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Adenan Satem passed away

FBM KLCI: 1,675.21

Sarawak-based stocks held ground

(2017 Year-end Target: 1,830 points)


- **Adenan Satem passed away.** Sarawak Chief Minister Tan Sri Adenan Satem, died yesterday at age 72 after just about three years in office. Perhaps his most notable political achievement, Tan Sri Adenan helped Malaysia's ruling coalition Barisan Nasional (BN) storm to a huge victory in the state polls last year, securing 72 out of 82 state seats.
- **Recap of Adenan Satem's administration.** Since assuming office back in 2014, Tan Sri Adenan has achieved a great deal under his '45 Principles and Actions'. Tan Sri Adenan's main principles were, among others, centered around reduction on electricity tariffs, rural transformation, Petronas commitments, forest management and the Pan Borneo Highway.
- **By-election soon...** We expect a by-election to be held soon to fill the State seat previously held by Tan Sri Adenan Satem. Furthermore, we would also see the selection of a new Yang Dipertua of Parti Pesaka Bumiputera Bersatu (PBB) in Sarawak.
- **...with high probability of BN retaining the seat.** There is a high chance for the BN to retain the seat given that Tanjung Datu state constituency has a high Malay and Melanau voter base which are traditionally strong PBB supporters. This is reflected in the economic manifesto of PBB that appeals to the said voter base.
- **Potential candidates as new Chief Minister.** Based on our channel checks, there are two potential successors for Sarawak's Chief Minister (CM). They are (i) Datuk Amar Abang Johari Tun Openg, Sarawak's Deputy Chief Minister, and (ii) YB Datuk Amar Haji Awang Tengah Ali Hasan, Sarawak's Minister of Industrial and Entrepreneur Development, Trade and Investment.
- **Most Sarawak-based stocks held ground...** Yesterday, we initially anticipated Sarawak-based stocks to experience a kneejerk selling pressure pursuant to the news but, as it turned out, most of the stocks held ground.

Table 1: Sarawak-based stocks

	Price Change (RM) 11 Jan	Price Close (RM)	Target Price (RM)
FBM KLCI	+3.16 points	1,675.21 points	1,830 points
Cahaya Mata Sarawak	-0.08	3.89	4.36
Sarawak Cable	-0.02	1.04	n.a.
Hock Seng Lee	+0.01	1.66	2.19
KKB Engineering	Unchanged	1.30	n.a.
Naim Holdings	Unchanged	1.66	n.a.
Dayang Enterprise	Unchanged	1.07	3.64
Bintulu Port Holdings	+0.01	6.28	n.a.

Source: Bloomberg, MIDFR

- **...but anticipate market wariness until CM succession is clear.** However, we believe that the market is still in the midst of factoring in the potential outcome from this news. Therefore, we anticipate the price performance of Sarawak-based stocks to remain wary until the CM succession is made known.

- **Expect no major change in state government policies.** Talks on devolution of power from the federal government to the Sarawak government began in August 2015 by Tan Sri Adenan himself. Since the negotiation started, the following were achieved: (i) 13 areas had been returned to Sarawak that covers the law of joint committees (State and Federal) on the implementation and monitoring of projects under the concurrent list of the Housing Ministry and Tourism Ministry, and (ii) agreement to have 90% of teachers in Sarawak being Sarawakians. We opine that devolution of power will continue since the federal government is committed to meet the aspirations of Sarawak.
- **FBM KLCI year-end target.** We reiterate our FBM KLCI 2017 year-end target of 1,830 points which equates to PER17 of 17.1x. 

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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 <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	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.