

MALAYSIA

April IPI – momentum plateauing, downward correction likely

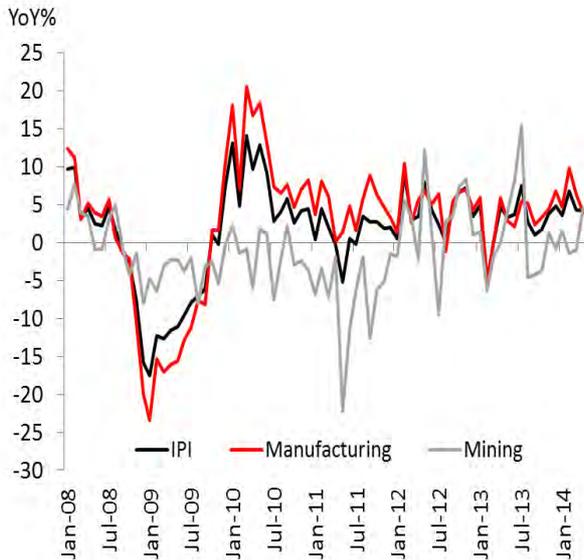
The overall index stayed flattish YoY% terms and marginally higher than consensus expectation, led by the deceleration in growth in the Manufacturing index which was failed to be offset by the pick-up in the Mining sector. The rather subdued growth in IPI stood in stark contrast to the performance of the exports sector for the same month. That could explain a high level of inventories, as reflected in the two consecutive months of decline in imports for Intermediate Goods. Going forward, leading indicators showed that despite the sustained optimism in the US Manufacturing sector, the regional performance may not be as great, pointing to a slight downward correction.

Slowdown in the Manufacturing index caused the overall index to stay flat despite recovery in the Mining sector. The Manufacturing output grew by 4.0% in April 2014 which showed a clear deceleration in momentum from 6.4% in March and 9.8% in Feb 14; signaling that the momentum could have plateaued in February. Growth for the Manufacturing index continued to be mainly driven by the electrical and electronics products (E&E) which rose by 14.2% although that was slower than 17.4% recorded in March; food, beverages and tobacco products (11.0%); and wood products, furniture, paper products, printing (12.2%). On a seasonally adjusted MoM basis, Manufacturing output increased by 4.1% in April 2014 after having contracted by 3.6% in March. The drag in the Manufacturing sector was failed to be offset by the pick-up in the Mining index which grew by the fastest in 9 months by 4.7%, following a very dismal performance in the past few months with growth mostly declining during the period. Meanwhile, the

The rather subdued growth in IPI stood in stark contrast to the performance of the exports sector for the same month. Exports of E&E rebounded by 21.9% YoY - the fastest since April 2010 - from 6.2% in March. E&E which accounts for about 32.7% of total exports in March 2014 contributed about 36.8% or 7.0p.p; to growth in exports in April, supported by robust growth in commodities (except Palm Oil) as well as resource-based manufacturing products, exports for the month surged by 18.39% - the fastest in 4 years. That could explain a high level of inventories, as reflected in the two consecutive months of decline in imports for Intermediate Goods.

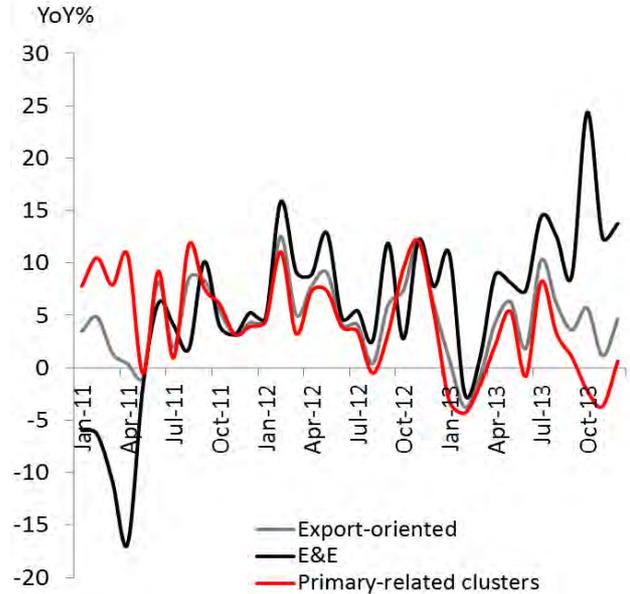
Trend in Exports and the IPI would soon converge to show moderating expansion in export-oriented production sector. Going forward, leading indicators showed that despite the sustained optimism in the US Manufacturing sector, the regional performance may not be as great, pointing to a slight downward correction. That coupled with the trend in the Imports of Intermediate Goods showed that a rebound is likely towards the end of the year but much would depend on China – our key trading partner. 

Chart 1: Industrial Production Index (IPI) – Main indices



Source: DoS

Chart 2: Export-oriented industries still robust, much dictated by primary-related sectors



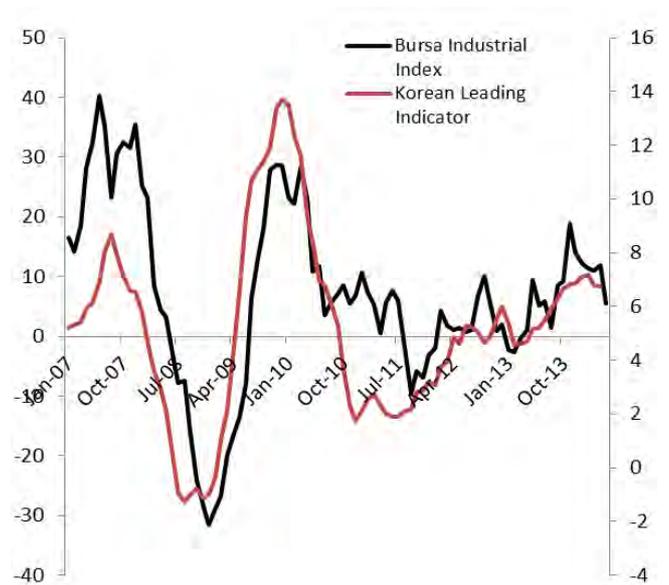
Source: BNM

Chart 3: US forward looking numbers



Source: CEIC, Bloomberg, MIDFR calculations

Chart 4: But not equally exciting on regional & home front



Source: Bloomberg

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.