	173.0	169.1	170.7	196.6	224.5	279.1	317.8	246.9	179.0	198.6	-28.9%	60.6	1,029.8
Technology Sector	N	75.0	84.1	122.7	120.6	130.4	152.3	186.4	182.9	130.4	153.8	171.6	-7.9%	73.2	623.1
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	1,357.7	-27.6%	66.4	6,324.2
Timber Sector	OW	52.7	50.1	79.0	17.8	33.1	55.3	112.8	113.4	11.0	47.2	65.5	-41.9%	51.1	241.7
Transport Sector	N	883.3	617.5	422.6	1,089.0	685.3	942.6	(47.4)	1,620.1	1,838.6	1,843.7	659.3	1490.4%	94.6	4,590.3
Utilities Sector	OW	2,403.7	2,598.2	1,923.4	3,124.6	2,814.8	2,664.8	1,420.0	2,799.3	1,863.6	3,212.4	2,230.3	57.1%	70.6	10,345.2
TOTAL		**19,832.1**	**18,603.7**	**16,310.9**	**18,269.6**	**16,693.8**	**17,529.9**	**13,738.2**	**18,277.5**	**14,704.6**	**16,650.1**	**15,781.3**	**14.9%**	**67.8**	**69,509.0**
YoY growth %		**19.7**	**2.5**	**(0.8)**	**(11.6)**	**(15.8)**	**(5.8)**	**(15.8)**	**0.0**	**(11.9)**	**(5.0)**	**14.9**			
QoQ growth %		**(4.1)**	**(6.2)**	**(12.3)**	**12.0**	**(8.6)**	**5.0**	**(21.6)**	**33.0**	**(19.5)**	**13.2**	**(5.2)**			

Source: Companies, Affin Hwang forecasts

Fig 14: Narrative on individual sector performances

Sector	Net profit (yoy %) 3Q16	9M16	Comment
Auto & Autoparts	-383.3	-108.9	Earnings fell -383.3% yoy as the sector continued to be impacted by lower vehicle-sales volumes as well as margin contraction due to the unfavorable forex. UMW's losses widened further as the O&G segment posted an operating loss of RM133m.
Banks	8.1	-1.2	The banking and financial universe (excluding Bursa Malaysia) reported a 3Q16 net profit of RM5.7bn (+8.3% YoY). Meanwhile, the 9M16 results were within our expectations (vs. our 2016 net profit forecast of RM20.7bn for the universe). Most banks reported a stronger yoy performance in 3Q16 (led by CIMB Group given the absence of IB restructuring and staff rationalization costs, and a one-off disposal gain), except for Maybank, MBSB, AMMB and AFG (Maybank was affected by lower fund-based income, higher operating expenses, and insurance unit losses). On a qoq basis, our universe's net profit (excluding Bursa Malaysia) was up 19.3% qoq, driven largely by Maybank, CIMB, RHBBank and AMMB (lower allowances and impairments at Maybank and RHBBank; one-off disposal gain at CIMB). Overall, we have revised up our universe's 2016E net profit by +1.7% to RM21bn subsequent to upward revisions on Maybank (+RM400m disposal gain on Visa Inc) and AMMB (higher credit recoveries) and downward revisions on CIMB, Hong Leong Bank and AEON Credit since 2Q16.
Building Materials	-88.0	-71.8	The sector's headline profit plunged due to Lafarge Holcim's disappointing set of results. The current oversupply cement situation induced stiff pricing competition among cement players while higher rebates trimmed the effective ASP. The shortfall was also attributable to lower-than-expected cement sales volumes amid sluggish domestic demand. The property market continued to be lethargic whilst there have been delays in mega infrastructure projects and most of the ongoing infrastructure projects are at their tail end. The current high coal prices, higher depreciation expense and one-off integration costs have bogged down Lafarge Holcim's bottom-line bringing it to its worst quarter to date.
Const & Infra	-0.6	-40.8	Aggregate net profit for the sector declined 0.6% yoy in 3Q16 due to lower one-off gains from asset disposals for MRCB, weaker construction earnings for WCT and Gamuda. Property development earnings for IJM Corp were lower due to weaker sales. Overall, 4 out of the 8 construction companies under coverage reported earnings below our expectations (IJM Corp, Sunway Construction, WCT and Gabungan AQRS), 2 were within our expectations (Gamuda and Eversendai), and 2 were above our expectations (MRCB and Benalec). All the companies grew their order book to record highs this year, but there is a lag in the earnings ramp-up, which we expect to see in 2017. Lower one-off asset disposal gains for MRCB and IJM Corp and forex losses for Eversendai and WCT were the main reasons for aggregate sector net profit falling 40.8% yoy in 9M16.

Sector	Net profit (yoy %)		Comment
	3Q16	9M16	
Consumer	-38.2	-26.2	Sector net profit contracted YoY due to weak consumer sentiment but also largely due to the drag by BAT's net profit decline of 40% YoY because of a large volume contraction of 32% YoY, which took into account a one-off restructuring expense due to the winding down of its factory operations. Except for Hai-O, which was in line with our expectations and recovering from its low base, the rest of our retailers (Aeon, Parkson, Bonia) disappointed as retail sales were still weak and margins were compressed due to higher operating costs and promotional expenses. Looking at the F&B segment, Nestle was within our expectations but we caution on increasing raw material prices that may affect margins moving forward. This was already the case with MSM, which came in below expectations due to the large margin contraction because of the spike of raw sugar price. Of the two brewery stocks, Heineken performed better with more margin expansion as compared to Carlsberg which was hit in this round of results due to lower-than-expected revenue growth and associate losses due to the disruption in its Sri Lankan factory production because of floods. The consumer sentiment index is at 73.6, still below the 100-point confidence threshold, indicating that consumer spending remains weak. Nonetheless, it has still seen a slight improvement since its trough of 63.8 in 4Q15.
Gaming	56.8	8.8	The sector saw a significant improvement in earnings for 9M16, due to the earnings recovery in 2Q and 3Q, which compensated for the weaker 1Q. The improvement was led by a recovery in earnings from Genting Malaysia, especially from its foreign operation. Berjaya Sports Toto's earnings continued to be under pressure, as illegal NFOs continued to take market share from the legal NFO.
Healthcare	31.4	20.1	The headline net profit grew by 31% YoY due to IHH's low 3Q15 net profit that had been dragged down by exchange losses on foreign borrowings. Excluding exceptional items, the healthcare sector core net profit would have declined by 4% in 3Q16. The decline in core net profit was mainly due to the higher depreciation cost of new hospitals. The healthcare sector's revenue increased by 15%yoy (KPJ +6.3%yoy and IHH +18%yoy) due to higher patient volumes and revenue intensity. KPJ's inpatient volume growth was flat, a slight improvement from -3%yoy in 2Q16 while IHH reported 9-48% inpatient admission growth in its three key home markets of Singapore, Malaysia and Turkey. We expect earnings growth prospects for 2017 to be robust, driven by ongoing expansion plans and the expected recovery of private healthcare spending in Malaysia.
Media	-79.5	-16.7	The media sector headline net profit was down by 79.5% yoy in 3Q16. This was mainly due to the weak earnings from the print companies attributable to the soft consumer sentiment in view of continual market uncertainties as well as the shift in advertisement towards digital and broadcasting media especially the pay TV sub-segment. We maintain our cautious stance on the print companies, largely due to: 1) potentially cautious ad spending given the uncertainties in the market; 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 (yoy %)		Comment
	3Q16	9M16	
MREITs	41.9	7.5	Our M-REITs universe saw 3Q16 net profit surge by 41.9% YoY, driven by the absence of a revaluation loss at KLCCP, and revaluation gains at Axis REIT, but this partly offset by an unrealized forex translation loss at YTLREIT (due to its AUD-denominated borrowings). Qoq, sector earnings were dragged down by YTL REIT while the other M-REITs' net profits were relatively steady. The resilience of the REITs' tenancy/lease structure remains the key factor for consideration as the sector is plagued by threats of incoming supply in the office, retail and hotel market.
Oil & Gas	-16.5	-64.7	Overall, the sector continued to be challenging with 3Q16 earnings falling 16.5% yoy to RM1,290.8m, which was below our expectation. The main culprits were Bumi Armada and UMWOG. The negative impact from Bumi Armada came mainly from lower FPSO conversion activities, lower contribution from Armada Perkasa and Perdana as well as the ongoing drag from OSV activities. Meanwhile, UMWOG continued to suffer from low asset utilisation and daily charter rates. Domestic O&G contracts flow rebounded from a 2Q16 low of RM1,500m to RM6,080m in 3Q16. As of end-November 2016, the contract value awarded for 4Q16 totaled RM1,540m.
Plantation	571.7	119.2	Results were a mixed bag. Results for IOI Corp, Sime Darby and FGV were below expectations, KLK and Genting Plantation were above expectations while IJM Plantation and Hap Seng Plantation were within expectations. Overall, the plantation sector earnings improved in 3Q16 mainly due to higher CPO and PKO average selling prices, but this was partially mitigated by lower FFB production.
Property	-14.0	-17.1	Aggregate sector net profit declined 14% yoy in 3Q16 due to weak sales in 1H16 as there were fewer new property launches due to the weak market sentiment. New property launches picked up pace in 3Q16 and should drive better sales in 2H16. 3 out of 6 property companies under coverage reported earnings below our expectations (SP Setia, E&O and Tropicana), while 2 companies (IOI Properties and UOA) were within our expectations and 1 company was above our expectation (Sunway). Aggregate sector net profit declined 17.1% yoy in 9M16, which is a reflection of generally weaker sales in 2016.
Rubber Products	-28.9	-10.8	Sector headline profit contracted yoy largely due to the higher unit production costs on: (i) higher raw material prices; (ii) higher labour costs due to labour shortages and the implementation of the minimum wage; (iii) the hike in natural gas prices. Results also disappointed on the high base effect reported in 3Q, where many glove makers had recorded strong margin expansion in 2015 due to the steep depreciation of the Ringgit vs the US$. While the Ringgit remained weak in 3Q16, the quantum of depreciation was lesser in terms of absolute and relative percentage. Top Glove and Hartalega reported results that were in line with expectations largely due to higher ASPs. Kossan's results disappointed on an unexpected production output loss, while Supermax's results missed expectations due to a surprising ASP decline.
Technology	-7.9	-2.8	The weaker sector earnings were impacted by inventory imbalance and a slowdown in the smartphone segment. Results were broadly in line with expectations.

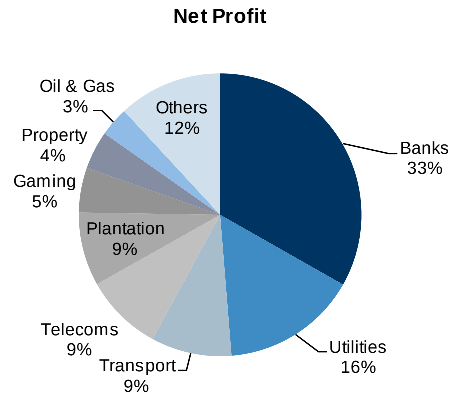
Sector	Net profit (yoy %)		Comment
	3Q16	9M16	
Telecoms	-27.6	-19.3	Results were broadly in line with expectations except for Axiata which surprised negatively. This was due to continued earnings disappointment from its key opcos coupled with higher depreciation charges. Sector earnings are weaker both on a qoq and yoy basis dragged down by Axiata's disappointing performance both regionally and locally (price competition).
Timber	-41.9	-38.5	Results were largely within expectations. The timber companies' net profit in 3Q16 declined by 41.9% yoy, mainly due to lower contribution from the timber division as log and plywood prices remained soft. However, this was partially offset by the stronger plantation division attributable to higher production and CPO prices.
Transport	1490.4	174.7	The sector headline profit expanded yoy largely due to the turnaround and higher profitability reported in aviation-related companies. Both AAX and AirAsia reported a profitable 3Q, a reversal of the core net loss position in 3QFY15, as the decline in fuel prices boosted yields. Separately, MAHB reported a strong set of passenger growth despite significant cuts in Malaysia Airlines Berhad's capacity, but the results were negated by higher losses from its Turkey operations, which had been impacted by the terrorist attack in Ataturk Airport and the coup attempt. Westports' earnings expanded due to higher ad-hoc movements, which resulted from the ongoing alliance shake-up, while MISC's bottomline was dragged down by the underperformance in its petroleum tanker segment. Meanwhile, Tiong Nam reported decent growth, but this was predominantly contributed by higher property development earnings, which cushioned the less-than-stellar logistic business owing to a slowdown in domestic consumption.
Utilities	57.1	5.9	The strong headline number was mainly driven by Tenaga, and can be attributed to the significantly lower forex losses incurred in 9M16 and the lower effective tax rate from the realisation of the reinvestment tax allowance. If we were to normalize these 2 items, industry growth should be negative for both 3Q16 and 9M16.

Source: Affin Hwang

Market earnings structure

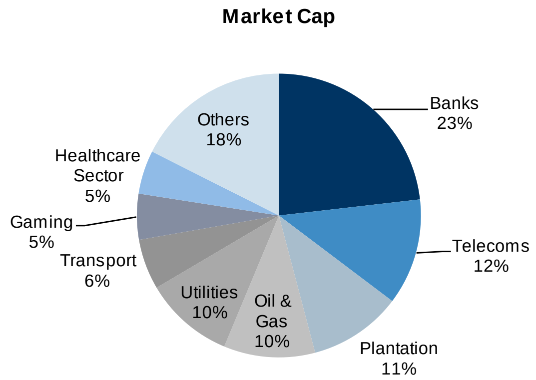
Market earnings have become less concentrated in 9M16 where the top five sectors made up 75.3% of total net profit from 81% in 1H16. The top five are banks, utilities, transport, telecom, and plantation in descending order. In terms of market cap, the top five sectors are banks, telecom, plantation, oil & gas and utilities, making up 66.5% of the total market cap of companies under our coverage.

Fig 15: Earnings breakdown by sector in 9M16



Source: Affin Hwang, Bloomberg

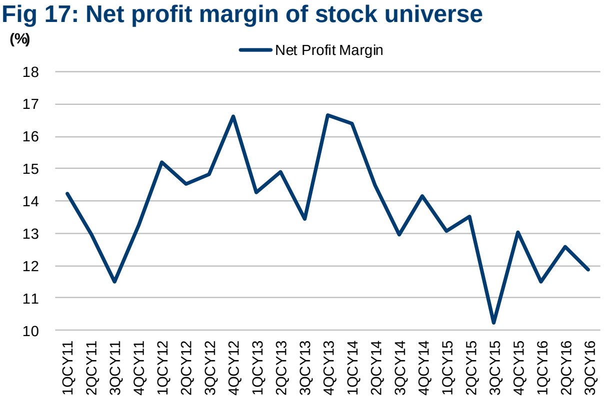
Fig 16: Breakdown of market cap by sector



Source: Affin Hwang, Bloomberg

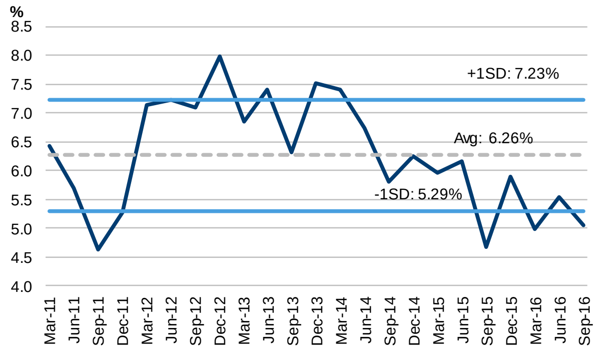
Net profit margin has turned down again in 3Q16 to 11.9% after rising to 12.6% in 2Q16. Similarly, total net profit as a proportion of nominal GDP has also fallen to 5.1% in 3Q16 from 5.5% in 2Q16. It is now more than 1SD below its average.

Fig 17: Net profit margin of stock universe



Source: Affin Hwang, Bloomberg

Fig 18: Net profit as proportion of nominal GDP



Source: Affin Hwang, Bloomberg, BNM

Marginal improvement in results scorecard

For 3Q16, 12% of the 102 companies under our coverage came in above expectation, 40% in line and 48% below expectation. This compares to 15% above, 47% meeting expectation and 38% below in 2Q16.

Fig 19: Performances relative to our expectations in 3Q16

Sector	Above	In-Line	Below
Auto & Autoparts			UMW APM Automotive MBMR
Banks		AFG Maybank RHB Bank AMMB CIMB Public Bank AEON Credit	Hong Leong Bank Bursa MBSB
Building Materials	Choo Bee		Lafarge
Const & Infra	Benalec MRCB	Gamuda Eversendai	IJM Corp Gabungan AQRS Sunway Construction WCT
Consumer		Nestle Heineken Hai-O	Bonia Carlsberg Parkson BAT Aeon. Co MSM
Gaming	Genting Malaysia	Btoto	Genting
Healthcare			IHH KPJ
Media		Astro MCIL	Media Prima Star
MREIT		YTL Hosp.REIT IGBREIT KLCC Prop	Pavillion REIT Axis REIT
Oil & Gas	Pchem Sapura Kencana Gas Malaysia	Dialog Group Petronas Gas	UMW-OG Alam Maritim Petra Energy Bumi Armada MMHE
Plantation	Genting Plant KLK	IJM Plant Hap Seng Plant	IOI Corp Felda Sime Darby
Property	UOA Development	Sunway IOI Prop. Amcorp Prop	Tropicana E&O SP Setia
Rubber Products		Top Glove Hartalega	Karex Supermax Kossan
Technology	Uchi Tech	Inari MPI SCICOM Globetronics Kesm Industries	Aemulus Unisem
Telecoms		Telekom Maxis Digi	Axiata
Timber		Jaya Tiasa Ta Ann Tiong Nam	WTK
Transport	AirAsia	Westports AirAsiaX	MAHB MISC
Utilities		Tenaga	Jaks Malakoff YTL Power YTL Corp MMC

Source: Affin Hwang

Measuring momentum

Apart from the results scorecard, we continue to measure the momentum of the earnings season using three metrics.

- Changes in 2016 earnings forecasts.
- Changes in target prices.
- Changes in recommendations.

Overall, we made fewer 2016 earnings upgrades, a lower proportion of target price increases and the same number of recommendation upgrades in 3Q16 versus 2Q16. The results scorecard in the above section also saw fewer companies beating expectations over the two quarters of comparison.

For the 2016 forecasts, we bumped up earnings forecasts for 15% of our coverage with 60% unchanged and the balance of 25% seeing cuts in forecasts. These compare with 24% upward revisions, 35% with earnings unchanged and 41% of companies with cuts in forecasts, in 2Q16.

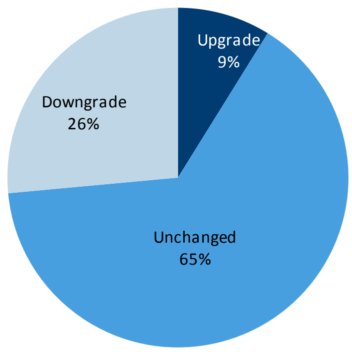
Fig 20: Changes in CY2016E earnings

Sector	Earnings Changes made on CY16 (No. of Companies)		
	Upgrade	Unchanged	Downgrade
Auto & Autoparts	0	3	0
Banks & Financial Services	3	6	1
Building Materials	0	1	1
Construction & Infrastructure	2	3	3
Consumer	1	4	4
Gaming	1	2	0
Healthcare	0	2	0
Media	0	2	2
MREIT	0	5	0
Oil & Gas	2	4	4
Plantation	2	3	2
Property	1	4	2
Rubber Gloves	0	4	1
Technology	1	6	1
Telecoms	0	2	2
Timber	1	0	2
Transports & Logistics	1	4	1
Utilities	0	6	0
Total	**15**	**61**	**26**

Source: Affin Hwang

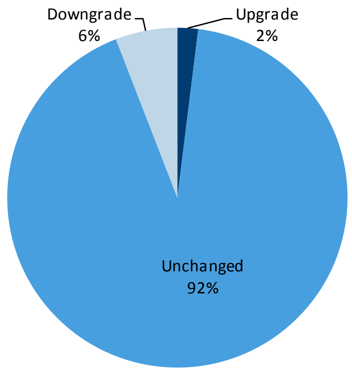
As for target prices, we raised them for 9%, 65% were unchanged and 26% of companies saw cuts in 3Q16. These compare with 29%, 49% and 22%, respectively, for 2Q16. The final measure is the recommendation structure. We upgraded 2% of our coverage, 92% were unchanged and 6% of these companies were downgraded. The corresponding figures in 2Q16 were 2%, 86% and 12%, respectively.

Fig 21: Breakdown of changes in target prices



Source: Affin Hwang

Fig 22: Breakdown of changes in recommendations



Source: Affin Hwang

Mixed macro picture

Rebounding from trough

BNM announced 3Q16 GDP growth of 4.3% on 11 November 2016. This is acceleration from the 4% growth registered in 2Q16. Better growth is a welcome development but it is not the main highlight, in our view. That distinction goes to economic activity that has likely bottomed in 2Q16. Recall that 2Q16 GDP growth of 4% saw improvements in all components of the economy, bar trade. Poor business confidence also prompted lower inventory replenishment, which put a further and sizeable drag on economic growth.

However, 3Q16 GDP was less broad-based. Of the four domestic components of GDP, only private consumption saw an improvement in its growth rate on a year-on-year basis versus 2Q16, whereas in 2Q16 all domestic segments delivered better growth profiles. Nonetheless, the external environment was better in 3Q16 while the drag from stocks also lessened, hence contributing to better overall 3Q16 GDP growth.

Fig 23: Malaysia's quarterly GDP growth

	3Q15	4Q15	1Q16	2Q16	3Q16	3Q15	4Q15	1Q16	2Q16	3Q16	3Q15	4Q15	1Q16	2Q16	3Q16
	%yoy					%qoq					% contribution pts to GDP growth				
GDP by Expenditure Components															
Total Consumption	4.0	4.5	5.1	6.4	5.8	6.1	6.1	-7.5	2.2	5.5	2.7	3.0	3.3	4.1	3.8
Private consumption	4.1	4.9	5.3	6.3	6.4	6.9	-1.9	0.8	0.6	7.0	2.2	2.5	2.8	3.3	3.4
Public consumption expenditure	3.6	3.3	3.8	6.5	3.1	2.8	40.3	-32.7	9.8	-0.5	0.4	0.6	0.5	0.8	0.4
Total Investment	4.2	2.7	0.1	6.1	2.0	-2.4	-1.2	-0.1	10.2	-6.2	1.1	0.7	0.0	1.7	0.5
Private investment expenditure	5.5	4.9	2.2	5.6	4.7	-10.3	-23.8	34.3	15.2	-11.1	0.9	0.6	0.4	1.1	0.8
Public investment expenditure	1.8	0.4	-4.5	7.5	-3.8	19.6	45.8	-37.4	-1.5	6.9	0.2	0.1	-0.4	0.5	-0.3
Domestic Demand	4.1	4.0	3.6	6.3	4.7	3.6	4.0	-5.6	4.4	2.1	3.7	3.7	3.3	5.7	4.3
Net exports	3.4	4.3	-12.4	-7.0	5.9	10.5	-1.5	-9.9	-5.1	25.8	0.3	0.4	-1.2	-0.6	0.5
Exports	3.2	4.0	-0.5	1.0	-1.3	6.7	2.9	-8.1	0.0	4.3	2.4	2.9	-0.3	0.7	-0.9
Imports	3.1	4.0	1.3	2.0	-2.3	6.2	3.5	-7.8	0.6	1.8	2.1	2.6	0.8	1.2	-1.5
Changes in inventories	-88.0	-49.5	NA	NA	NA	NA	NA	NA	NA	40.6	0.7	0.5	2.0	-1.2	-0.5
GDP (2010 real prices)	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**	**3.2**	**3.2**	**-4.6**	**2.3**	**3.6**	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**

Source: Affin Hwang, BNM

It is worth a further word on trade's impact on GDP in 3Q16. Real exports dipped from 1% yoy expansion in 2Q16 to 1.3% yoy contraction in 3Q16. Despite the fall in exports, net trade still improved from 2Q16 as imports also declined by 2.3% yoy in 3Q16 from 2% yoy expansion in 2Q16. The more rapid pace of decline in real imports means that net exports swung from 7% contraction in 2Q16 to 5.9% higher in 3Q16. This is one blemish in the GDP figure as the better contribution is due to a quicker pace of import contraction relative to exports. In general, a fall in both exports and imports is not ideal even though net trade expanded and this was due to the generally weaker global trade environment in 3Q16.

Mixed performance in components of GDP by expenditure

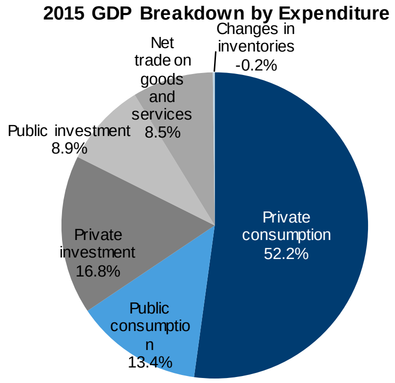
As indicated earlier, this time around, three of the four domestic components delivered GDP expansion versus all of them in 2Q16. Public investment is the odd one out with 3.8% yoy contraction in 3Q16 after a strong 7.5% expansion in 2Q16. Thus far, this segment remains volatile, alternating between contraction and expansion for the past four consecutive quarters. We were surprised by the decline given enough public fixed asset spending requirements for the Federal government. However, this is in line with the Federal government fiscal position in 3Q16 where net development expenditure fell by RM3bn from 2Q16 to RM7.4bn in 3Q16. This could be due to the government keeping an eye on the fiscal position after relatively large deficits in 1H16.

Public consumption also weakened albeit still growing at 3.1% yoy from 6.5% in 2Q16 due to lower spending by the Federal government on supply and services.

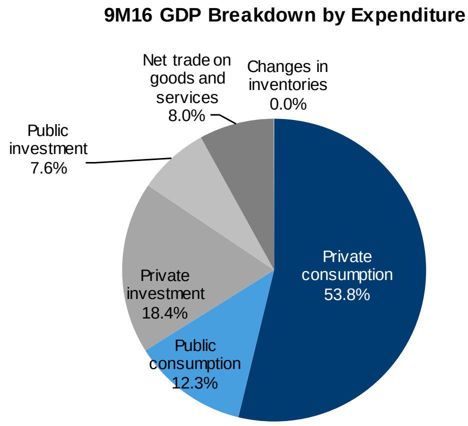
Private investment growth remained relatively more resilient in 3Q16 at 4.7%, higher than a year ago but still representing a slowdown from the 5.6% expansion in 2Q16 (albeit higher than 2.2% in 1Q16). BNM attributed the figure to ongoing capital spending in the services and manufacturing sectors, though highlighted that businesses were cautious post the Brexit referendum outcome.

The silver lining, as in previous quarters, continued to be private consumption. This expanded further in 3Q16 to 6.4% from 6.3% in 2Q16. It was partly supported by the minimum wage increase in 1 July 2016 to RM1,000 in Peninsular Malaysia (RM920 previously) and RM900 in Sabah and Sarawak (RM800 previously).

Fig 24: Comparing structure of the real economy by expenditure



Source: Affin Hwang, BNM



Source: Affin Hwang, BNM

Same dynamics reflected in real GDP by supply

The private consumption strength was reflected in Services sector, which extended its growth rate to 6.1% yoy in 3Q16 from 5.7% yoy in 2Q16. Echoing the same trend is Manufacturing, which saw its growth rate rising to 4.2% from 4.1% over the same two quarters. BNM attributed the growth mainly to export-oriented industries. In particular, the electronics segment continued to do well in line with the global recovery of semiconductor sales.

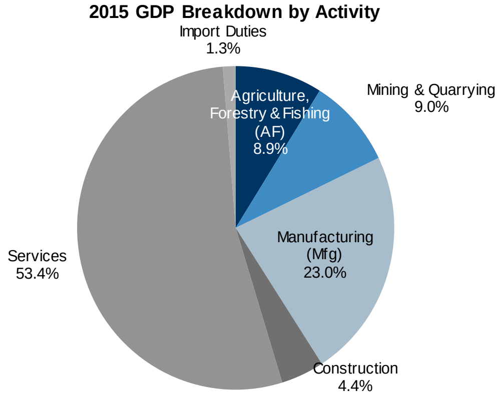
Fig 25: Malaysia's quarterly GDP growth by activity

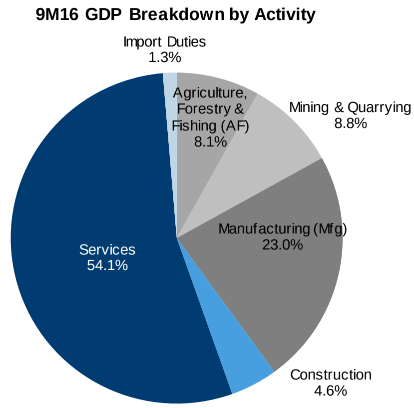
	3Q15	4Q15	1Q16	2Q16	3Q16	3Q15	4Q15	1Q16	2Q16	3Q16	3Q15	4Q15	1Q16	2Q16	3Q16
	%yoy					%qoq					% contribution pts to GDP growth				
GDP by Economic Activity															
Agriculture, Forestry and Fishing	2.3	1.5	-3.8	-7.9	-5.9	15.7	-11.4	-15.1	5.8	18.2	0.2	0.1	-0.3	-0.7	-0.6
Mining and Quarrying	5.1	-1.3	0.3	2.6	3.6	-5.9	8.6	2.3	-1.9	-4.9	0.4	-0.1	0.0	0.2	0.3
Manufacturing	4.9	5.0	4.5	4.1	4.2	-0.1	4.2	-4.9	5.3	-0.1	1.1	1.1	1.0	1.0	0.9
Construction	9.9	7.4	7.9	8.8	7.9	10.7	-1.1	4.9	-5.3	9.8	0.4	0.3	0.4	0.4	0.4
Services	4.4	5.0	5.1	5.7	6.1	3.7	4.7	-4.7	2.2	4.1	2.3	2.6	2.8	3.1	3.2
Import duties	18.6	39.1	27.0	4.1	5.7	-0.5	14.9	-4.7	-4.5	1.1	0.2	0.4	0.3	0.1	0.1
GDP (2010 real prices)	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**	**3.2**	**3.2**	**-4.6**	**2.3**	**3.6**	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**

Source: Affin Hwang, BNM

Mining & Quarrying improved as well at 3.6% growth (2Q16: 2.6%) due to higher crude oil volumes while Agriculture, Forestry & Mining saw a slower drag on GDP at 5.9% yoy contraction from 7.9% decline in 2Q16. Palm trees are still shaking off the lingering effects of El Nino and would require time to return to normal. Lastly, the construction sector growth rate slowed from a high of 8.8% in 2Q16 to 7.9% in 3Q16 with still strong activities on the ground.

Fig 26: Comparing structure of the real economy by activity





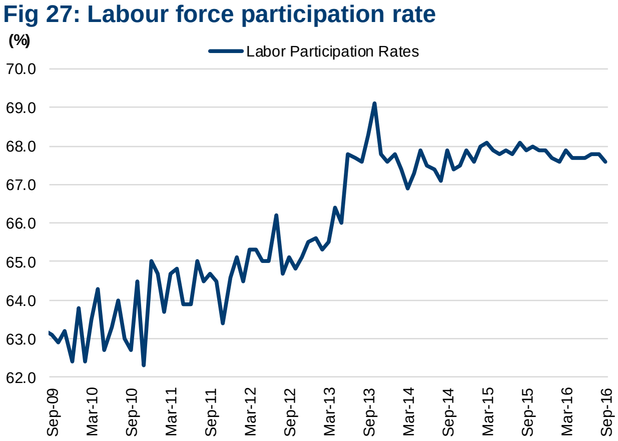
Source: Affin Hwang, BNM

Source: Affin Hwang, BNM

Business confidence needs to improve

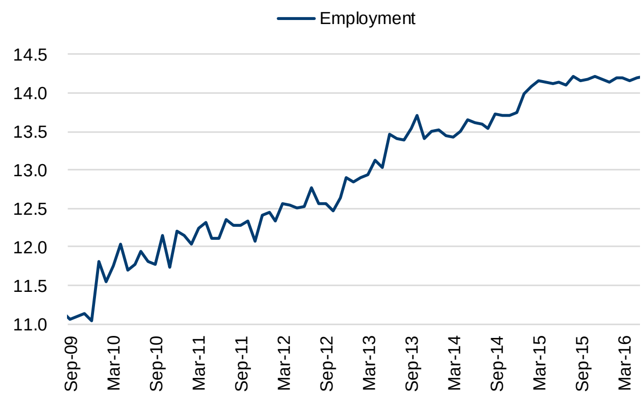
The all-important labour market in Malaysia continues to be resilient. Labour force participation rate remains high at 67.6% in September 2016 indicating a healthy labour market in Malaysia. The benefits of a youthful population shine through particularly brightly during the current climate where despite retrenchments in certain pockets of industries, total employment on an absolute basis is hovering at 14.25m jobs in September 2016 or close to its record high of 14.31m registered a month earlier. Wages are growing too, which we estimate at 4.4% yoy in 3Q16 from 3.3% in 2Q16. Couple this with an inflation rate of 1.4% in October and overall, employees are seeing real wage growth.

Fig 27: Labour force participation rate



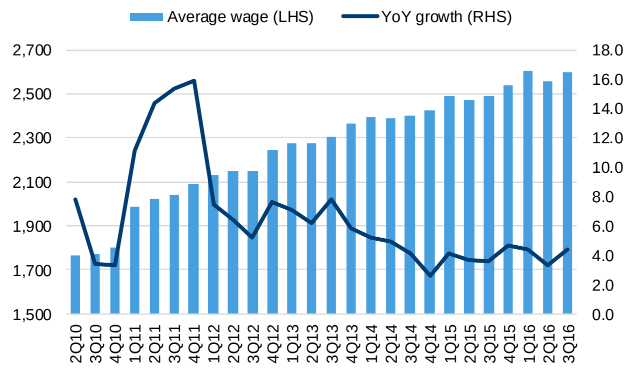
Source: BNM

Fig 28: Total employment



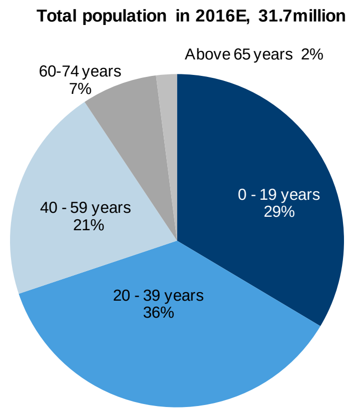
Source: BNM

Fig 29: Average payrolls



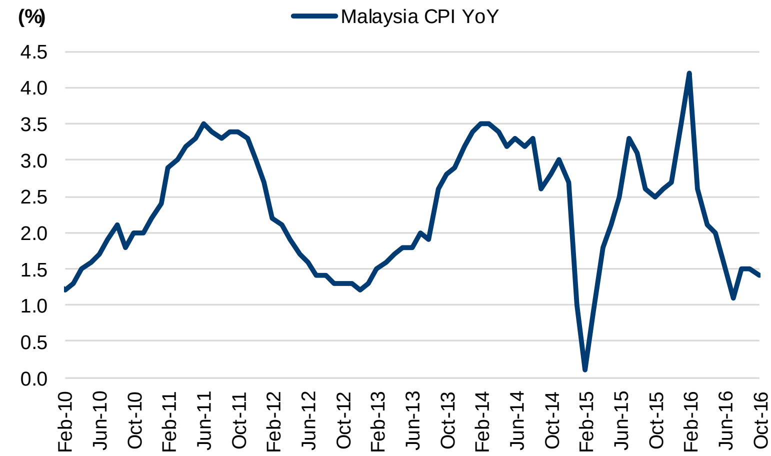
Source: Affin Hwang, BNM

Fig 30: Young demographics



Source: BNM

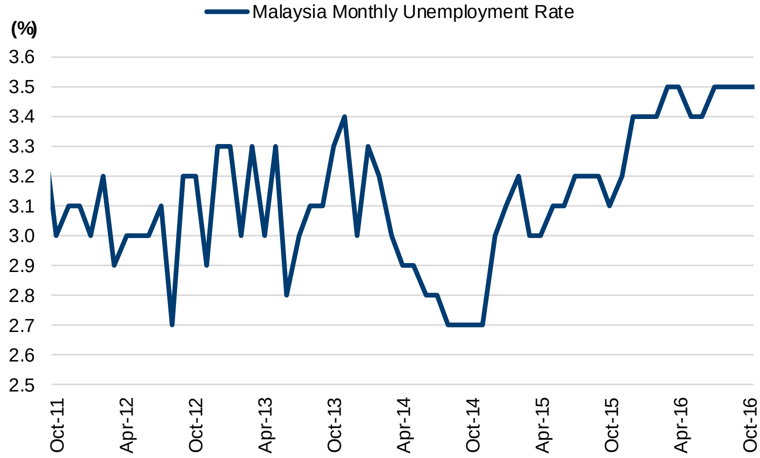
Fig 31: Inflation



Source: BNM

One area that warrants more attention is the unemployment rate. It continued to be very healthy at 3.5% in October but this has progressively risen from a trough of 2.7% in November 2014. The gradual increase is due to moderate hiring in view of the relatively soft business confidence and retrenchments contained in certain sectors of the economy. But overall, while there is net addition to total employment, job creation lags the increase in new entrants to the labour force due to the young population base. This is the other side of a youthful nation where it drives economic activities, but GDP growth must be quick enough to ensure adequate job creation for a large supply of young labour to the workforce. As such, business confidence needs to improve to check the creeping unemployment rate. The pace of increase is low hence it may not immediately raise an alarm though by the time it is noticed, it may be too high for comfort.

Fig 32: Unemployment rate



Source: BNM

Current account surplus

In our latest strategy report, '[Mind the gap](#)' published on 2 November 2016, we argued that Malaysia's current account position at RM1.9bn surplus in 2Q16 or equivalent to 0.6% of GNI was at its trough. Hence it is a relief that the 3Q16 current account surplus rebounded to RM6bn or equivalent to 2% of GNI. The improvement in the goods account more than offset larger outflows in the services and primary accounts. Also helping was the narrower outflow from the secondary account.

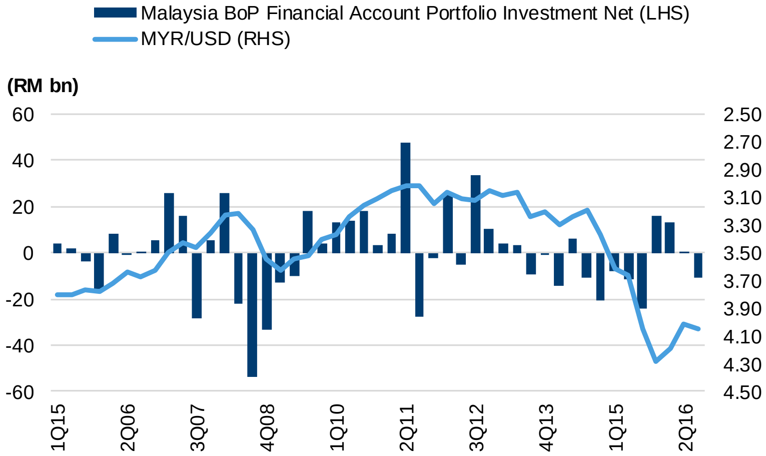
Fig 33: Balance of payment

Balance of Payments (RMbn, unless stated otherwise)	2014	2015	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
Current account (LHS)	**48.6**	**34.7**	**19.8**	**15.3**	**7.3**	**6.2**	**11.3**	**8.1**	**4.7**	**10.5**	**5.0**	**1.9**	**6.0**
(% of GDP)	**4.4**	**3.0**	**7.4**	**5.6**	**2.6**	**2.1**	**4.1**	**2.9**	**1.6**	**3.5**	**1.7**	**0.6**	**1.9**
% of GNI (RHS)	**4.9**	**3.5**	**7.6**	**5.8**	**2.7**	**2.2**	**4.2**	**2.9**	**1.7**	**3.6**	**1.8**	**0.6**	**2.0**
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	26.5
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	-5.1
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	-10.8
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	-4.6
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**	**-6.3**
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	3.0
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	-11.3
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	14.3
Portfolio investment	-38.5	-28.2	-14.2	6.3	-11.2	-20.4	-7.9	-11.8	-24.4	15.9	13.1	0.1	-10.6
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	-7.1
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	-3.5
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	-0.1
Other investments	-23.6	-24.9	-8.0	-14.6	6.7	-5.7	-20.5	17.3	-5.9	-17.6	-11.5	4.1	1.4
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**	**14.9**
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**	**14.6**

Source: MOF

While the current account surplus has widened, all is not rosy for the Balance of Payment. The portfolio account saw relatively balanced flows of RM0.1bn into Malaysia in 2Q16 reversing into a sharp outflow of RM10.6bn in 3Q16. This was due to a combination of higher acquisition of assets abroad by local institutions and maturity of certain Malaysian government securities.

Fig 34: Net portfolio account flow in 3Q16



Source: Bloomberg, BNM

Improvement in fiscal position

The Federal government's fiscal position improved significantly in 3Q16 to a deficit at 0.6% of GDP. The trajectory has been on a consolidation path even prior to 3Q16 with the fiscal deficit in 1Q16 of 6.1% falling to 5% in 2Q16.

Federal government revenue in 3Q16 was flat from a year ago at RM56.3bn. Hence the sharply better fiscal position was due to a reduction in total expenditure. Operating expenditure was down 3% yoy to RM50.7bn. However, it is net development expenditure that saw the largest cut at 15.1% lower to RM7.4bn. This ties in with the real GDP figure in 3Q16 where the public consumption growth rate more than halved while public investment swung into contraction.

The 3Q16 revenue made up 26.5% of its 2016 estimate, revised and released in conjunction with the Budget 2017 announcement in October this year. Meanwhile, the 9M16 revenue constitutes 71.8% of the RM212.6bn government forecast. Also, total expenditure in 9M16 was 74.5% of the budgeted figure.

Fig 35: Federal government fiscal position

	2014					2015					2016		
	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16
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	56.3
% 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	0.1
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	50.7
% 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	-3.0
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	5.6
% 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	1.8
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	7.4
% 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	2.4
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	-1.8
% 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	-0.6

Source: MOF

In order to achieve its revenue target, 4Q16 would need to deliver RM60bn or 7.1% higher than 4Q15. Total expenditure could rise to RM64.1bn in 4Q16 compared to RM58.1bn in 3Q16 if the revenue comes through. In terms of achieving the RM38.7bn fiscal deficit, the Federal government can afford to run a deficit of RM4.2bn in 4Q16. In the event of a revenue shortfall then the government would need to adjust its total expenditure accordingly as it is imperative to meet its 3.1% fiscal target for 2016.

Fig 36: Federal government Budget 2017 fiscal position

RM bn	2015	2016	2017
Date announced	21-Oct-16	21-Oct-16	21-Oct-16
Revenue	219.1	212.6	219.7
Operating expenditure	217.0	207.1	214.8
Operating surplus	2.1	5.5	4.9
Gross development expenditure	40.8	45.0	46.0
Less: Loan recovery	1.5	0.8	0.7
Net development expenditure	39.3	44.2	45.3
Overall balance	**-37.2**	**-38.7**	**-40.3**
Overall balance (% of GDP)	**-3.2%**	**-3.1%**	**3.0%**

Source: MOF

Pinning hopes on 2017

Crossing over to a decline

In our Strategy report dated 2 November 2016, 'Mind the gap', we calibrated our expectations and pinned our hopes on the notion that, while 2016 might not see earnings growth, it could at least not dip into recessionary territory. That hope has been thwarted with the 3Q16 results season that just concluded end-November. Our flat earnings estimate for 2016 has just deteriorated to a 0.3% yoy contraction.

Our original forecast for 2016 fully diluted EPS growth was 7.4% yoy in our strategy report, ***Finding a firmer footing***, published on 5 November 2015. We have tracked our forecasts since then, and the rate of growth went up to as high as 8.5% yoy and is now at its lowest point of -0.3% yoy post the 3Q16 results season.

A final note on our 2016 fully diluted EPS forecast is that if the 0.3% yoy contraction materialises, it would be the fourth consecutive year of earnings decline for the market, based on the 102 stocks in our coverage universe. It started with 2013's 1.6% yoy fully diluted EPS fall before accelerating to declines of 1.7% yoy in 2014 and 4% yoy in 2015. The only positive angle is that the 0.3% yoy drop in 2016 would signal an improvement from the peak 4% yoy contraction in 2015.

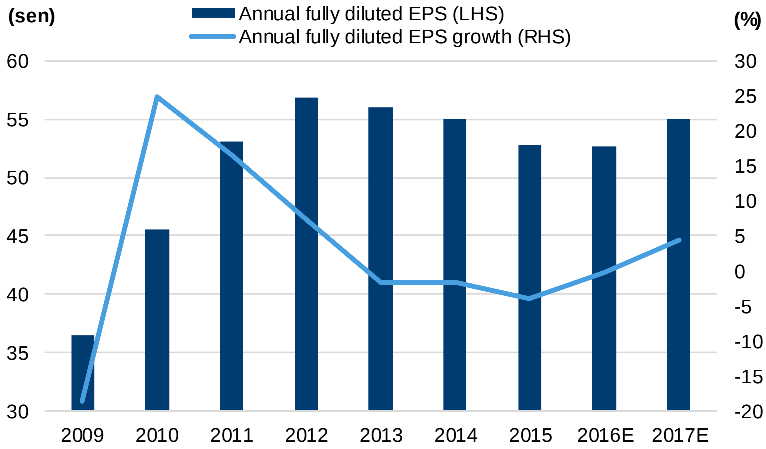
Fig 37: Tracking Our EPS growth expectations

Date	Report	2016E EPS growth	2017E EPS growth	Comments
5-Nov-15	***Finding a firmer footing***	7.4%		
3-Dec-15	***The Ringgit awakens***	8.2%		Includes 3Q15 wrap
20-Jan-16	***De-coupling***	7.8%		
29-Jan-16	***Dodging a bullet***	7.8%		
3-Mar-16	***Breathing space***	8.5%	4.4%	Includes 4Q15 wrap
2-Jun-16	***Battling perceptions***	3.0%	5.5%	Includes 1Q16 wrap
24-Jun-16	***Her subjects have spoken***	3.0%	5.5%	
14-Jul-16	***An insurance policy***	3.0%	5.5%	
6-Sep-16	***Waiting for the tide to turn***	1.5%	5.6%	Includes 2Q16 wrap
2-Nov-16	***Mind the gap***	0.0%	6.3%	
10-Nov-16	***Staying rational***	0.0%	6.3%	
15-Nov-16	***Let the dust settle***	0.0%	6.3%	
2-Dec-16	***Managing capital flight***	-0.3%	4.5%	Includes 3Q16 wrap

Source: Affin Hwang

As 2016 draws to a close, we focus our attention on earnings growth in 2017. Our original 2017 fully diluted EPS growth forecast was 4.4% yoy, rising to a peak of 6.3% yoy in our previous strategy report. However, this has moderated to 4.5% yoy now. One observation is that our 2017 earnings growth forecast was rising as the year progressed in tandem with downgrades to 2016 earnings. This was the case due to a lower base in 2016 for 2017 to build upon. However, the latest 2017 growth expectation of 4.5% yoy is a reduction despite deeper cuts in 2016 forecasts tipping it into contraction territory.

Fig 38: Annual fully-diluted EPS growth



Source: Affin Hwang forecasts

These figures are based on our coverage universe of 102 stocks. There have been no changes to the size of our coverage since the previous strategy report but overall we have increased our universe of stocks by five companies compared to the year-ago period. Also, we have reclassified two stocks from utilities to the oil & gas sector, namely Gas Malaysia and Petronas Gas.

Contribution to growth rate in 2017

Looking into 2017, we expect the three largest contributors to growth to be financials, consumer and telecoms. On the other hand, the three biggest drags should be gaming, transport and plantation. We expect 15 sectors to deliver positive contributions to market growth with the remaining three sectors subtracting from it. We look for the top three sectors to contribute 4.2ppts of the 4.5ppts growth, equivalent to 93% of the growth rate, with the three sectors that are seeing lower earnings in 2017 subtracting 1.3ppts from it.

Fig 39: Breakdown of 2016E and 2017E EPS contributions to growth by sector

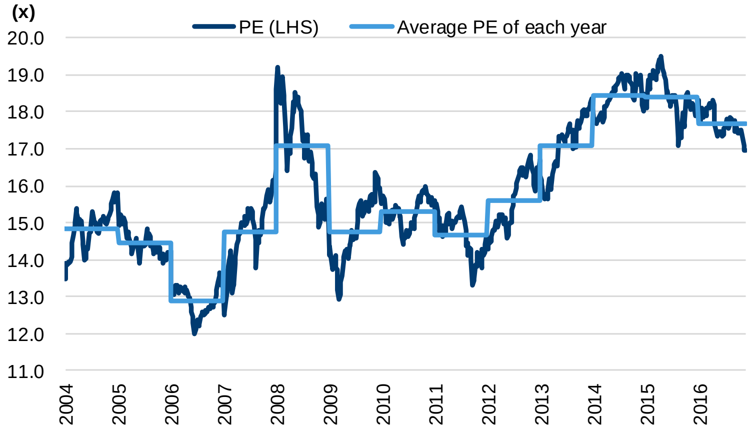
Sector	Rating	Market Cap (RMm)	Weightage	Sector contribution to EPS growth 2016E (%)	Sector contribution to EPS growth 2017E (%)
Auto & Autoparts	UW	7,585	0.6	0.3	0.2
Banks& Financials	N	274,543	23.2	(1.6)	2.0
Building Materials	UW	6,302	0.5	(0.3)	0.1
Const & Infra	OW	31,455	2.7	(0.1)	0.0
Consumer	N	48,769	4.1	(1.4)	1.5
Gaming	OW	61,803	5.2	1.4	(0.5)
Healthcare	OW	58,795	5.0	0.2	0.2
Media	N	17,621	1.5	0.0	0.1
MREIT	OW	28,006	2.4	0.2	0.0
Oil & Gas	UW	123,103	10.4	(1.0)	0.3
Plantations	N	125,433	10.6	1.6	(0.3)
Property	OW	32,372	2.7	(0.2)	0.0
Rubber Products	N	22,820	1.9	0.0	0.1
Technology	N	9,597	0.8	(0.0)	0.0
Telecoms	UW	143,477	12.1	(1.0)	0.6
Timber	OW	3,436	0.3	(0.1)	0.0
Transports & Logistics	UW	68,087	5.7	0.4	(0.4)
Utilities	OW	121,038	10.2	1.2	0.4
TOTAL		**1,184,242**	**100**	**(0.3)**	**4.5**

Source: Affin Hwang estimates and forecasts; market cap based on stock prices as of 30 November 2016

Valuation looks more attractive

At 1,619.12 (as of 30 November 2016), the KLCI is trading at a static 2016E PER of 17.6x and a 2017E PER of 16.8x, based on our coverage universe of 102 companies. On a 52-week forward basis, it is currently trading at 17.3x. We also maintain our 2016 year-end KLCI target of 1,655.68 and our 2017 year-end target of 1,760.41.

Fig 40: PER trend for KLCI



Source: Affin Hwang, Bloomberg

Sector and stock positioning

We have made two changes to our sector positioning involving the upgrade of Utilities from Neutral to Overweight due to a combination of the Malakoff upgrade to Buy (from Hold) and changes in the composition of the sector (where Gas Malaysia and Petronas Gas had been reclassified from Utilities to Oil & Gas). The other change that we have made is to downgrade Building Materials from Neutral to Underweight subsequent to the cut in our rating for Lafarge Malayan Cement from Hold to Sell. However, we make no revisions to our stock positioning that were done in our 2 November 2016 strategy report.

Fig 41: Positioning for the 18 sectors under our coverage

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

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

As usual, we have also given the breakdown of our stock coverage universe by rating. We base our sector ratings by reconciling the top-down attractiveness of a particular sector with our bottom-up stock ratings. We now have 34% (33% previously) of companies rated Buy, 38% (43% previously) rated Hold and 27% (24% previously) rated Sell. The five biggest sectors under our coverage, i.e., financials, telcos, plantations, oil & gas and utilities, make up 66.5% of our universe market cap of RM1.18 trillion, based on pricing as of 30 November. Meanwhile, the RM1.18 trillion represents 71.5% of the total Bursa Malaysia market capitalisation of listed companies of RM1.65 trillion.

Fig 42: Breakdown of our sector coverage by stock rating

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	UW	0.6%	7,585	-	-	3	3	-	-	100	100	-	-	100	100
Banks & Financial Services	N	23.2%	274,543	1	7	2	10	10	70	20	100	28	69	4	100
Building Materials	UW	0.5%	6,302	-	-	2	2	-	-	100	100	-	-	100	100
Construction & Infrastructure	OW	2.7%	31,455	7	1	-	8	88	13	-	100	99	1	-	100
Consumer	N	4.1%	48,769	1	3	5	9	11	33	56	100	10	53	37	100
Gaming	OW	5.2%	61,803	1	1	1	3	33	33	33	100	45	48	7	100
Healthcare	OW	5.0%	58,795	1	1	-	2	50	50	-	100	8	92	-	100
Media	N	1.5%	17,621	1	-	3	4	25	-	75	100	77	-	23	100
MREIT	OW	2.4%	28,006	3	2	-	5	60	40	-	100	44	56	-	100
Oil & Gas	UW	10.4%	123,103	1	6	3	10	10	60	30	100	1	53	46	100
Plantation	N	10.6%	125,433	-	4	3	7	-	57	43	100	-	47	53	100
Property	OW	2.7%	32,372	5	2	-	7	71	29	-	100	69	31	-	100
Rubber Products	N	1.9%	22,820	1	4	-	5	20	80	-	100	29	71	-	100
Technology	N	0.8%	9,597	4	2	2	8	50	25	25	100	57	24	19	100
Telecoms	UW	12.1%	143,477	-	2	2	4	-	50	50	100	-	58	42	100
Timber	OW	0.3%	3,436	3	-	-	3	100	-	-	100	100	-	-	100
Transports & Logistics	UW	5.7%	68,087	3	1	2	6	50	17	33	100	25	11	64	100
Utilities	OW	10.2%	121,038	3	3	-	6	50	50	-	100	72	28	-	100
Total		100.0%	1,184,242	35	39	28	102								

Source: Affin Hwang; based on stock prices as of 30 November 2016

Fig 43: Summary of sector valuation

Sector	Rating	Market Cap (RMm)	EPS Growth (%)		PE (x)		EV/EBITDA (x)		Yield (%)		P/BV (x)		ROE (%)	
			2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Auto & Autoparts	UW	7,585.0	1,741.0	57.0	23.6	15.0	15.5	12.4	2.7	3.9	1.1	1.3	3.5	5.9
Banks & Financial Services	N	274,543.2	(4.8)	6.1	13.4	12.6	-	-	3.9	4.1	1.5	1.4	10.0	10.2
Building Materials	UW	6,302.4	(76.3)	123.3	103.3	46.2	25.3	18.2	0.8	1.7	2.4	2.4	1.9	4.1
Construction & Infrastructure	OW	31,455.2	(11.0)	3.8	17.8	17.1	14.4	7.6	2.8	2.9	1.3	1.2	7.2	7.3
Consumer	N	48,768.8	(8.4)	10.4	22.9	20.7	13.6	10.9	4.1	4.4	17.1	18.3	16.2	32.1
Gaming	OW	61,803.3	51.7	(13.5)	13.7	15.8	6.3	5.3	1.2	1.3	0.6	0.6	6.0	4.6
Healthcare & Pharma.	OW	58,794.6	17.4	15.8	47.8	41.3	22.6	19.7	0.6	0.7	2.4	2.3	5.1	5.6
Media	N	17,621.3	2.6	16.9	19.2	16.4	8.4	1.6	5.0	5.3	5.5	4.9	19.5	20.7
MREIT	OW	28,005.9	30.7	2.0	18.4	18.1	14.6	13.6	5.4	5.6	1.1	1.1	6.1	6.5
Oil & Gas	UW	123,103.1	(9.7)	3.1	24.1	23.3	14.3	10.8	2.4	2.4	2.8	2.6	6.2	6.6
Plantations	N	125,433.0	21.9	(3.5)	20.9	21.7	14.0	7.8	2.7	3.0	2.2	2.3	8.4	9.6
Property	OW	32,371.7	(16.8)	1.0	11.4	11.2	9.9	7.2	4.0	4.2	0.9	0.9	7.8	7.7
Rubber Products	N	22,819.5	1.9	18.1	22.9	19.4	14.3	8.3	1.5	1.8	5.0	4.5	16.2	16.8
Technology	N	9,596.5	(9.6)	13.6	15.2	13.4	7.0	4.9	3.1	3.1	2.8	2.7	16.8	17.3
Telecoms	UW	143,477.2	(15.6)	11.1	25.2	22.7	10.6	10.0	2.7	3.1	4.8	4.7	16.2	17.7
Timber	OW	3,436.2	(35.5)	17.5	13.6	11.6	7.6	5.3	2.6	2.7	1.1	1.0	4.9	6.0
Transports & Logistics	UW	68,086.8	9.4	(8.9)	15.5	17.0	6.6	9.2	1.4	1.3	1.2	1.2	9.9	7.5
Utilities	OW	121,038.2	9.9	3.2	10.8	10.5	6.5	3.5	2.7	2.9	1.3	1.2	10.0	9.5
Coverage		**1,184,242.0**	**(0.3)**	**4.5**	**17.6**	**16.8**	**11.6**	**8.5**	**3.2**	**3.4**	**2.1**	**2.0**	**9.0**	**9.1**

Source: Bloomberg, Affin Hwang forecasts; based on pricing as of 30 November 2016

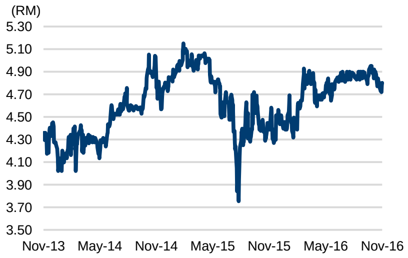
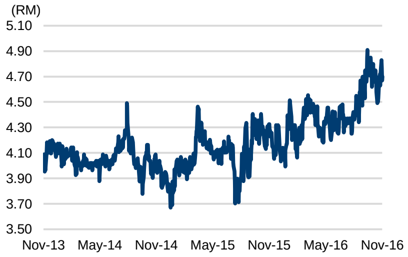
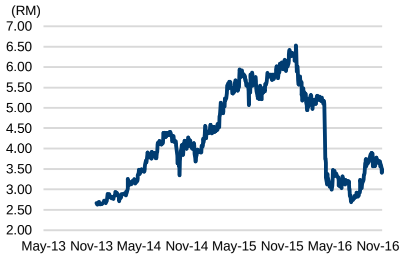
Fig 44: List of our top Buys and top Sells

Stock	Rating	Price (RM)	TP (RM)	Upside Pot. (%)	Mkt Cap (RMm)	Core PE (x) CY16E	Core PE (x) CY17E	Core EPS Growth (%) CY16E	Core EPS Growth (%) CY17E	PBV CY16E	PBV CY17E	DPS(sen) FY16E	DPS(sen) FY17E	Div. Yield (%) FY16E	Div. Yield (%) FY17E	ROE (%) FY16E	ROE (%) FY17E
Top Buys																	
GAMUDA	BUY	4.80	5.74	19.6	11,630.8	20.2	17.7	(8.7)	13.9	1.7	1.6	12.0	12.0	2.5	2.5	9.6	10.4
GENTING MALAYSIA	BUY	4.67	5.60	19.9	27,726.0	18.2	16.2	18.2	12.9	1.3	1.2	8.2	9.3	1.8	2.0	13.2	7.5
GLOBETRONICS	BUY	3.49	4.88	39.8	983.8	33.6	12.9	(58.0)	160.6	3.3	3.2	23.0	24.4	6.6	7.0	8.9	25.0
INARI	BUY	3.41	3.54	3.8	3,278.0	19.5	16.2	4.1	20.3	3.6	3.0	9.0	9.4	2.6	2.8	23.8	24.5
IOI PROPERTIES	BUY	2.09	2.89	38.3	9,240.2	9.4	9.6	4.8	(2.3)	0.6	0.6	8.5	8.5	4.1	4.1	7.4	6.2
JAKS RESOURCES	BUY	1.01	1.60	58.4	442.7	9.9	6.4	483.4	53.9	0.6	0.5	-	-	-	-	6.3	8.2
KPJ	BUY	4.20	5.01	19.3	4,465.4	30.2	28.0	26.2	7.9	3.0	2.9	7.5	8.0	1.8	1.9	9.5	9.7
PAVILION REIT	BUY	1.77	2.00	13.0	5,349.9	19.9	18.6	11.5	6.7	1.4	1.4	8.2	8.8	4.6	4.9	6.3	6.7
PUBLIC BANK	BUY	19.58	21.88	11.7	76,012.3	16.1	15.2	(7.2)	6.1	2.3	2.1	57.0	59.0	2.9	3.0	14.3	14.0
SCICOM	BUY	2.09	2.74	31.1	742.9	16.9	15.3	15.1	10.9	7.3	6.3	8.8	8.9	4.2	4.3	43.8	41.3
SUNWAY CONSTRUCTION	BUY	1.63	2.00	22.7	2,107.4	17.0	12.8	(1.8)	32.3	4.0	3.5	5.5	6.5	3.4	4.0	23.8	27.0
TA ANN	BUY	3.72	4.71	26.6	1,655.0	12.4	11.4	(37.1)	9.0	1.0	1.0	15.0	15.0	4.0	4.0	9.8	10.0
TENAGA	BUY	14.04	16.50	17.5	79,356.8	10.6	10.3	13.6	3.2	1.4	1.3	33.4	36.2	2.4	2.6	13.5	12.6
TIONG NAM	BUY	1.59	2.10	32.1	694.2	7.4	6.8	24.2	9.0	1.0	0.9	5.8	6.8	3.6	4.2	14.2	14.0
UOA DEVELOPMENT	BUY	2.37	2.64	11.4	3,868.9	11.8	11.3	(29.0)	4.0	1.1	1.0	12.0	14.0	5.1	5.9	11.4	9.9
WCT	BUY	1.77	2.13	20.3	2,227.6	21.1	14.9	(56.2)	41.7	1.0	0.8	6.0	8.0	3.4	4.5	3.7	5.5
WESTPORTS	BUY	4.37	4.90	12.1	14,765.3	22.9	21.4	26.6	6.9	7.2	6.7	14.2	15.2	3.2	3.5	31.4	30.9
YTL REIT	BUY	1.15	1.60	39.1	1,589.3	15.1	14.4	6.2	5.0	0.8	0.8	8.0	8.4	7.0	7.3	0.6	1.6
Top Sells																	
MCIL	SELL	0.64	0.50	(21.9)	1,079.8	10.2	10.2	(8.0)	(0.4)	1.2	1.0	4.3	4.4	6.8	6.8	11.1	10.3
MEDIA PRIMA	SELL	1.09	1.00	(8.3)	1,209.0	16.0	12.0	(45.1)	33.8	0.7	0.7	6.0	6.1	5.5	5.6	4.4	5.5
STAR	SELL	2.35	2.00	(14.9)	1,735.6	20.6	15.9	(37.2)	29.8	1.5	1.4	18.0	18.0	7.7	7.7	7.1	8.9
UMW-OG	SELL	0.73	0.63	(13.1)	1,567.5	(4.0)	(7.0)	261.4	(43.2)	0.5	0.4	-	-	-	-	(11.5)	(6.3)
UNISEM	SELL	2.40	1.98	(17.5)	1,761.2	13.0	14.1	(16.5)	(8.1)	1.6	1.5	11.8	10.2	4.9	4.3	13.0	10.9
TELEKOM	SELL	6.17	5.85	(5.2)	23,186.5	30.2	29.1	8.7	3.9	3.0	3.1	18.4	19.1	3.0	3.1	10.6	10.6

Source: Affin Hwang forecasts, Bloomberg; prices as of 30 November 2016

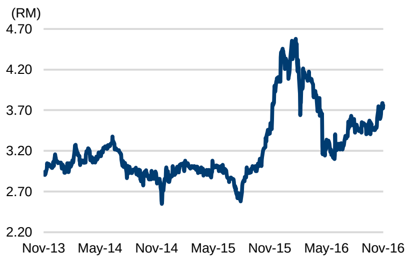
Please find below more details for our top Buys and top Sells.

Fig 45: individual top buys and top sells

Top BUY	Rating	Comments
GAMUDA (GAM MK) Target Price : RM5.74 Share Price as at : RM4.80 30 Nov 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 RM5.74. Gamuda and its partners have been appointed as the project delivery partner for the RM32bn 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, while Naim-Gamuda JV clinched the RM1.57bn Pan-Borneo Highway (Sarawak) (PBH) package. The three projects should spur the long-term earnings growth of its construction division. The potential sale of its 40% stake in the Splash water supply concession should provide the funding for its PTMP project
Genting Malaysia (GENM MK) Target Price : RM5.60 Share Price as at : RM4.67 30 Nov 2016 	BUY	We have a BUY rating on GENM as we believe that GENM, through its GITP program, will re-energise Genting Highland, providing growth that it was lacking previously. The main catalyst for the stock should be the opening of the facilities or amenities under GITP phase-1, which is expected to be completed by end-2017, with the opening of 20th Century Fox theme park. The opening of the theme park will drive visitation growth and increase overall spending per visitation, in our view. The key risk would be the delay in the opening of the theme park.
Globetronics (GTB MK) Target Price : RM4.88 Share Price as at : RM3.49 30 Nov 2016 	BUY	We think the stock price is bottoming out and see improving prospects from its sensor business; as such, we believe the risk-reward has turned increasingly favourable. We expect Globe's sensors division to record a robust revenue growth of 313% y-y as a new light sensor is expected to be introduced in 2017, coupled with likely mass adoption of its on-going gesture sensor. BUY with target price of RM4.88 (based on 18x 2017E EPS) and what we view as an attractive 2017E dividend yield of 7%. If the new light sensor is not designed into the new smartphone, there would likely be downside risk to earnings.

Top BUY	Rating	Comments
INARI AMERTRON (INRI MK) Target Price : RM3.54 Share Price as at : RM3.41 30 Nov 2016 	BUY	Inari is a leading RF test house in the region and is poised to consolidate its position given its solid working relationship with key customer, Broadcom, also a leader in the RF industry. We forecast Inari to achieve a 3-year-forward net profit CAGR of 17% over 2016-19, which we believe will continue to be driven by RF expansion in the near term. Longer term, Inari looks well positioned to benefit from the Internet of Things through its fiber-optic division. Trading at a 13x 2017E EPS, we believe valuations are attractive considering its growth prospects and exposure to the compelling data story.
IOI PROP (IOIPG MK) Target Price : RM2.89 Share Price as at : RM2.09 30 Nov 2016 	BUY	IOI Properties is seeing strong property development sales, especially for The Triling@Clementi project in Singapore. It also benefits from the weak Ringgit on 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 landbank acquisitions, especially in Xiamen, China. The current FY17E PER of 12x is undemanding while the potential net yield of over 3% looks attractive. Key risk is its aggressive purchase price for a piece of prime development land in Singapore and overhang on the proposed 1-for-4 rights issue of new shares. BUY with a RM2.89 target price, based on a 40% discount to RNAV.
JAKS RESOURCES (JAK MK) Target Price : RM1.60 Share Price as at : RM1.01 30 Nov 2016 	BUY	We have a BUY rating on JAK. We think the catalyst for the stock would be when JAK gets the approval for the power plant's detail design from the Vietnam government. The approval is crucial, as it would allow JAK and its partner to ramp up construction work on-site, which would be beneficial for JAK as earnings from the EPC contract should pick up too. The key risk is a continued delay in obtaining approval from the authority.

Top BUY	Rating	Comments
KPJ (KPJ MK) Target Price : RM5.01 Share Price as at : RM4.20 30 Nov 2016 	BUY	We believe the private hospital industry has excellent growth prospects, based on expected secular demand growth for private healthcare. KPJ has clear expansion plans based on the expected secular demand growth in its key home markets. The group has laid out plans to develop eight new hospitals and expand eight of its existing hospitals, which could add a total of 1,645 beds to its network in Malaysia. Maintain our BUY rating on KPJ with a RM5.01 TP, based on an SOTP valuation. We like KPJ for its strong expansion plan and its cheap valuation among regional peers.
Pavilion REIT (PREIT MK) Target Price : RM2.00 Share Price as at : RM1.77 30 Nov 2016 	BUY	Its retail mall asset (Pavilion Kuala Lumpur, 1.3m sq ft) is currently a major city-centre shopping destination and caters to the higher-income shoppers; hence, it does not expect a pullback in consumer spending despite weak market sentiment among mass consumers. Management remains committed to doing yield-accretive AEIs. We believe that there will be more asset injections with Pavilion Elite (250,000 sq ft), Pavilion Damansara (1m sq ft) and Pavilion Bukit Jalil (2m sq ft) in the pipeline. FY16-18E yields currently stand at 4.6-5.5%.
Public Bank (PBK MK) Target Price : RM21.88 Share Price as at : RM19.58 30 Nov 2016 	BUY	PBK remains a defensive bank due to its sound asset quality (lowest gross impaired loan ratio of 0.52%), established franchise in retail banking (No.1 position) and well-capitalised balance sheet. Though the banking industry is faced with moderating loan growth, pressure on NIM and a rising risk of delinquencies, PBB's superior management execution strategies, which had overcome headwinds during the global financial crisis in 2008-09, should stand the group in good stead. We believe that expansion in overseas operations (predominantly Hong Kong and Cambodia), increased focus on fee-income generation (unit trust sales, forex structured products) and efficient cost management will offset negative operating factors such as NIM compression.

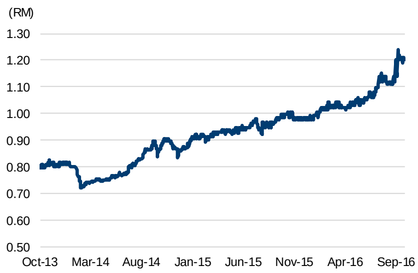
Top BUY	Rating	Comments
Scicom (SCIC MK) Target Price : RM2.74 Share Price as at : RM2.09 30 Nov 2016 	BUY	Scicom specializes in business process outsourcing (BPO) and is an attractive e-government service play, in our view. Earnings rose by about 50% in FY14-15 and about 19% in FY16 after the company was granted the Education Malaysia Global Services (EMGS) contract which effectively commenced in 2013. We believe earnings should continue to expand due to the increase in international students, in line with the government's ETP target of 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 RM2.74, based on a PER of 20x applied to our CY17E EPS. Key risk would be a loss of BPO customers and fewer-than-expected foreign students.
Sunway Construction (SCGB MK) Target Price : RM2.00 Share Price as at : RM1.63 30 Nov 2016 	BUY	SCGB is among our top BUYs for mid-cap construction stocks with a RM2.00 target price, based on a 10% discount to its end-2017E RNAV. We believe its prospects to win new infrastructure projects are good as a pre-qualified contractor for LRT Line 3 and commercial building projects to be rolled out this year. We think SCGB provides pure construction exposure to the cyclical upturn for the sector. Its precast concrete division benefits from the weak Ringgit as it derives revenue in SGD. We also believe that its strong net cash position will support a high dividend payout and attractive net yield of over 3% in FY16.
Ta Ann (TAH MK) Target Price : RM4.71 Share Price as at : RM3.77 30 Nov 2016 	BUY	We continue to like Ta Ann for its rising plantation earnings prospects given the increasing matured plantation areas, and FFB and CPO production, as well as an attractive 2017E yield of 4%, in our view. Given the soft timber division, we expect Ta Ann's earnings contribution from the plantation division to surpass that of the timber business. We have a BUY rating for Ta Ann and our SOTP-derived 12-month target price is RM4.71. This is based on 10x our 2017E EPS for its timber division and 15x for its plantation division, and 1x BV for its forest plantation.

Top BUY	Rating	Comments
Tenaga (TNB MK) Target Price : RM16.50 Share Price as at : RM14.04 30 Nov 2016 	BUY	We have a BUY rating on TNB. The catalyst would be a higher dividend payout, when the government announces its new capital optimisation plan. The current payout is based on 40-60% of the company's FCF. Post the implementation of the Imbalance Cost Past Through (ICPT) mechanism, the cash flow for TNB has become more predictable, which we think is supportive of a higher dividend payout in the future. The key risks would be if the government decides to suspend the ICPT, and to continue with the tariff rebates despite the higher fuel cost.
TIONG NAM (TNL MK) Target Price : RM2.10 Share Price as at : RM1.59 30 Nov 2016 	BUY	We like TNL for the resilient and stable logistics and warehousing segment. Rising logistics outsourcing, growing e-commerce fulfilment and increasing cold room requirements should boost demand for TNL's strategically located storage space. A committed and transparent capacity expansion plan should increase earnings visibility, while an improving services mix gives room for margin expansion. We expect TNL's capacity and its margin to expand on ongoing productivity gains and lower labour costs driven by the higher automation effort. Aside from logistics, the property development segment is a sizeable earnings driver, in our view. We expect the revenue cover of more than a year to sustain earnings visibility in the near term while growth prospects should be underpinned by undeveloped landbanks of more than 150 acres.
UOA Development (UOAD MK) Target Price : RM2.64 Share Price as at : RM2.37 30 Nov 2016 	BUY	We like UOA Development for its strong management, good product branding and net cash position (RM708m as at end-Sept 2016). As a niche property developer focusing on mid- to high-end mixed development projects in Greater Kuala Lumpur, UOA is seeing good take-up rates for launches despite the current weak market and tight bank lending conditions. The company targets to launch another RM1.5bn worth of properties in 2H16. The next key catalyst should be its Jalan Ipoh development, which is expected to mirror the success of the Bangsar South development. Our 12-month target price of RM2.64 is based on a 30% discount to its RNAV.

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

Target Price : RM2.13
Share Price as at : RM1.77
30 Nov 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 RM2.13 based on a 10% discount to its end-2017E RNAV. WCT clinched RM1.4bn in new contracts in 9M16 to replenish its order book to RM4.8bn. We believe WCT's prospects to secure more local contracts have improved after it secured its first MRT civil works package. WCT is pre-qualified to bid for the LRT3, WCE and PBH projects. The change is a major shareholder could accelerate its plans to monetise its assets such as the potential sale two malls to Pavilion REIT in 1H17 and reduce its high net gearing of above 0.8x. We expect a strong 3-year core EPS CAGR of 48% in FY16-18.</td></tr>
<tr><td>Westports (WPRTS MK)
Target Price : RM4.90
Share Price as at : RM4.37
30 Nov 2016

</td><td>BUY</td><td>We expect Westports to be the prime beneficiary of ongoing shipping alliance consolidation and volume aggregation. Its cost advantages and superior productivity will likely continue to underpin its competitiveness against regional peers. Capacity expansion to boost its total annual handling capacity to 16m TEUs by 2020E, up from 11m TEUs presently, should accommodate strong volume growth with comfortable utilisation rates. We think the planned tariff hike revision in 2018 provides strong earnings visibility and likely significant yield improvements, and we forecast a 10% earnings CAGR in 2016-20.</td></tr>
<tr><td>YTL Reit (YTLREIT MK)
Target Price : RM1.60
Share Price as at : RM1.15
30 Nov 2016

</td><td>BUY</td><td>We are of the view that an investor buying into the stock is getting it cheaper than buying the physical assets, as implied by YTLREIT's P/NAV of 0.78x (30 Sept 2016). The commencement of a new step-up cycle in the Master Leases in November 2016 and potential asset injection (via YTL Hotels) are key catalysts. The stock has upside potential of 39% to our DDM-based 12-month TP of RM1.60 and offers investors FY17-18E DPU yields of 7.0-7.9%.</td></tr>
</table>

Source: Bloomberg, Affin Hwang

Top Sell	Rating	
MCIL (MCIL MK) Target Price : RM0.50 Share Price as at : RM0.64 30 Nov 2016 	SELL	We maintain our SELL rating on Media Chinese International Limited (MCIL), due 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 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 RM0.50, based on 8x 2017E EPS.
Media Prima (MPR MK) Target Price : RM1.00 Share Price as at : RM1.09 30 Nov 2016 	SELL	We are still less upbeat on Media Prima as earnings continues to disappoint, especially in the print division. Weak consumer sentiment, continued market uncertainties and changes in media consumption habits have affected Media Prima's revenue. We are keeping our SELL rating on the stock with a target price of RM1.00, based on an 11x our 2017E EPS.
Star (STAR MK) Target Price : RM2.00 Share Price as : RM2.35 at 30 Nov 2016 	SELL	We remain cautious on Star because of: 1) the ongoing challenging outlook for the media industry with adex potentially affected in coming quarters 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. Maintain our SELL call on Star with a 12-month target price of RM2.00, based on 13.4x our 2017E EPS.

Top Sell	Rating	
UMWOG (UMWOG MK) Target Price : RM0.63 Share Price as at : RM0.73 30 Nov 2016 	SELL	We remain short-term negative and continue to take a cautious stance on UMWOG. With six out of its eight NAGA rigs stacked, earnings outlook is looking rather bleak. We continue to expect UMWOG to register losses for the next 3 years. Based on our stress test, its financial health remains worrying as there appears to be a shortfall of RM246m in settling its short-term debt by taking into account its cash position and likely cash flow for the next 4 quarters. Maintain SELL on the stock with an unchanged TP of RM0.63 based on 0.5x our 2016E P/BV.
Unisem (UNI MK) Target Price : RM1.98 Share Price as at : RM2.40 30 Nov 2016 	SELL	We continue to see high risk to earnings for Unisem given its exposure to the various semiconductor end-markets. The ongoing inventory problem, should it worsen, would accelerate this downturn. Meanwhile, PE valuations are rich and the stock lacks any re-rating catalysts, in our view. We reaffirm our Sell call based on a 12-month TP of RM1.98 (based on an unchanged PBR of 1x now applied to our 2017E BVPS). Risks to our call: better-than-expected demand and stronger-than-expected US$ appreciation.
Telekom Malaysia (TM MK) Target Price : RM5.85 Share Price as at 30 : RM6.17 Nov 2016 	SELL	While we like TM's dominant broadband position, we think that there is a high risk to earnings from its wireless ambitions. Webe is unlikely to positively turn around in the near term. Recent newsflow on lower broadband prices will likely negatively affect earnings. PE valuations at c. 30x 2016E core EPS are not compelling while dividend yields at c.3.0% are unexciting. SELL with a 12-month DCF-derived target price of RM5.85 (WACC of 6.9% and terminal growth of 1%). The key risks are a higher-than-expected broadband demand and a quick turnaround in Webe.

Source: Bloomberg, Affin Hwang

Fig 46: Affin Hwang's stock universe

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside/ Downside Pot. (%)	Market Cap (RMm)	EPS Growth (%) 2016E	EPS Growth (%) 2017E	Core EPS Growth (%) 2016E	Core EPS Growth (%) 2017E	PE (x) 2016E	PE (x) 2017E	EV/EBITDA (x) 2016E	EV/EBITDA (x) 2017E	Yield (%) 2016E	Yield (%) 2017E	P/BV (x) 2016E	P/BV (x) 2017E	ROE (%) 2016E	ROE (%) 2017E
Auto & Autoparts					**7,585**	**1,741.0**	**57.0**	**92.9**	**48.1**	**23.6**	**15.0**	**15.5**	**12.4**	**2.7**	**3.9**	**1.1**	**1.3**	**3.5**	**5.9**
APM AUTOMOTIVE	SELL	3.40	3.10	(8.82)	685.26	11.5	7.0	12.5	7.0	9.9	9.2	3.0	2.3	5.7	5.9	0.6	0.6	6.7	6.7
MBMR	SELL	2.29	1.98	(13.54)	894.73	6.9	30.0	6.9	30.0	10.4	8.0	40.7	26.7	3.1	3.5	0.4	0.5	4.0	6.1
UMW	SELL	5.14	4.52	(12.06)	6,005.03	(667.6)	67.7	246.8	67.7	27.2	16.2	16.8	13.1	3.9	5.8	0.8	0.9	2.9	5.6
Banks & Financial Services					**274,543**	**(4.8)**	**6.1**	**0.2**	**10.7**	**13.4**	**12.6**			**3.9**	**4.1**	**1.5**	**1.4**	**10.0**	**10.2**
AEON CREDIT	HOLD	13.32	14.70	10.36	1,918.08	10.2	12.1	10.3	12.0	8.1	7.2	0	0	4.7	5.3	2.1	1.8	27.7	26.1
AFG	HOLD	3.85	4.10	6.49	5,958.98	2.6	3.3	2.6	3.3	10.9	10.6	0	0	3.9	4.1	1.2	1.1	10.7	10.4
AMMB	HOLD	4.18	4.30	2.87	12,599.29	(2.7)	4.1	(2.7)	4.1	8.9	8.5	0	0	3.7	3.7	0.8	0.7	8.6	8.3
BURSA M'SIA	SELL	8.46	8.80	4.02	4,536.86	(5.4)	0.3	(5.5)	0.3	24.2	24.1	14.0	13.8	3.8	3.8	5.7	5.3	23.6	22.0
CIMB	HOLD	4.57	5.00	9.41	40,528.51	25.3	13.1	20.1	17.8	10.9	9.6	0	0	2.7	3.1	0.9	0.8	8.2	8.8
HONG LEONG BANK	HOLD	13.30	13.00	(2.26)	28,919.87	(5.3)	6.8	(6.1)	3.8	12.6	11.8	0	0	3.9	3.8	1.3	1.1	10.9	11.1
MAYBANK	HOLD	7.77	7.50	(3.47)	79,201.16	(11.7)	4.6	(18.7)	11.6	12.2	11.7	0	0	6.4	7.1	1.2	1.2	10.2	10.2
MBSB	SELL	0.90	0.78	(13.33)	5,218.90	(52.9)	14.3	(52.9)	11.9	21.4	18.8	0	0	1.4	1.6	0.5	0.5	4.7	5.0
PUBLIC BANK	BUY	19.58	21.88	11.75	76,012.27	(7.2)	6.1	(7.2)	6.1	16.1	15.2	0	0	2.9	3.0	2.3	2.1	14.3	14.0
RHB BANK	HOLD	4.90	5.00	2.04	19,649.23	14.5	3.6	(8.3)	(1.1)	7.4	7.1	0	0	2.0	2.2	0.5	0.5	7.4	7.9
Building Materials					**6,302**	**(76.3)**	**123.3**	**(72.2)**	**99.7**	**103.3**	**46.2**	**25.3**	**18.2**	**0.8**	**1.7**	**2.4**	**2.4**	**1.9**	**4.1**
CHOO BEE	SELL	1.68	0.94	(44.05)	184.63	78.3	19.6	51.6	19.6	17.3	14.5	7.5	6.5	3.6	3.6	0.4	0.4	2.4	2.9
LAFARGE	SELL	7.20	6.40	(11.11)	6,117.80	(76.9)	126.5	(75.6)	113.9	105.9	46.8	26.8	18.9	0.9	2.1	2.0	2.0	1.9	4.2
Construction & Infrastructur					**31,455**	**(11.0)**	**3.8**	**(14.8)**	**20.7**	**17.8**	**17.1**	**14.4**	**7.6**	**2.8**	**2.9**	**1.3**	**1.2**	**7.2**	**7.3**
BENALEC	HOLD	0.38	0.40	6.67	304.42	63.2	23.8	64.3	23.8	11.9	9.6	8.2	3.9	4.4	8.0	0.5	0.5	4.5	5.2
EVERSENDAI	BUY	0.52	0.67	28.85	402.48	(154.0)	(346.2)	3.5	14.3	(13.3)	5.4	6.3	5.8	7.7	7.7	0.4	0.4	(3.0)	7.1
GABUNGAN AQRS	BUY	0.87	1.24	43.35	338.10	(250.0)	68.9	(600.0)	68.9	19.2	11.4	9.0	7.2	-	-	0.9	0.8	5.6	9.2
GAMUDA	BUY	4.80	5.74	19.58	11,630.80	(5.4)	13.2	(8.7)	13.9	18.9	16.7	18.2	9.5	2.5	2.5	1.7	1.6	9.6	10.4
IJM CORP	BUY	3.23	3.57	10.53	11,635.68	(3.8)	(14.1)	0.4	8.3	16.3	18.9	13.3	3.1	3.1	3.1	1.0	1.0	6.2	5.1
MRCB	BUY	1.31	1.50	14.50	2,808.69	(42.2)	(43.0)	(82.7)	100.0	12.2	21.5	16.2	14.6	1.9	1.9	1.1	1.1	11.2	6.3
SUNWAY CONSTRUCTION	BUY	1.63	2.00	22.70	2,107.43	(2.4)	32.3	(1.8)	32.3	17.0	12.8	7.7	5.6	3.4	4.0	4.0	3.5	23.8	27.0
WCT	BUY	1.77	2.13	20.34	2,227.55	(60.4)	56.6	(56.2)	41.7	23.3	14.9	16.8	13.9	3.4	4.5	1.0	0.8	3.7	5.5

Securities

AFFIN HWANG CAPITAL

Daiwa Capital Markets

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside/ Downside Pot. (%)	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
Consumer					**48,769**	**(8.4)**	**10.4**	**(14.7)**	**21.4**	**22.9**	**20.7**	**13.6**	**10.9**	**4.1**	**4.4**
AEON CO	HOLD	2.70	2.65	(1.85)	3,790.80	(46.3)	156.9	(46.9)	156.9	52.9	20.6	9.4	6.8	0.6	1.6
BAT	SELL	44.20	46.90	6.11	12,620.43	(28.9)	11.7	(29.0)	11.7	19.5	17.5	17.9	16.1	5.0	5.6
BONIA	SELL	0.56	0.49	(12.50)	451.47	(17.4)	22.2	(17.1)	12.8	15.6	12.7	9.0	3.8	2.0	1.7
CARLSBERG	HOLD	13.86	14.22	2.60	4,295.92	2.9	11.3	(1.2)	11.3	19.1	17.1	10.4	10.1	5.2	5.8
HEINEKEN	BUY	15.78	17.92	13.56	4,767.11	10.1	(17.2)	9.8	(17.2)	14.0	16.9	8.2	5.0	6.6	5.3
HAI-O	SELL	3.66	2.78	(24.04)	738.67	18.3	11.8	18.2	11.8	17.7	15.8	7.2	2.1	3.9	4.1
MSM	SELL	5.05	4.26	(15.64)	3,550.05	(50.2)	71.4	(50.0)	71.4	25.4	14.8	11.4	7.9	2.6	4.4
NESTLE	HOLD	75.98	78.20	2.92	17,817.31	14.8	10.4	14.7	10.4	26.3	23.8	17.2	15.8	3.8	4.1
PARKSON	SELL	0.66	0.51	(22.14)	737.09	37.0	(271.7)	25.9	(192.0)	(21.8)	12.7	10.9	3.5	0.8	2.3
Gaming					**61,803**	**51.7**	**(13.5)**	**16.7**	**10.3**	**13.7**	**15.8**	**6.3**	**5.3**	**1.2**	**1.3**
BTOTO	SELL	3.13	2.88	(7.99)	4,228.72	(2.9)	2.1	(2.8)	2.1	13.4	13.1	9.1	2.9	6.1	6.1
GENTING	HOLD	7.96	9.00	13.07	29,848.57	25.2	9.4	20.1	9.4	17.1	15.6	4.9	4.4	0.4	0.4
GENTING MALAYSIA	BUY	4.67	5.60	19.91	27,726.00	111.1	(40.0)	18.2	12.9	10.0	16.6	9.4	8.0	1.8	2.0
Healthcare & Pharma.					**58,795**	**17.4**	**15.8**	**30.0**	**15.8**	**47.8**	**41.3**	**22.6**	**19.7**	**0.6**	**0.7**
IHH	HOLD	6.60	7.01	6.21	54,329.22	18.0	16.4	30.8	16.4	49.3	42.3	23.6	20.5	0.5	0.6
KPJ	BUY	4.20	5.01	19.29	4,465.38	11.4	7.9	26.2	7.9	30.2	28.0	15.7	14.3	1.8	1.9
Media					**17,621**	**2.6**	**16.9**	**(8.0)**	**15.3**	**19.2**	**16.4**	**8.4**	**1.6**	**5.0**	**5.3**
ASTRO	BUY	2.61	3.30	26.44	13,596.85	14.7	15.5	2.2	14.3	19.5	16.9	8.9	0.7	4.9	5.4
MCIL	SELL	0.64	0.50	(21.88)	1,079.83	(3.9)	2.0	(8.0)	(0.4)	10.4	10.2	6.5	1.5	6.8	6.8
MEDIA PRIMA	SELL	1.09	1.00	(8.26)	1,209.03	(45.6)	33.8	(45.1)	33.8	16.0	12.0	5.9	4.6	5.5	5.6
STAR	SELL	2.35	2.00	(14.89)	1,735.62	(36.7)	29.8	(37.2)	29.8	20.6	15.9	8.9	7.5	7.7	7.7
MREIT					**28,006**	**30.7**	**2.0**	**103.7**	**4.4**	**18.4**	**18.1**	**14.6**	**13.6**	**5.4**	**5.6**
AXIS REIT	HOLD	1.68	1.67	(0.60)	1,856.69	(1.2)	12.6	5.4	12.6	19.3	17.1	17.7	16.6	5.3	5.8
IGB REIT	BUY	1.58	1.62	2.53	5,519.69	15.1	7.8	15.1	7.8	18.7	17.4	15.0	14.0	5.9	6.3
KLCC	HOLD	7.62	8.00	4.99	13,756.64	39.2	1.0	596.4	1.0	18.2	18.0	13.5	13.6	4.9	5.1
PAVILION REIT	BUY	1.77	2.00	12.99	5,349.87	(14.5)	6.3	11.5	6.7	22.1	20.8	16.6	15.5	4.6	4.9
YTL REIT	BUY	1.15	1.60	39.13	1,523.05	6.2	5.0	6.2	5.0	14.5	13.8	14.1	6.8	7.0	7.3

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside/ Downside Pot. (%)	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
Oil & Gas					**123,103**	**(9.7)**	**3.1**	**(25.6)**	**9.8**	**24.1**	**23.3**	**14.3**	**10.8**	**2.4**	**2.4**
ALAM MARITIM	SELL	0.19	0.19	-	175.65	(95.8)	350.0	(128.6)	350.0	95.0	21.1	9.4	7.4	-	-
BUMI ARMADA	HOLD	0.51	0.60	17.65	2,991.80	(150.0)	180.0	67.4	180.0	25.5	9.1	19.8	10.5	0.6	1.6
DIALOG	HOLD	1.60	1.61	0.63	8,562.01	5.5	11.2	(45.1)	33.9	27.6	24.8	23.0	10.5	1.5	1.6
GAS MALAYSIA	HOLD	2.58	2.69	4.26	3,312.72	35.4	1.8	35.4	1.8	23.0	22.6	11.2	11.2	4.3	4.4
MMHE	BUY	0.86	1.22	41.86	1,376.00	(3.7)	65.4	(71.7)	65.4	33.1	20.0	9.0	6.4	-	-
PCHEM	SELL	6.83	5.29	(22.55)	54,640.00	(11.1)	1.9	(11.0)	1.9	22.0	21.5	11.9	11.7	2.4	2.4
PETRA ENERGY	HOLD	0.95	1.00	5.26	305.69	(141.9)	(197.0)	(156.8)	(197.0)	(14.2)	14.6	(16.6)	21.2	3.2	3.2
PETRONAS GAS	HOLD	20.98	21.24	1.24	41,513.80	(13.6)	2.4	(13.7)	2.4	24.2	23.6	15.2	14.6	2.8	2.8
SAPURA KENCANA	HOLD	1.44	1.36	(5.56)	8,658.02	(111.6)	(35.9)	(79.8)	(13.8)	121.7	189.9	13.4	1.3	0.3	0.1
UMW-OG	SELL	0.73	0.63	(13.10)	1,567.45	6.3	(43.2)	261.4	(43.2)	(4.0)	(7.0)	(92.7)	31.7	-	-
Plantations					**125,433**	**21.9**	**(3.5)**	**16.8**	**42.3**	**20.9**	**21.7**	**14.0**	**7.8**	**2.7**	**3.0**
FELDA	SELL	1.54	1.10	(28.57)	5,618.15	(103.1)	(7,400.0)	(102.7)	(7,400.0)	(1,540.0)	21.1	13.9	9.0	5.2	5.2
GENTING PLANT	SELL	10.70	9.56	(10.65)	8,491.47	8.5	14.8	29.7	67.1	41.6	36.3	20.9	14.2	1.1	1.1
HAP SENG PLANT	HOLD	2.42	2.33	(3.72)	1,935.91	5.3	30.7	4.1	30.7	19.1	14.6	10.8	8.6	4.1	4.5
IJM PLANT	HOLD	3.30	3.53	6.97	2,905.91	153.2	58.5	90.3	62.6	27.7	17.5	16.7	2.9	2.7	3.0
IOI CORP	HOLD	4.35	4.15	(4.60)	28,107.83	150.4	41.4	79.6	19.4	28.2	19.9	17.9	7.7	2.3	2.8
KUALA LUMPUR KEPONG	HOLD	23.88	21.70	(9.13)	25,492.02	42.6	(15.9)	22.5	15.2	17.0	20.2	11.3	8.4	2.2	2.5
SIME DARBY	SELL	7.96	6.65	(16.46)	52,881.67	(9.9)	2.5	(5.5)	19.9	23.3	22.7	13.3	6.7	3.6	3.8
Property					**32,372**	**(16.8)**	**1.0**	**(2.6)**	**5.5**	**11.4**	**11.2**	**9.9**	**7.2**	**4.0**	**4.2**
AMCORP PROP	HOLD	0.80	0.80	-	482.56	10.6	64.2	15.1	64.2	6.1	3.7	8.1	3.2	6.8	10.9
E&O	BUY	1.50	1.98	32.00	1,893.06	(42.3)	40.2	(23.7)	32.0	45.5	32.4	49.2	9.6	1.3	1.3
IOI PROPERTIES	BUY	2.09	2.89	38.28	9,240.16	(8.9)	(12.5)	4.8	(2.3)	8.4	9.6	7.7	3.9	4.1	4.1
SP SETIA	HOLD	3.30	3.25	(1.52)	9,416.32	(16.6)	2.7	(12.4)	2.6	14.9	14.5	10.5	8.7	4.2	4.2
SUNWAY	BUY	2.95	3.90	32.20	6,042.81	(20.1)	12.1	(5.8)	12.1	9.4	8.4	9.2	8.1	3.4	3.7
TROPICANA	BUY	1.00	1.40	40.70	1,427.91	(35.5)	(1.0)	45.5	(1.0)	10.0	10.1	11.9	12.4	5.0	5.0
UOA DEVELOPMENT	BUY	2.37	2.64	11.39	3,868.92	(19.8)	(7.9)	(29.0)	4.0	10.4	11.3	6.0	6.3	5.1	5.9

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside/ Downside Pot. (%)	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
Rubber Products					**22,820**	**1.9**	**18.1**	**4.6**	**15.3**	**22.9**	**19.4**	**14.3**	**8.3**	**1.5**	**1.8**
HARTALEGA	HOLD	4.90	4.40	(10.20)	8,043.01	10.3	21.3	9.7	21.3	29.4	24.2	16.9	3.5	1.4	1.6
KAREX	HOLD	2.39	2.50	4.60	2,395.68	6.4	13.3	4.9	18.3	34.6	30.5	21.8	10.8	0.5	0.6
KOSSAN	HOLD	6.68	6.40	(4.19)	4,271.65	(9.7)	28.9	(9.7)	28.9	23.3	18.1	19.2	15.5	2.2	2.8
SUPERMAX	HOLD	2.18	2.25	3.21	1,482.74	(17.5)	9.1	(17.5)	9.1	14.2	13.0	12.5	12.7	2.8	2.3
TOP GLOVE	BUY	5.28	5.40	2.27	6,626.44	19.1	5.1	16.9	5.1	18.0	17.1	9.2	5.8	2.8	2.9
Technology					**9,597**	**(9.6)**	**13.6**	**(3.0)**	**8.6**	**15.2**	**13.4**	**7.0**	**4.9**	**3.1**	**3.1**
AEMULUS	SELL	0.17	0.15	(11.76)	74.60	(112.7)	(533.3)	(96.0)	1,200.0	(75.6)	17.4	0	33.1	-	-
GLOBETRONICS	BUY	3.49	4.88	39.83	983.81	(62.9)	188.3	(58.0)	160.6	37.1	12.9	33.4	14.8	6.6	7.0
INARI	BUY	3.41	3.54	3.81	3,278.03	4.1	22.0	4.1	20.3	19.8	16.2	10.1	4.2	2.6	2.8
KESM	BUY	9.85	11.00	11.68	423.69	80.1	18.1	64.5	18.1	13.8	11.7	1.4	1.1	0.8	0.9
MPI	HOLD	7.28	8.25	13.32	1,527.96	2.9	(13.4)	2.6	(20.9)	10.7	12.4	3.2	1.7	3.0	2.7
SCICOM	BUY	2.09	2.74	31.10	742.90	16.0	9.6	15.1	10.9	16.7	15.3	13.1	5.8	4.2	4.3
UCHI TECH	HOLD	1.81	1.81	-	804.37	(1.2)	1.6	(12.1)	1.6	14.1	13.9	9.3	9.3	6.1	6.1
UNISEM	SELL	2.40	1.98	(17.50)	1,761.19	(10.6)	(13.7)	(16.5)	(8.1)	12.2	14.1	5.0	5.3	-	-
Telecoms					**143,477**	**(15.6)**	**11.1**	**(8.0)**	**7.4**	**25.2**	**22.7**	**10.6**	**10.0**	**2.7**	**3.1**
AXIATA	SELL	4.19	3.88	(7.40)	37,590.08	(55.3)	56.5	(36.6)	27.3	32.0	20.4	8.6	8.0	2.5	3.9
DIGI	HOLD	4.87	5.09	4.52	37,864.25	(1.6)	0.9	2.2	(3.1)	22.3	22.1	14.7	14.3	4.5	4.5
MAXIS	HOLD	5.97	6.08	1.84	44,836.44	16.6	(1.5)	13.5	-	22.1	22.4	13.1	12.8	3.4	3.4
TELEKOM	SELL	6.17	5.85	(5.19)	23,186.46	15.0	(1.4)	8.7	3.9	28.7	29.1	8.5	8.0	3.0	3.1
Timber					**3,436**	**(35.5)**	**17.5**	**(19.0)**	**22.4**	**13.6**	**11.6**	**7.6**	**5.3**	**2.6**	**2.7**
JAYA TIASA	BUY	1.33	1.51	13.53	1,295.04	67.6	36.9	51.1	22.9	16.9	12.4	7.7	3.6	1.2	1.6
TA ANN	BUY	3.72	4.71	26.61	1,654.97	(40.4)	9.0	(37.1)	9.0	12.4	11.4	7.0	6.3	4.0	4.0
WTK	BUY	1.01	1.23	21.78	486.14	(66.3)	111.9	(70.9)	111.9	24.0	11.3	9.6	7.1	2.5	2.5

Company name	Rec	Price Current (RM)	Price Target (RM)	Upside/ Downside Pot. (%)	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
Transports & Logistics					**68,087**	**9.4**	**(8.9)**	**31.1**	**(10.2)**	**15.5**	**17.0**	**6.6**	**9.2**	**1.4**	**1.3**
AIRASIA	HOLD	2.76	3.00	8.70	7,680.73	267.5	(49.8)	338.2	(35.6)	3.9	7.7	5.8	7.4	3.9	2.0
AIRASIA X	BUY	0.37	0.49	32.43	1,534.81	(158.5)	(1.6)	(144.5)	27.1	6.0	6.1	1.0	9.3	-	-
MAHB	SELL	6.35	5.40	(14.96)	10,535.87	(355.8)	133.3	(660.7)	133.3	192.4	82.5	8.7	7.9	0.2	0.4
MISC	SELL	7.34	6.70	(8.72)	32,764.24	(2.5)	(8.2)	(23.7)	(0.2)	13.6	14.8	10.3	10.0	1.5	1.3
TIONG NAM	BUY	1.59	2.10	32.08	669.41	22.4	9.0	24.2	9.0	7.2	6.6	5.8	1.3	3.6	4.2
WESTPORTS	BUY	4.37	4.90	12.13	14,901.70	27.6	6.9	26.6	6.9	23.1	21.6	14.3	13.4	3.2	3.5
Utilities					**121,038**	**9.9**	**3.2**	**12.2**	**0.8**	**10.8**	**10.5**	**6.5**	**3.5**	**2.7**	**2.9**
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	-	-
MALAKOFF	BUY	1.35	1.65	22.22	6,750.00	(1.8)	-	(12.8)	-	14.1	14.1	7.7	7.2	5.3	5.3
MMC	HOLD	2.40	2.35	(2.08)	7,308.14	(74.6)	2.9	17.6	2.9	17.5	17.0	29.0	28.0	1.7	1.7
TENAGA	BUY	14.04	16.50	17.52	79,356.85	14.2	3.2	13.6	3.2	10.6	10.3	4.5	2.1	2.4	2.6
YTL CORP	HOLD	1.44	1.70	18.06	15,698.86	(0.5)	7.5	27.5	(6.6)	15.5	14.4	7.5	3.5	8.3	8.3
YTL POWER	HOLD	1.41	1.60	13.48	11,481.60	(0.3)	(0.7)	(3.5)	(0.8)	10.4	10.4	9.3	4.7	7.1	7.1
Market Total					**1,184,242**	**(0.3)**	**4.5**	**(3.3)**	**8.1**	**17.6**	**16.8**	**11.6**	**8.5**	**3.2**	**3.4**

Source: Bloomberg, Affin Hwang forecasts; note: prices as of close on 30 November 2016
Note: sector valuations are market-cap weighted and may differ from those in the respective sector parts of this report

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