

# **Malaysia Morning Cuppa**

# **Top Story**

#### **Auto Sector**

A Tough 2017 Awaits

Sector Update

There seems to be no light yet in the long dark tunnel that the Malaysian automotive industry finds itself in. The outlook remains extremely challenging with consumers indicating low propensity to spend on big-ticket consumer discretionary items that require a multi-year financial commitment. We expect the average consumer to consider more cost effective options that either means continuing with their existing car, a used option or down trading to a cheaper new alternative – all of which means weaker demand for new cars and a less favourable sales mix. Coupled with unfavourable forex trends, we see continued pressure on operating margins. Financing bottlenecks are also a major impediment to new car sales. We remain UNDERWEIGHT the sector and reiterate our SELL call on UMW Holdings. DRB-HICOM and Bermaz Auto remain BUYs.

Analyst: Alexander Chia +603 9280 8889

Today's Report: Auto Sector: A Tough 2017 Awaits (20 Jan 2017)

Previous Report: Auto & Autoparts: A Challenging 2017 Ahead (21 Dec 2016)

# **Other Stories**

### Pavillion REIT (PREIT MK, NEUTRAL, TP: MYR1.90)

Challenging Year Ahead For Retailers

Results Review

Pavilion REIT may face a difficult year ahead given weak economic conditions and poor consumer sentiment. Management is looking to improve tenant mix to pull shopper traffic to its newly-acquired malls. We maintain our DDM-based TP of MYR1.90 (4% upside). With only 5% dividend yield, we maintain our NEUTRAL call on the REIT. The injection of Pavilion Extension would be a catalyst for the stock, in our view.

Analyst: Loong Kok Wen +603 9280 8861

Today's Report: Pavilion REIT: Challenging Year Ahead For Retailers (20 Jan 2017) Previous Report: Ramping Up Occupancy In Da:mén And Intermark Malls (28 Oct 2016)

# **Economic Highlights**

#### **Economic Update**

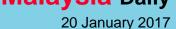
OPR Holds Steady At 3%

Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) kept the overnight policy rate (OPR) unchanged at 3% on 19 Jan, as expected. We are of the view that Bank Negara Malaysia (BNM) is likely to maintain the overnight policy rate (OPR) at the current level of 3% in 2017. This is on account of the:

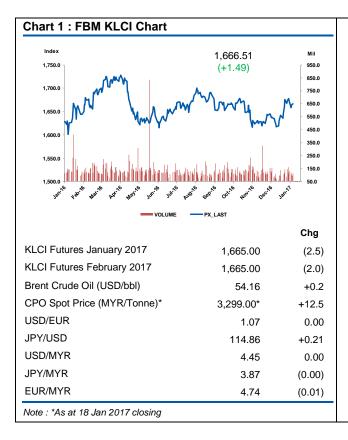
- 1. Volatility in the currency market;
- 2. Expectations of sustained economic growth;
- 3. Manageable inflation rate.

Today's Report: OPR Holds Steady at 3% (20 Jan 2017)









	Ble	oomberg Code	Index		Chg	YTD (%)
FBM KLCI	:	FBMKLCI	1,666.51	<b>1</b>	+1.49	+1.5
FTSE M'sia Emas	:	FBMEMAS	11,687.12	<b>1</b>	+6.69	+1.9
FTSE M'sia 70	:	FBM70	13,398.08	<b>^</b>	+4.73	+2.8
FTSE M'sia 100	:	FBM100	11,391.24	<b>1</b>	+8.73	+1.8
Singapore	:	FSSTI	3,008.22	<b>1</b>	+8.00	+4.4
Thailand	:	SET	1,554.88	$\mathbf{\psi}$	(5.95)	+0.8
Philippines	:	PCOMP	7,246.08	<b>1</b>	+89.72	+5.9
Indonesia	:	JCI	5,298.95	<b>1</b>	+4.16	0.0
Hong Kong	:	HSI	23,049.96	$\mathbf{\downarrow}$	(48.30)	+4.8
China, Shanghai	:	SHCOMP	3,101.30	$\mathbf{\psi}$	(11.71)	(0.1
China, Shenzhen	:	SZCOMP	1,857.46	$\mathbf{\downarrow}$	(7.13)	(5.7
Korea	:	KOSPI	2,072.79	<b>1</b>	+2.25	+2.
Taiwan	:	TWSE	9,318.12	$\mathbf{\Psi}$	(23.85)	+0.7
Japan	:	NKY	19,072.25	<b>1</b>	+177.88	(0.2
Dow Jones	:	INDU	19,732.40	$\mathbf{\downarrow}$	(72.32)	(0.2
S&P 500	:	SPX	2,263.69	$\mathbf{\downarrow}$	(8.20)	+1.1
Nasdaq	:	CCMP	5,540.08	$\mathbf{\Psi}$	(15.57)	+2.9

# **Bulletins**

#### NEWS

**UMW Holdings** 

UMW Holdings (UMWH) announced plans to refocus on its core business of automotive, equipment and manufacturing & engineering. UMWH intends to commence a planned strategic exit from the oil & gas sector via:

- Distribution in specie of its entire shareholding in UMW Oil & Gas (UMWOG) to UMWH shareholders;
- Followed by a progressive exit of nonlisted oil & gas assets.

UMWH has highlighted the likelihood of impairment charges from the unlisted oil & gas assets in due course. Following the exercise, UMWH shareholders will own shares in two listed companies directly. The proposed distribution is expected to be completed by 2Q17.

(Bursa Malaysia)

### **COMMENT**

We are nominally positive on the proposed plans. The capital raising initiatives being proposed separately by UMWOG would likely have stretched UMWH's resources too thin, given its significant capex commitments for the construction of the new Toyota manufacturing plant and manufacturing facilities to supply Trent engine fan casing components to Rolls Royce.

- 1. Distribution of UMWOG shares and deconsolidation of debt would more than halve UMWH's gearing to 0.43x (from 0.91x);
- Impairment and/or progressive disposal of the non-listed oil & gas assets would also eliminate the drag on earnings from the associated losses (2015 net loss including partial impairments: MYR455.8m)

We do not see any potential short term positive impact arising from the acquisition of Icon Offshore. We believe the offshore services market would continue to be weak for the next 1-2 years, exacerbated by the lower capex spending of Malaysian PSCs. However, in the long run, UMWOG would be able to keep its opex cost in check with the acquisition of ICON's OSV fleet.

However, we reiterate our SELL recommendation and leave our TP unchanged at

### **RATING**

SELL, TP = MYR4.09





MYR4.09 which is derived from a sum-of-parts valuation in which UMWOG is priced at MYR0.80.

<b>Important Dates</b>			
COMPANY	ENTITLEMENT DETAILS	EX-DATE	PAYMENT
Pavilion REIT	Final income distribution of 3.93 sen taxable + 0.15 sen non taxable	02-Feb-17	28-Feb-17
Amanah Harta Tanah PNB	Final income distribution of 1.5 sen tax-exempt	16-Feb-17	28-Feb-17
Danainfra Nasional	Profit payment of the Exchange Traded Sukuk 4.23%	03-Feb-17	10-Feb-17
UOA REIT	Final income distribution of 4.86 sen taxable + 0.40 sen tax-exempt	03-Feb-17	28-Feb-17
Going "ex" 18 Jan			
Tambun Indah	Single-tier interim dividend of 3 sen	24- lan-17	16-Feb-17

Top BUYs					
	Shariah	TP (MYR)	3M (%)	Catalysts	
AirAsia	N	3.70	-9.8	AirAsia's growth continues to be supported by YoY improvement in revenue yields and load factors, a low-hedged fuel price, earnings recovery at its associates, and likely divestment of its leasing business unit Asia Aviation Capital (AAC) in 2017. Our estimates do not factor in the sale of AAC.	
Datasonic Group	Y	2.00	-19.2	Datasonic's recent passport chips job contract win, coupled with the potential renewal of its existing contracts (to be secured progressively over the next 6-12 months), may likely propel its earnings as well as share price to a new high.	
DRB-HICOM	Y	1.71	-16.3	DRB-HICOM's current share price ignores many profitable businesses and valuable assets within the Group. With Proton in active discussions for a strategic equity partner, the stage is set for the carmaker to evolve its business model into a more sustainable one.	
Kimlun Corp	Y	2.39	-1.4	Kimlun is a must-own construction stock, given its exposure to the MYR80bn Klang Valley Mass Rapid Transit (MRT) project and recently-secured Pan Borneo Highway project. Kimlun is also aggressively tendering for various infrastructure projects and low-rise developments, which should improve overall margins if secured.	
MMC Corp	Y	3.40	-0.9	We see ample upside to share price as the market continues to undervalue its non-listed businesses (NLBs) – suggesting investors are getting its port assets for free. We see no reason for the discount, as the outlook of NLBs is attractive.	
Muhibbah Engineering	Y	3.75	3.1	Muhibbah Engineering is a beneficiary of the Refinery And Integrated Petrochemicals Development (RAPID) project. Its stable cash flows comes from Cambodian airports operations, with double-digit passenger growth expected.	
Petronas Chemicals	Y	7.86	4.8	We expect the olefins & derivatives and methanol segments to do well on the back of rising crude oil prices and firmer demand for the latter. Fertiliser prices remain sluggish in the near term, but we expect the supply deficit to provide some support to prices. Operationally, the group recorded its best utilisation rate since listing.	
Press Metal	Y	2.85	25.5	Press Metal is set to make a comeback with its combined aluminium smelting capacity of 760,000 tonne pa poised to reach full production from May. Despite our conservative aluminium price assumption, we still expect 3-year earnings CAGR of 20.5%.	
Public Bank	N	22.00	1.5	Public Bank stands out among peers with its solid asset quality, healthy income growth and strong execution track record. We believe the bank would weather the asset quality upcycle better due to its lower risk retail-based loan book and high loan provision buffers.	
SapuraKencana Petroleum	Y	2.05	3.7	We are positive on SapuraKencana Petroleum (SapuraKencana) on the back of margin stabilisation, potential earnings upside and positive sentiment returning to the oil & gas sector. Orderbook buffer for FY18F E&C is only USD74m and no new contracts are forecasted for the drilling segment. Rising crude oil price would be positive for its energy segment, while its gas production project should start operations in FY18.	





Sime Darby	Y	9.25	7.4	We believe the time is near for more value unlocking exercises. Using RNAV for property, EV/ha for plantations and asset values for the industrial and motor divisions, we arrive at a blue-sky SOP of MYR11.00. This is 19% higher than our current MYR9.25 TP.
Telekom Malaysia	Y	7.90	-10.6	We continue to like Telekom Malaysia's (TM) data-driven earnings resiliency, which would also provide investors refuge from the competition afflicting the mobile operators. Webe (TM's new converged mobile service) would help increase average revenue per account (ARPA) and customer stickiness that should translate into greater earnings quality over the longer term.
Tenaga Nasional	Υ	18.60	-3.5	We like Tenaga Nasional for its defensive earnings, large market value and high share liquidity. We also expect the firm to gradually regain lost ground in the lucrative power generation business.

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Axis REIT: Dividend Yield Becoming Less Attractive

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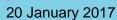
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Logistics: Unchartered Territory Ahead
RHB Malaysia Morning Cuppa - 3 January 2017
Strategy 2017: More External Challenges Ahead (14 Dec 2016)







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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months Take Profit: Target price has been attained. Look to accumulate at lower levels

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Not Rated: Stock is not within regular research coverage

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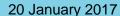
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