11 February 2014

**MALAYSIA**

# December IPI edged up further but downward revision in November means weaker overall IPI in 4Q13.

**The IPI edged up in December by 4.8%YoY, although short of consensus expectation (5.3%) and ours (6.0%). That followed a downwardly revised 3.8% growth in November (earlier estimate: 4.4%). The leading indicators show that the IPI may rebound further although beyond the 3-month outlook we expect IPI growth to ease and stabilize at 5 – 7%. We continue to expect the boost to Malaysia's GDP from external demand may be rather modest as compared to the historical trends of upward cycles in E&E Manufacturing. The main concern remains to be China's economic performance which also explains our not so bullish expectation for growth for 2014.**

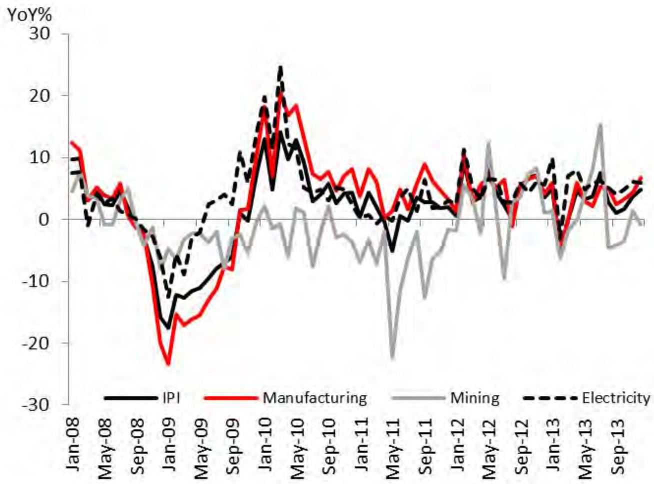
**Manufacturing continued to drive growth while Mining continued yo-yoing**. Growth in the Industrial Production Index (IPI) was driven by the faster expansion in the Manufacturing production index of 6.7% YoY (Nov: upwardly revised 4.4%), as manufacturers geared up for the improved export demand, and sustained growth in Electricity production index (Dec: 6.0% vs Nov: 6.1%). The reason why the actual IPI number came lower than our expectation could be due to the contraction in the Mining production index of 0.8% during the month. Mining component proved to be unpredictable due to its volatility in production, in fact the overall IPI index in November was revised downwards significantly from 4.4% to 3.8% due to the Mining production index growth being revised downwards markedly to just 1.3% from earlier estimation of 4.8%.

**The leading indicators showed that the IPI may rebound further in the next few months** and we continue to hold the view that beyond the 3-month outlook we expect IPI growth to ease and stabilize at 5 – 7%. The US ISM index for manufacturing in January eased quite markedly to 51.3 after recording readings of above 55.0 for the preceding 5 months, which could signal some adjustments to a more sustainable path rather than an indication of a too early deceleration. The Korean leading indicator – our preferred external forward-looking indicator eased slightly but hovered close to the 3 ½ year high in December. It had been hovering at that level for the past 3 months. Meanwhile, the Bursa Industrial index – another key gauge tracked by Department of Statistics (as part of its leading economic indicator components) and us continued to post strong growth of 12.2% in January although that was an easing from the strong growth of 14.0% posted in the 4Q 13.

**External demand boost may be rather modest.** The leading indicators supports our projection that while the improved external demand is set to offset the pullback in domestic demand, the boost to Malaysia's GDP may be rather modest as compared to the historical trends of upward E&E cycles. The main concern remains to be China's economic performance which also explains our not so bullish expectation for growth for 2014. China is now our largest market for Electronics exports at 21.3% share as compared to its 3rd placing with 13.9% share in 2008. US now is the 3rd largest market (12.1% share) after Singapore (15.6% share).

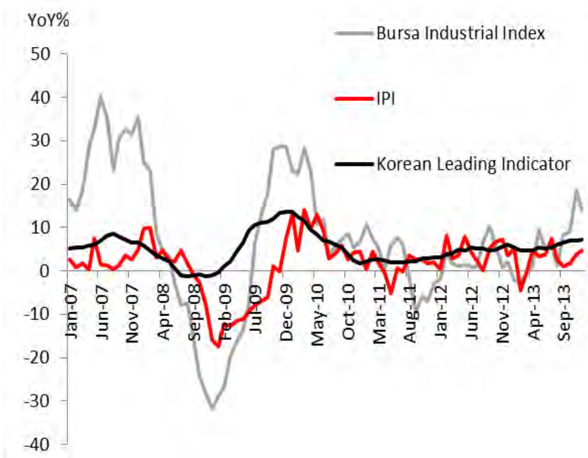
**Real GDP growth in 4Q 13 may fall short of expectation**. The downward revision for November and lower-than-expected reading for December following a meagre growth of just 1.7% in October put the average growth for the 4Q 13 at 3.4%, lower than the 3.7% growth recorded for 3Q 13. That raised concern that real GDP growth for the 4Q 13 may be falling short of expectation too, with consensus looking at 4.8% (forecast range: 3.6% – 5.7%) and ours at 5.0%.

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



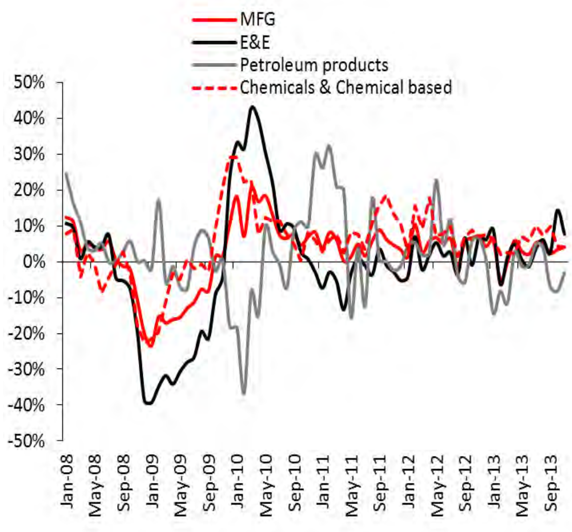

Source: DoS

**Chart 2: Leading indicator signalling further upside**



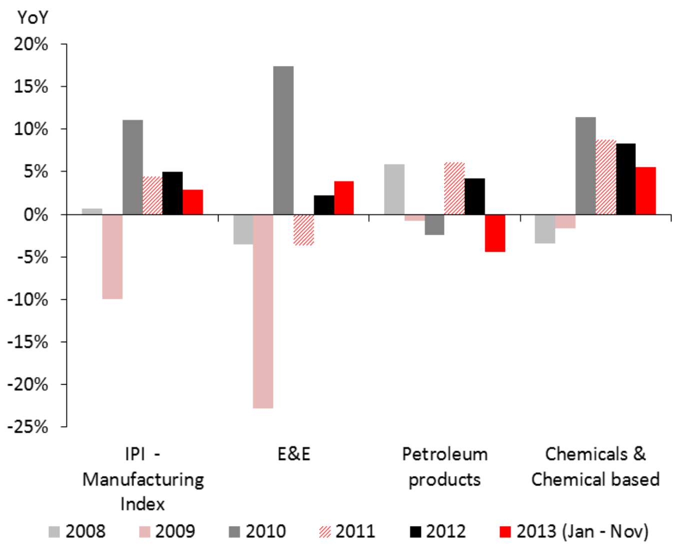

Source: Bloomberg, CEIC

**Chart 3: IPI - Manufacturing index – Main components - Monthly**




Source: BNM

**Chart 4: IPI - Manuafacturing index – Annually**




Source: BNM

**Table 1: Performance of the IPI by components**

| | Weight (% of IPI) | Oct-13 | Nov-13 | Dec-13 | 1Q 13 | 2Q 13 | 3Q 13 | 4Q 13 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Industrial Production Index - IPI | 100 | 1.7 | 3.8 | 4.8 | -0.1 | 3.9 | 3.7 | 3.4 | 4.4 | 2.7 |
| Manufacturing | 63.5 | 3.3 | 4.4 | 6.7 | 0.2 | 3.6 | 4.3 | 4.8 | 5.0 | 3.2 |
| Electronics & Electricals (BNM classification) | 50.8 | 14.3 | 7.8 | n.a. | -0.5 | 1.8 | 4.2 | 4.0* | 2.2 | 3.8* |
| Mining | 30.6 | -3.6 | 1.3 | -0.8 | -2.2 | 4.0 | 1.5 | 1.1 | 2.5 | 0.4 |
| Electricity | 5.9 | 4.8 | 6.1 | 6.0 | 4.7 | 6.3 | 5.1 | 5.6 | 5.1 | 5.4 |

Source: DoS, BNM

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

| **STOCK RECOMMENDATIONS** | |
|---|---|
| BUY | Total return is expected to be >15% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* 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 | *Negative* total return is expected to be -15% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* 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. |