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27 DECEMBER 2016

MALAYSIA

2017 OUTLOOK:
UNCLE SAM'S POWER PLAY

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EXECUTIVE SUMMARY

2016 REVIEW IN BRIEF

- Concern over weakening China economy with crude oil prices hitting multiyear low, hit the market hard, resulting in central bankers stepping in with interest rate cuts and stimulus packages. And FBMKLCI managed to bounce out of year's low of 1,601 points after foreign funds turned net buyer, hitting the year high of 1728 points in mid-April.
- The good flight was hampered by the reduction of Malaysia country weight by MSCI and the unexpected Brexit referendum outcome. The impact, however, was mitigated by a slew of favourable news on macroeconomic numbers, BNM's interest rate cut and Fitch reaffirm Malaysia's "A-" rating
- However, the weakening of emerging market economy and the outcome of the US Presidential election further dampened market sentiment as Ringgit suffered significant depreciation and FBMKLCI turned sideways.

LOOKING FORWARD TO A BRIGHTER 2017

- Malaysia's GDP is expected to slightly rebound in 2017, based on the prospect of a stronger trade activity. But we are wary danger of the possibility of countries with strong purchasing power to lean more towards imports substitution.
- However, at the moment we remain optimistic with the better exports performance and hence economic growth in year 2017. Furthermore, we remain slightly bullish on the expectation that BNM's measures on Ringgit will give a gradual support to the currency.
- Moving forward, earnings growth is expected to improve going forward in line with increasing construction activities, stabilizing crude oil prices, coupled with favourable macro growth outlook. MIDFR estimates that the forward year aggregate earnings growth of the FBMKLCI 30 constituents will further improve from an estimate of 5.4%yoy growth in 2016 to 7.5%yoy in 2017.

FBM KLCI 2017 YEAR-END TARGET AT 1,830 POINTS

- FBMKLCI valuation is mostly cheaper relative to its regional peers. And its longer-term trend path of is highly dependent on the expected earnings growth performance during the next 12 to 18 months
- Earnings growth in 2017 may yet be stronger than what's seen so far in 2016, which increases the probability of the equity benchmark to inch up from its current sideways performance.
- Therefore, premised on the rooted behaviour whereby earnings and price are trending broadly hand-in-hand, we reiterate our 2017 FBMKLCI target at 1,830 points which equates to PER17 of 17.1x

27 DECEMBER, 2016

KLCI (16 Dec 2016) : 1,637.79
END-2017 TARGET : 1,830.00

SECTOR VIEW

POSITIVE	
Aviation	Plantation
Construction	Port
Healthcare	Shipping
Insurance	Utility (Power)
Oil & Gas	
NEUTRAL (with Positive bias)	
Banking	
NEUTRAL	
Automotive	REIT
Consumer	Glove
Media	Technology
Property	Telecommunication
NEUTRAL (with Negative bias)	
Building materials	Tobacco

TOP BUYS

STOCK	Price (RM) 16 Dec	Target Price (RM)	Total Return
MRCB	1.35	2.08	54.1%
Tune Protect	1.39	2.18	56.8%
Maybulk	0.705	1.04	47.5%
Deleum	0.92	1.25	35.9%
Muhibbah	2.20	3.05	38.6%
AirAsia	2.50	3.45	38.0%
Ta Ann	3.85	4.70	22.1%
My E.G.	2.35	2.84	20.9%
KL Kepong	23.86	29.25	22.6%
Bermaz Auto	2.10	2.45	16.7%

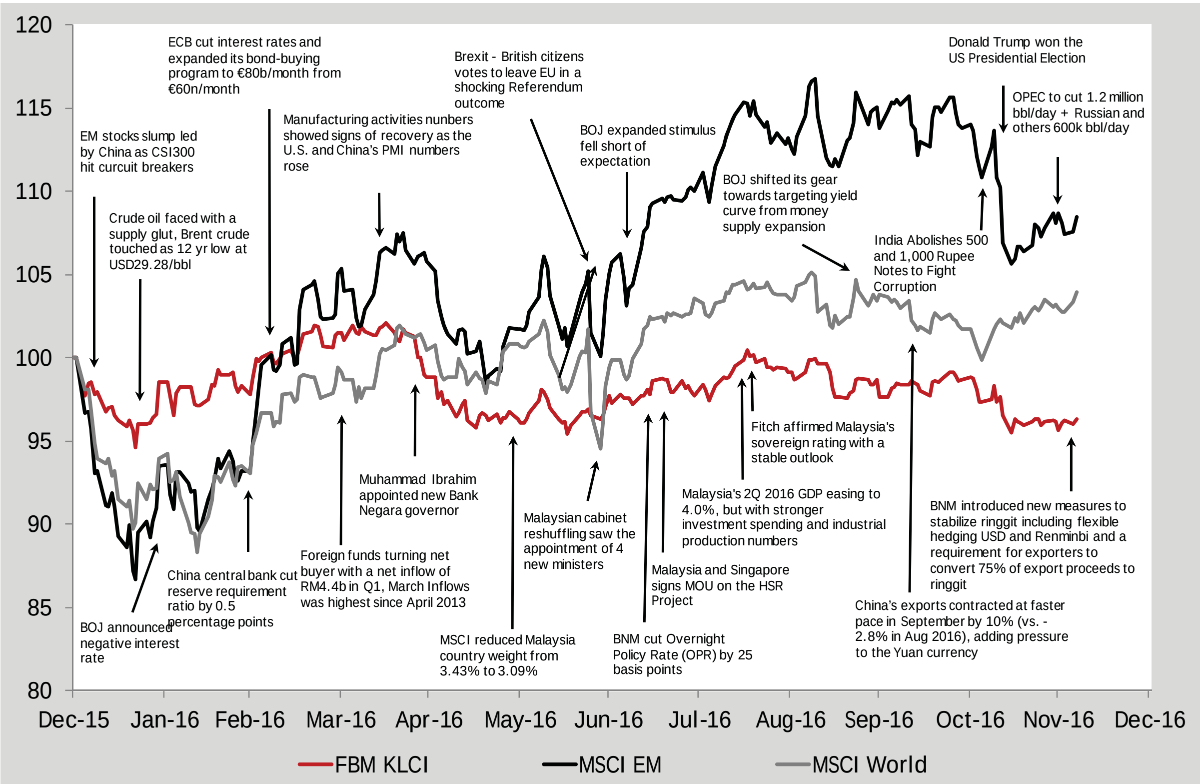
A. 2016 REVIEW AND 2017 OUTLOOK

I. PERFORMANCE, COMPARISONS AND ASSESSMENT

PERFORMANCE

- **Market started the year under selling pressure amidst global 'uncertainties'.** The People's Bank of China continuous attempt to weakened yuan currency and reports that some banks in Shanghai have halted accepting shares of smaller listed companies as collateral for loans, had spooked the market, triggering of its equities market's circuit breaker halted trading on the latter first day of implementation. In addition, escalating tension between Saudi Arabia and Iran underscored geopolitical risks in the Middle East, resulting the FBM KLCI, as with other world's major markets, to succumbed to selling pressure during the opening weeks of 2016.

Chart 1: FBM KLCI vis-à-vis MSCI Asia-Pacific ex-Japan (APxJ) and MSCI World Index



Source: Bloomberg, MIDFR (as at 8 Dec)

- **Japan's first negative interest rate shocks the market.** The move, which involved charging banks for the privilege of parking their excess capital, showed Japan's resolve in its attempt to revive growth while at the same time, keep the economy from sliding back into the stagnation

- **Crude oil faced with a supply glut.** The Brent crude oil prices touched as low as USD29.28/bbl for a record 12 year low. Oil firms continued laying off workers and currency markets from commodity-producing countries were in turmoil, as Crude inventories rose by 4.6 million barrels in the week on Jan. 15 to 485.2 million, well above analysts' expectations for an increase of 2.8 million barrels.

- **China continue to fall, but Indonesia bucked the trend.** Foreign investors continued to pour money into Indonesian stock market, the sole netflow among major Asian markets, and pushed the Rupiah currency higher in February. Meanwhile, China stocks continued its fall, as the Group of 20 (G20) meeting in Shanghai failed to provide a ray of hope over measure to boost economic growth.

- **Market rebounded in March…** as the US Federal Reserve held the interest rate steady and expected to have fewer rate hikes through the year due to the external risks facing the US economy. The market reacted favourably to the recovery of the manufacturing sector as the U.S. Institute of Supply Management's manufacturing Purchasing Managers Index (PMI) rose to an 8-month high of 51.8 points in March from 49.5 points in February. Furthermore, China's official manufacturing PMI also rose to a 9-month high of 50.2 points in March from 49.0 points in February.

- **…while ECB continued its resolve to combat deflation.** ECB announced a series of policy actions which included a reduction in its main refinancing rate by 5 basis points to 0.00%, and the deposit rate reduction by 10 basis points to -0.40%. It has also increased the pace of its asset-buying program from €60b to €80b with effect from April 2016 and pledge to buy corporate bonds in addition to sovereign debt.

- **FBMKLCI breached 1,700 level.** The benchmark index continued its climb in March and close the 1Q 2016 at 1,718 points, with the foreign funds turning net buyer with a net inflow of RM4.4b during the quarter into the equities market. Inflows for March was at the highest since April 2013. The ringgit also continued to strengthen against USD despite a moderating crude oil prices to close the quarter at RM3.93 to the dollar.

- **A new era in Bank Negara.** The central bank announced the appointment of Datuk Muhammad Ibrahim as its new governor on 27 April. It was viewed favorably and helped to alleviate uncertainties over the direction of the future monetary policy. This news and a firmer Brent crude oil price at above USD40/bbl, further strengthened the ringgit currency to remain below RM3.90 level against the greenback.

- **But the upward momentum didn't last long.** Regional markets broadly decline in the last week of April amidst news that the Bank of Japan (BOJ) resorted not to change its monetary policy. Market was expecting more stimulus measures, including an interest rate cut. FBMKLCI fell below 1,700 points, registering a decline of -2.6% during the last week of April alone.

- **The lackluster sentiment continues….** as the ringgit weakened to above RM4.00 level and concerns over a weakening China's economic growth momentum. The latter's exports declined -1.8% and imports down -10.9% in April. Meanwhile, Brent crude oil price continued to its upwards trend towards USD50/bbl, putting further pressure on Ringgit.

- **…and MSCI reduction of Malaysia country weight added pressure to FBMKLCI.** The reduction in weight from 3.43% to 3.09% in the popular MSCI Emerging Market index during the May 2016 index review resulted in peak net outflow of foreign funds of RM597m during the index rebalancing day on 31 May 2016. FBMKLCI fluctuated between 1,620 and 1,640 level for most of May.

- **The Brexit referendum and the unexpected outcome.** Markets were initially spooked, after British citizens unexpectedly voted to exit the European Union, causing the plunge of the British Pound and also FTSE100 benchmark index, recording 11% and 9% decline the subsequent market day. FBMKLCI also fell to 1,630 points the following week, along with other markets.

- **A minor Malaysian cabinet reshuffling.** June 27 saw a Malaysian cabinet reshuffling, with the appointment of 4 new ministers, including a new second Finance Minister, and few deputy ministers. This provided confidence that the Prime Minister now has firmer control of the Federal Government, and FBMKLCI subsequently recovered to close the 2Q 2016 at 1,654 points.
- **BNM cut OPR by 25 basis points…** in response to rising risks from Brexit. The decision provided a breather to the market. Supported by gains in regional and developed markets, FBMKLCI touched 1,668 points.
- **A milestone in the KL-Singapore High Speed Rail (HSR) project.** The governments of Malaysia and Singapore signed an MOU on the HSR project, providing a boost to the FBMKLCI. However, softening oil prices affected market sentiment and the benchmark index gave up its gains and traded sideways.
- **BOJ's expanded stimulus fell short of expectation.** BOJ decision to increase ETF purchases pace to an annual pace of 6 trillion Yen from 3.3 trillion Yen, while leaving interest rate unchanged, raised concern over possibility of achieving its 2% inflation target.
- **Despite Malaysian 2Q 2016 GDP easing to 4.0% from 4.2% in 1Q 2016,** increases in private and public investments, and mining and manufacturing activities, saw stronger investment spending and industrial production numbers at 6.1% and 5.3% respectively.
- **Fitch reaffirmed Malaysia's "A-" Rating …** The 'A-' with a Stable Outlook, reflect Malaysia's strong net external creditor position, GDP growth that remained stronger than the median of 'A' rated peers and a current account that was still in surplus. This strengthened USD/MYR, as it broke the RM4.00 barrier, and pushed FBMKLCI closer to the 1,700 points level.
- **BOJ shifted its gear towards targeting yield curve from money supply expansion.** BOJ said that it will control the volume of asset purchases to control bond yields, following a comprehensive review to reach its 2 percent inflation target.
- **Concern over stability of European banks.** Deutsche Bank was slapped with a USD14b fine proposed by the US Department of Justice earlier this month for mis-selling mortgage backed securities. This affected the already sombre September month, leading FBMKLCI to end 3Q 2016 at 1,653 points.
- **Concerns over China's economy escalated…** as China's exports contracted at faster pace in September by 10% compared to a contraction of 2.8% in August with imports declining 1.9%. These numbers added pressure to the Yuan currency despite China's officials reiterating that the currency's depreciation's impact on trade is limited.
- **Budget 2017 provided some reprieve to FBMKLCI.** With Brent Crude Oil price trading at above the conservative average oil price assumption of US$45/bbl in the announced budget, there is potential upside to the government's income should the oil price remains at higher levels. Investors reacted positively pushing FBMKLCI back to above 1,670 points level, despite Ringgit easing to RM4.20 to the US Dollar.
- **…and then come Donald Trump's unexpected win in the US Presidency Election.** The shock win plunged global markets into a period of high volatility, amidst uncertainties over how Trump presidency will affect current US economic policies and world economic climate. As a result FBMKLCI declined to below 1,620 points for the first time since June 2016.
- **MYR was one of the worst affected currency.** With the US benchmark indices rising to record levels, there was also a certainty that the Fed will increase the interest rate in December. This resulted in massive flight to safety as foreign investors pulled out their money at record levels, putting pressure on Ringgit resulting it to depreciates above RM4.45 level.

- **...as India withdraws 500 and 1,000 rupee notes in effort to fight corruption.** That shocked the market considering that the two bills accounted for roughly 86% of all cash in circulation. However, until the end of the year, they could either exchange small amounts of these old notes for a redesigned 500 and a new 2,000 rupee bill, or deposit their funds into the bank and withdraw set amounts from the ATMs.

- **Foreign Investors have been net sellers for 6 consecutive weeks since end October.** On a cumulative year-to-date, the amount of net-selling from foreigners has further deepen to –RM2.2b from a peak of +RM6.47b in April, as it is almost certain that Feds rate increase will occur after the mid-December FOMC meeting.

- **And Bank Negara moved in swiftly to intro measures through its Financial Markets Committee (FMC).** The move, which came into effect on 5 December, aimed at improving liquidity. Under the new measures, 75% of all new export proceeds will have to be converted into ringgit and payment by resident exporters for settlement of domestic trade in goods and services is now to be settled in ringgit.

- **To sum up, it has been a tumultuous year for the market,** having to deal with multitude of headwinds internally as well as externally. Our benchmark FBM KLCI, despite showing resilience in overcoming the decline during the start of the year, have so far failed to shake off the blows coming from the unexpected outcome of the Brexit referendum and US Presidential election, went sideways to a band of between 1,620 -1,640 points since November. And as of 8 December, FBMKLCI stood at 1,644 points, down 2.9% on a year to date basis.

COMPARISONS AND ASSESSMENT

- **FBM KLCI in the lower rung to regional peers.** The performance of FBM KLCI so far in 2016 put it the next worst behind Shanghai composite, with a 2.9% loss. The top three Asian performers were Thailand SET, Jakarta Composite and Taiwan Weighted indices which recorded 18.7%, 15.5% and 12.4% returns respectively.

Table 1: Performance of various markets in Local Currency (% change)

In Local Currency	Index point	4Q15	2015	1Q16	2Q16	3Q16	4Q16*	2016*
SET Index	1,528.51	-4.5%	-14.0%	9.3%	2.6%	2.6%	3.1%	18.7%
Jakarta Composite	5,303.73	8.7%	-12.1%	5.5%	3.5%	6.9%	-1.1%	15.5%
Dow Jones	19,614.81	7.0%	-2.2%	1.5%	1.4%	2.1%	7.1%	12.6%
Taiwan Weighted	9,375.86	1.9%	-10.4%	4.9%	-0.9%	5.8%	2.3%	12.4%
Hang Seng	22,861.84	5.1%	-7.2%	-5.2%	0.1%	12.0%	-1.9%	4.3%
KOSPI	2,031.07	-0.1%	2.4%	1.8%	-1.3%	3.7%	-0.6%	3.6%
Straits Times	2,958.86	3.3%	-14.3%	-1.5%	0.0%	1.0%	3.1%	2.6%
Mumbai Sensex 30	26,688.86	-0.1%	-5.0%	-3.0%	6.5%	3.2%	-4.2%	2.2%
Philippines Comp	7,022.38	0.8%	-3.9%	4.5%	7.4%	-2.1%	-8.0%	1.0%
Nikkei 225	18,765.47	9.5%	9.1%	-12.0%	-7.1%	5.6%	14.1%	-1.4%
FBM KLCI	1,643.75	4.4%	-3.9%	1.5%	-3.7%	-0.1%	-0.5%	-2.9%
Shanghai Composite	3,215.37	15.9%	9.4%	-15.1%	-2.5%	2.6%	7.0%	-9.1%

Source: Bloomberg * as at 8 Dec 2016

- **Unchange position when ranked in USD terms.** When measured in terms of US Dollar, the ranking of FBM KLCI remained 2nd last with a bigger -5.4% dollar-adjusted return. Meanwhile, the Jakarta Composite took top position followed by Thailand SET and Taiwan Weighted.

Table 2: Performance of various markets in US Dollar (% change)

In Local Currency	Index point	4Q15	2015	1Q16	2Q16	3Q16	4Q16*	2016*
Jakarta Composite	5,303.73	14.8%	-21.3%	11.5%	3.1%	8.2%	-3.0%	20.6%
SET Index	1,528.51	-3.7%	-21.6%	12.3%	2.6%	4.2%	0.2%	20.2%
Taiwan Weighted	9,375.86	2.2%	-13.9%	7.2%	-0.9%	8.9%	1.1%	16.9%
Dow Jones	19,614.81	7.0%	-2.2%	1.5%	1.4%	2.1%	7.1%	12.6%
KOSPI	2,031.07	0.5%	-4.7%	5.0%	-2.1%	8.7%	-5.7%	5.3%
Nikkei 225	18,765.47	8.6%	8.0%	-5.6%	1.3%	7.4%	1.8%	4.7%
Hang Seng	22,861.84	5.1%	-7.1%	-5.3%	0.0%	12.1%	-1.9%	4.2%
Straits Times	2,958.86	3.8%	-19.9%	3.7%	-0.2%	-0.1%	-0.7%	2.7%
Mumbai Sensex 30	26,688.86	-1.2%	-9.3%	-2.8%	4.4%	4.6%	-5.3%	0.5%
Philippines Comp	7,022.38	0.4%	-8.4%	6.7%	4.7%	-4.5%	-10.6%	-4.6%
FBM KLCI	1,643.75	6.4%	-21.8%	12.8%	-6.6%	-3.4%	-7.1%	-5.4%
Shanghai Composite	3,215.37	13.6%	4.7%	-14.7%	-5.4%	2.4%	3.7%	-14.3%

Source: Bloomberg * as at 8 Dec 2016

- **Construction led the sectorial race...** Construction is the biggest winner followed by Plantation and Finance sectors so far this year having gained 3.9%, 1.6% and 1.4% respectively. And these are the only sectors that managed to record gains. Construction stocks outperformed other sectors this year, benefitting from the a slew of positive newsflow particularly in the rail sector.

Table 3: Performance by sector (% change)

	Index point	4Q15	2015	1Q16	2Q16	3Q16	4Q16*	2016*
Construction	287.11	5.7%	-0.8%	4.8%	-2.6%	0.9%	0.9%	3.9%
Plantation	7,742.89	6.5%	-3.4%	3.3%	-3.9%	4.7%	-2.2%	1.6%
Finance	14,353.88	1.8%	-9.8%	4.3%	-3.8%	-0.3%	1.4%	1.4%
Consumer	579.77	4.5%	5.8%	1.1%	0.0%	1.3%	-4.0%	-1.6%
Services & Trading	219.36	5.5%	-0.1%	1.2%	-3.9%	0.9%	-2.6%	-4.3%
Property	1,129.57	2.7%	-7.6%	-0.1%	-4.5%	6.3%	-6.2%	-4.9%
Industrial	3,097.56	3.3%	2.9%	0.2%	-5.2%	0.1%	-0.4%	-5.3%
Technology	21.77	19.7%	52.4%	-10.9%	-6.5%	6.4%	-3.5%	-14.5%
FBM 100	11,223.61	5.0%	-2.9%	1.3%	-3.3%	1.3%	-1.4%	-2.2%
FBM Emas	11,484.21	5.3%	-2.3%	1.1%	-3.3%	1.4%	-1.7%	-2.6%
FBM KLCI	1,643.75	4.4%	-3.9%	1.5%	-3.7%	-0.1%	-0.5%	-2.9%
FBM Small Cap	14,356.54	8.6%	6.0%	-2.1%	-3.3%	2.0%	-6.7%	-10.0%

Source: Bloomberg * as at 8 Dec 2016

Table 4: Performance of MIDF Research stocks under coverage

OUT-PERFORMERS	Share price (RM)		% change	TP	UNDER-PERFORMERS	Share price (RM)		% change	TP
	8/12/16	30/09/16				812/16	30/09/16		
WCT	1.77	1.61	9.9%	1.61	Felda Global	1.64	2.34	-29.9%	1.77
AMMB	4.45	4.09	8.8%	4.55	Lion Industries	0.37	0.50	-26.3%	0.23
Sime Darby	8.14	7.65	6.4%	9.05	Vivocom	0.16	0.20	-20.0%	0.40
IJM Corp	3.40	3.21	5.9%	4.00	KNM Group	0.33	0.41	-19.8%	0.41
Affin Holdings	2.31	2.19	5.5%	2.50	Bumi Armada	0.57	0.70	-18.6%	0.63
Dialog Group	1.54	1.46	5.5%	1.68	IOI Prop	2.04	2.49	-18.1%	2.34
MayBank	7.90	7.50	5.3%	8.10	Dayang	0.84	1.00	-16.1%	0.95
Ta Ann	3.76	3.58	5.0%	4.70	Deleum	0.84	1.00	-16.1%	1.25
Alliance Fin.	3.89	3.72	4.6%	4.05	Media Prima	1.11	1.32	-15.9%	0.78
MMC	2.38	2.28	4.4%	2.94	MMHE	0.86	1.01	-14.9%	0.77
RHB Bank	4.83	4.65	3.9%	5.15	UMW Holdings	4.97	5.83	-14.8%	5.30
Petronas Chem	6.90	6.65	3.8%	6.46	Tune Protect	1.43	1.64	-12.8%	2.18
Daibochi	2.30	2.22	3.6%	2.14	UEM Sunrise	1.03	1.18	-12.7%	1.03
Cahya Mata Swk	3.91	3.80	2.9%	4.36	Wah Seong	0.77	0.88	-12.0%	0.65
BIMB	4.25	4.14	2.7%	4.35	YTL Corp	1.58	1.79	-11.7%	1.50
Hartalega	4.75	4.64	2.4%	4.48	Panasonic	31.80	36.00	-11.7%	35.32
Astro	2.78	2.73	1.8%	3.78	Axiata	4.64	5.22	-11.1%	4.74
Hong Leong Bk	13.34	13.12	1.7%	15.00	AEON Co.	2.58	2.89	-10.7%	2.35
Sunway Cons	1.65	1.63	1.2%	1.74	E&O	1.50	1.68	-10.7%	1.58
Pavilion	1.79	1.77	1.1%	1.68	Eco World	1.50	1.68	-10.7%	1.68
IHH Healthcare	6.40	6.33	1.1%	6.58	Mah Sing	1.45	1.62	-10.5%	1.57
KLCCP Stp. Grp	7.80	7.72	1.0%	7.16	Maybulk	0.70	0.78	-10.3%	1.04
LPI Capital	16.74	16.58	1.0%	17.84	Telekom	6.11	6.78	-9.9%	8.18
KL Kepong	24.06	23.98	0.3%	29.25	YTL Power	1.45	1.60	-9.4%	1.40
DiGi	4.99	4.98	0.2%	5.02	AirAsia	2.53	2.79	-9.3%	3.45
MRCB	1.30	1.30	0.0%	2.08	Hock Seng Lee	1.59	1.75	-9.1%	2.19
Superlon	2.36	2.36	0.0%	2.89	Padini	2.60	2.85	-8.8%	2.81
Petronas Dag	23.46	23.50	-0.2%	24.80	Globetronics	3.34	3.65	-8.5%	3.64
					BAT	44.98	49.14	-8.5%	41.27
					Star	2.30	2.51	-8.4%	2.46
					UOA Dev't	2.30	2.50	-8.0%	2.68
					IJM Plant	3.30	3.57	-7.6%	3.30
					Axis REIT	1.62	1.75	-7.4%	1.68
					MBM Res.	2.32	2.50	-7.2%	2.90
					Tiong Nam	1.58	1.70	-7.1%	2.16
					Bermaz	2.12	2.28	-7.0%	2.70
					Unisem	2.35	2.52	-6.7%	3.06
					Glomac	0.73	0.78	-6.5%	0.76
					Muhibbah	2.16	2.30	-6.1%	3.05
					Lafarge M'sia	7.45	7.92	-5.9%	5.50
					Tan Chong	1.83	1.93	-5.2%	1.95
					AirAsia X	0.37	0.39	-5.1%	0.50
					SP Setia	3.32	3.49	-4.9%	3.38
					IGB REIT	1.57	1.64	-4.3%	1.63
					Kossan	6.59	6.88	-4.2%	7.85
					MBSB	0.90	0.94	-3.7%	1.08
					Nestle	76.20	78.86	-3.4%	82.82
					Sunway	3.00	3.10	-3.2%	3.25
					MAHB	6.34	6.54	-3.1%	7.60
					MISC	7.33	7.55	-2.9%	7.96
					F&N	23.40	24.06	-2.7%	25.32
					UEM Edgenta	3.24	3.33	-2.7%	3.41
					Petronas Gas	21.28	21.84	-2.6%	19.63
					Top Glove	4.97	5.10	-2.5%	5.24
					Genting Plant	10.74	11.00	-2.4%	11.50
					Supermax	2.13	2.18	-2.3%	2.42
					Syarikat Takaful	4.08	4.17	-2.2%	4.84
					Tenaga Nasional	14.00	14.30	-2.1%	16.80
					Gas Malaysia	2.52	2.57	-1.9%	3.07
					Bursa Malaysia	8.65	8.82	-1.9%	8.95
					MSM	4.80	4.89	-1.8%	4.02
					Maxis	6.05	6.16	-1.8%	6.55
					Sunreit	1.70	1.73	-1.7%	1.83
					Gamuda	4.82	4.90	-1.6%	5.50
					TSH Resources	1.88	1.91	-1.6%	2.15
					CIMB	4.64	4.71	-1.5%	5.90
					Ann Joo Res.	2.04	2.07	-1.4%	0.85
					Hong Leong Fin.	15.20	15.42	-1.4%	17.20
					My E.G.	2.25	2.28	-1.3%	2.84
					SapuraKencana	1.55	1.57	-1.3%	1.71
					KPJ	4.18	4.23	-1.2%	4.05
					IOI Corp	4.40	4.45	-1.1%	5.30
					PPB Goup	16.00	16.18	-1.1%	16.80
					LITRAK	5.74	5.80	-1.0%	6.50
					Public Bank	19.62	19.82	-1.0%	22.20
					Westports	4.35	4.39	-0.9%	5.00
					Capitaland	1.54	1.55	-0.6%	1.69
					Inari	3.30	3.32	-0.6%	4.32
					AEON Credit	14.32	14.40	-0.6%	15.40
					FBM KLCI	1,643.75	1,652.55	-0.5%	1,700.00

Source: Bloomberg, MIDFR | TP = 12-month target price

- **…while Technology occupied the bottom spot.** The Technology index lagged all the other sectors with a -14.5% drop attributable to low on-year earnings growth as a result of challenging revenue growth and pressure on costs.

- **About twenty six percent of stocks under coverage outperformed.** 28 out of 107 stocks representing circa 26% of MIDF Research coverage outperformed the FBM KLCI's 0.5% slide so far in 2016. WCT led the rise with a 9.9% gain, followed by AMMB and Sime Darby, with 8.8% and 6.4% gains respectively.

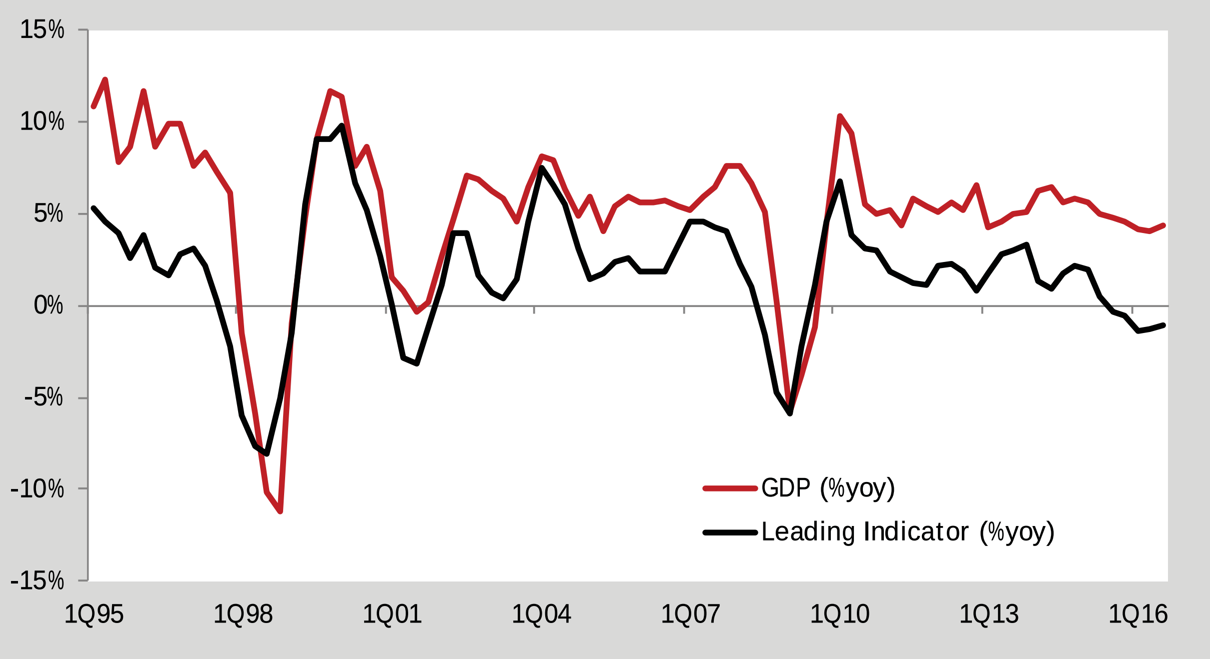
- **Worst underperformer.** Conversely, Felda Global Venture was the worst performer among the stocks under our coverage with a massive loss of 29.9% so far in 2016. Lion Industries and Vivocom were the next, with losses of 26.3% and 20.0% respectively

II. MACRO ECONOMICS PERFORMANCE

Malaysia's GDP is expected to slightly rebound in 2017, growing between 4.2% - 4.4%yoy as compared to 4.1%yoy in 2016. The rebound is based on the prospect of a stronger trade activity next year, though we do not deny the risk coming from Trump's policies biased towards protectionism measures.

- **GDP growth is likely to rebound to 4.3% in 2017.** The GDP growth for year 2016 is likely to be in line with our Outlook 2016 target at a range of 4.1% - 4.3%, though we have since made a point forecast at 4.0% and later revised to 4.1%. Overall, momentum of domestic economy remains moderate, from both the consumption and investment front, while the GDP numbers remain supported by the proliferation of trade balance. Domestic sector will remain as a key driver to support the economic growth in 2016. Likewise, we opine that the trend will continue in 2017, leading to a higher GDP growth for the year.

Chart 2: Malaysia Leading Indicator VS Real GDP Growth



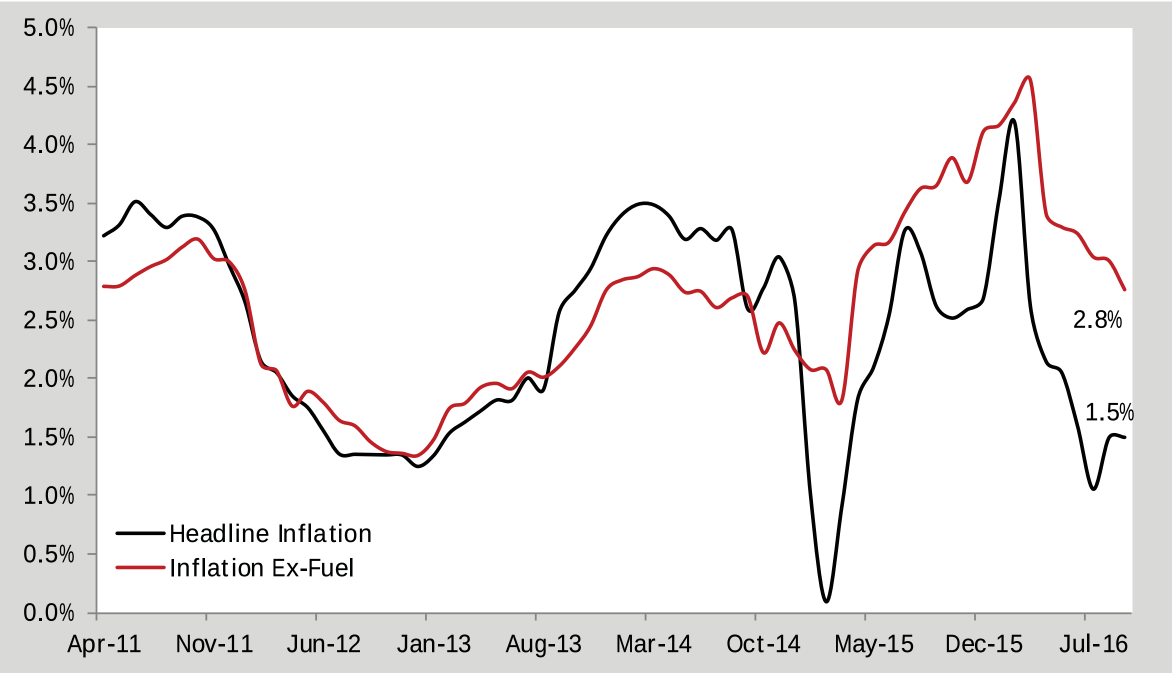
Source: DOS, CEIC, MIDFR

- **Leading indicator back in the red.** The leading indicator was in the red 8 out of 9 times this year's; it is worth to be reminded that Malaysia has never experienced consecutive negative growths of the leading indicator except prior to a crisis. The recent trend in leading indicator resembles that of 2001, concurrent with then time when the US experienced slight recession. This time around, the negative growth were mainly contributed by moderating global trade activity and fund outflows from Malaysia into the US economy, leading to a weak growth of money supply. As such, despite the risk that it brings, the leading indicator has yet to be anywhere near pre-crisis level. Historical experience showed that for the 6-months prior to crisis, leading indicator would contract by more than 3.0%yoy. This year, the highest contraction was only 2.7%yoy which was in April.

- **The main risk on Malaysia's growth lies not with protectionism, but with imports substitution.** Despite the increasing concern and discussion regarding protectionism, we are under the impression that the main danger lies on the tendency towards imports substitution, rather than protectionism per se. All the while, countries with high number of population and strong purchasing power have been the world's top consumers, such as the US and China. However, these countries are currently going towards the direction of imports substitution. In possession of a huge land mass and talent pool, they have the capability to conduct imports substitution from mining, agricultural to manufacturing sector. If that were to happen, the global trade activity will be at risk.

- **Trade activity has been moderating this year, though we are expecting a rebound.** Year-to-date, exports performance has not been encouraging with a contraction by 0.6%yoy for Jan-Oct performance while imports fell by 0.1%yoy over the same period. However, we are expecting a stronger trade performance next year with a growth of 3.0%yoy, supported by a positive momentum in China's economy and stronger consumption by the US. Along with the depreciating Ringgit, Malaysia should begin to enjoy a higher trade balance, which will be the catalyst for a stronger GDP next year.

Chart 3: Headline Inflation vs Inflation Ex-Fuel



Sources: DOS, CEIC, MIDFR

- **Inflation to remain stable, while exports rebound.** Inflation rate has remained modest this year, mainly due to the lower pump prices as compared to 2015. Year-to-date, inflation rate for year 2016 is at 2.2%, which is on track of our full-year forecast of 2.3%. We are expecting inflation rate to be at 2.8% in 2017, slightly higher than 2.3% this year which can be attributed to higher pump prices in 2017. Our forecast is based on the expectation the RON95 will average at RM1.95 next year, reflecting our USD50 per barrel forecast. At the same time, we expect the weakening of Ringgit will play a role in imported inflation, leading to a higher inflationary pressure next year.

- **Both oil prices and Ringgit is expected to remain flat overall but volatile.** The uncertainties and events happening globally are causing both the oil price and Ringgit to experience some degrees of volatility, and there is a likelihood that it will remain so next year. The possibility of an election (GE14), the paradox of demand and supply of oil and uncertainties of US fiscal and monetary policy are all very likely to lead both Ringgit and crude oil into a roller-coaster ride. However, we expect that the overall movement of the two will be flattish with upward bias, with our Ringgit year-end forecast at RM4.20 and oil price at USD50 per barrel on average in 2017.

- **Optimism on US economy will not bode well for Ringgit.** At the moment, the optimism on US financial market caused by Trump's economic plan has led to massive capital outflow from emerging market economies including Malaysia. Furthermore, BNM's decision to halt involvement in NDF offshore trading triggered foreign investors to remain cautious from entering into Malaysia capital market. A better US economy from the infrastructure plan, a boost in consumer confidence and the wealth effect coming from a stronger equity market will likely to cause a faster pace of US rate hike as compared to this year. Hence, despite the stronger oil price next year, the lack of interest in our capital market will not be supportive of Ringgit. Despite that, we remain slightly bullish on the expectation that BNM's measures on Ringgit will give a gradual support to the currency.

- **Possibility of one rate cut in OPR, though the MPC has the final say.** The financial market was shocked by the one rate cut conducted by BNM in July 2016, which we had earlier expected to happen in September. However, the reason behind the cut remains unclear, whether it was a pre-emptive move due to the early signs of risk on Malaysia economy, or it was seen as the natural rate for OPR, as both the median and average historical OPR is at 3%. If it were the former, than there is a higher possibility of another rate cut in 2017; while if it is the latter, than there is a likelihood that the OPR will remain at the current level. However, at the moment we are maintaining our one rate cut scenario in the interquartile of 2017 by 25 bps.

- **China's positive momentum will remain until 2017.** At the moment, the relatively stronger China's economic momentum is expected to continue, at least until 2017. In spite of our optimism, our concern lies with the likelihood of successful imports substitution. If its imports substitution plan become a reality, our exports activity will not be able to ride along China's economic momentum. However, at the moment we remain optimistic with the E&E sector and maintaining our expectation that it will lead to a better exports performance and hence economic growth in year 2017.

Table 5: Key Economic Indicators

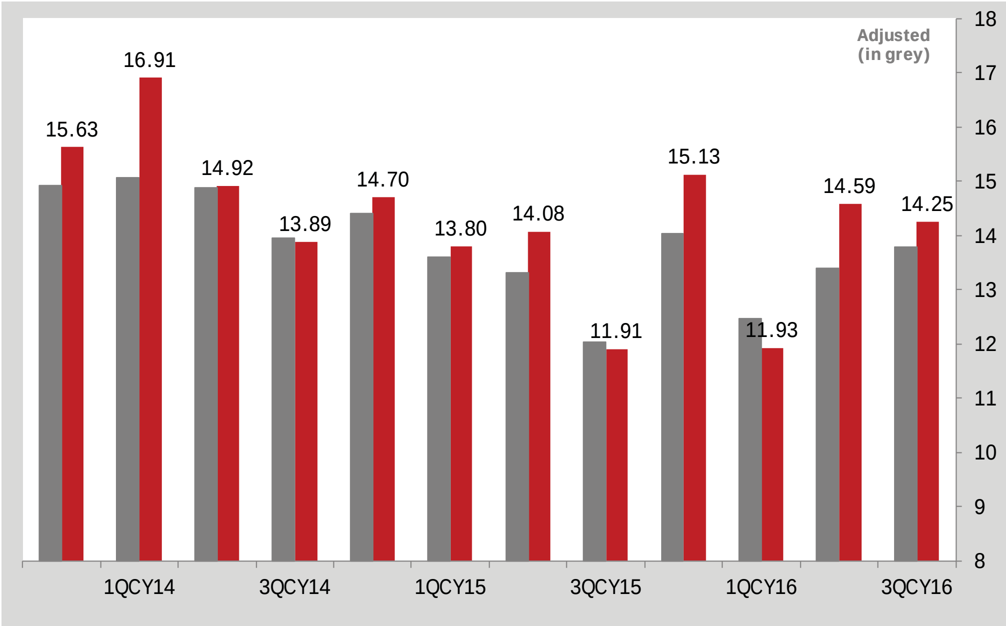
(YoY%) unless stated otherwise	2015	2016e	2017f	1Q16	2Q16	3Q16	4Q16f
Real GDP	5	4.1	4.3	4.2	3.9	4.1	3.9
Private consumption expenditure	5.5	5.9	6.2	5.3	5	4.8	2.7
Government expenditure	4.7	4.5	4.7	3.8	3.3	4.2	6.6
Gross fixed capital formation	3.4	2.0	2.5	0.1	4.7	-0.3	-3.6
Exports of goods and services	0.6	-1.5	2.0	-0.5	1.3	-3.6	-4.6
Imports of goods and services	1.2	-0.3	1.2	1.3	2.2	-4.6	-6.7
Net exports	-3.3	-0.5	8.0	-12.4	-5.5	3.6	12.2
Nominal GDP	4.5	6.0	5.5	4.7	4.4	4.3	4.2
Exports of Goods (f.o.b)	1.9	-0.5	3.0	2.2	-1.6	-2.3	0.9
Imports of Goods (c.i.f)	0.4	-0.2	1.3	2.3	0.6	1.7	3.1
Trade Balance – RMb	94.3	87.5	95.5	23.9	16.4	14.4	27.1
Consumer price index	2.2	2.3	2.8	3.4	2	2.3	2.4
Current account – RMb	34	25	30	-	-	-	-
Current account - % of GNI	2.8	2.5	2.6	-	-	-	-
Fiscal balance - % of GDP	-3.2	-3.1	-3.0	-	-	-	-
Federal government debt - % of GDP	54.3	53.8	53.0	-	-	-	-
	2015	2016e	2017f	1Q16	2Q16	3Q16	4Q16f
Brent Crude Oil (Avg)	53.6	45	45	-	-	-	-
Crude Palm Oil (Avg)	2,168	2,500	2,500	-	-	-	-
USD/MYR (Avg)	3.907	4.1	4.1	-	-	-	-
EUR/MYR (Avg)	4.336	4.4	4.4	-	-	-	-
JPY/MYR (Avg)	3.228	3.5	3.5	-	-	-	-
SGD/MYR (Avg)	2.84	2.95	2.95	-	-	-	-
Brent Crude Oil (End of)	37.3	50	50	39	49	50	50
Crude Palm Oil (End of)	2,200	2,500	2,500	2,600	2,378	2,500	2,500
USD/MYR (End of)	4.294	4.350	4.200	3.900	4.060	4.080	4.350
EUR/MYR (End of)	4.691	4.750	4.400	4.446	4.500	4.400	4.750
JPY/MYR (End of)	3.572	4.000	3.800	3.464	3.970	4.000	4.000
SGD/MYR (End of)	3.04	3.12	2.95	2.90	3.00	2.95	3.12
Yield on generic 10-year MGS (%)	4.19	4.40	4.20	3.77	3.85	3.70	4.40
3-month KLIBOR (%)	3.84	3.20	3.00	3.71	3.65	3.40	3.20
Overnight policy rate (%)	3.25	3.00	2.75	3.25	3.25	3.00	3.00

Source: DOS, CEIC, MIDFR

III. CORPORATE EARNINGS

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM14.25b in 3QCY16. The figure was lower sequentially but higher on-year at -2.3%qoq and 19.6%yoy respectively. However, the aggregate reported earnings figure requires some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance.

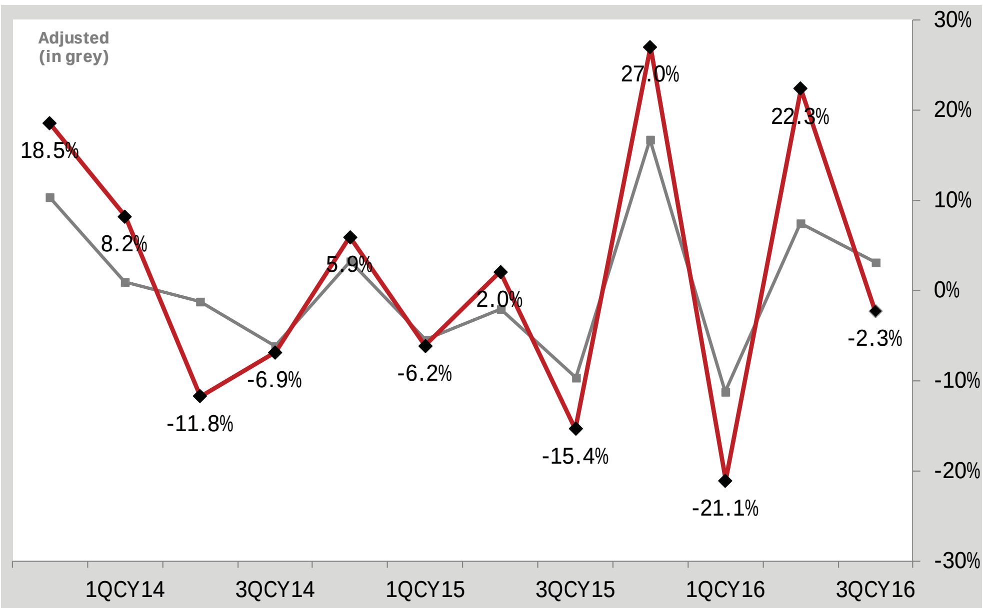
Chart 4: Quarterly Aggregate Earnings of FBM KLCI (RMb)



Source: Bloomberg, MIDFR

- The aggregate normalized 3QCY16 earnings of FBM KLCI 30 constituents were lower at RM13.80b. Some of the major non-operational items reported during the review quarter include (i) RM198m gain on disposals (mainly RM131m from disposal of property in Singapore and RM35m from disposal of 10%

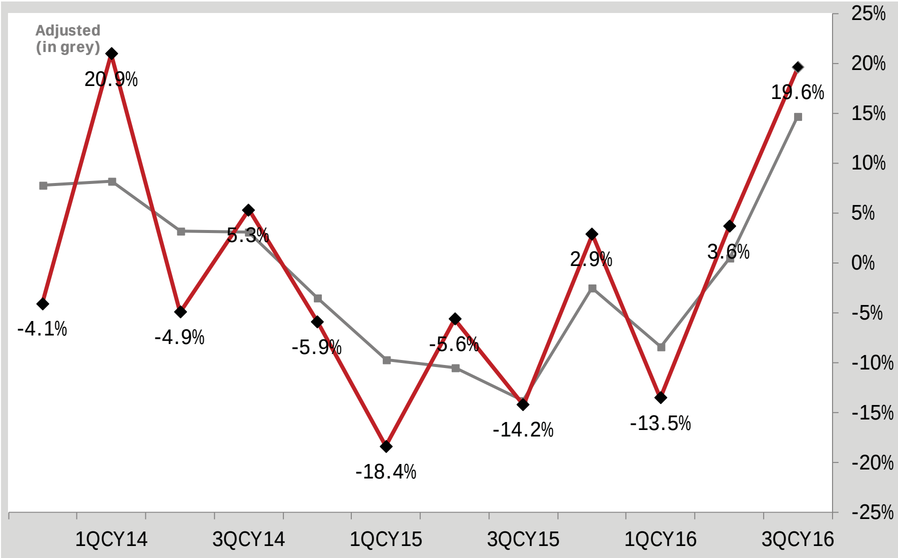
Chart 5: Quarterly Aggregate Earnings of FBM KLCI (QoQ%)



Source: Bloomberg, MIDFR

- After neutralizing the impact of non-operational items (3QCY16: -RM452m, 2QCY16: -RM1.20b, 2QCY15: +RM118m), the normalized sequential growth in 3QCY16 was higher at 3.0%qoq. While the normalized on-year growth number was slightly moderated at 14.7%yoy, nonetheless it was much superior to the tepid 0.5%yoy normalized growth performance of the preceding 2QCY16 quarter.

Chart 6: Quarterly Aggregate Earnings of FBM KLCI (YoY%)

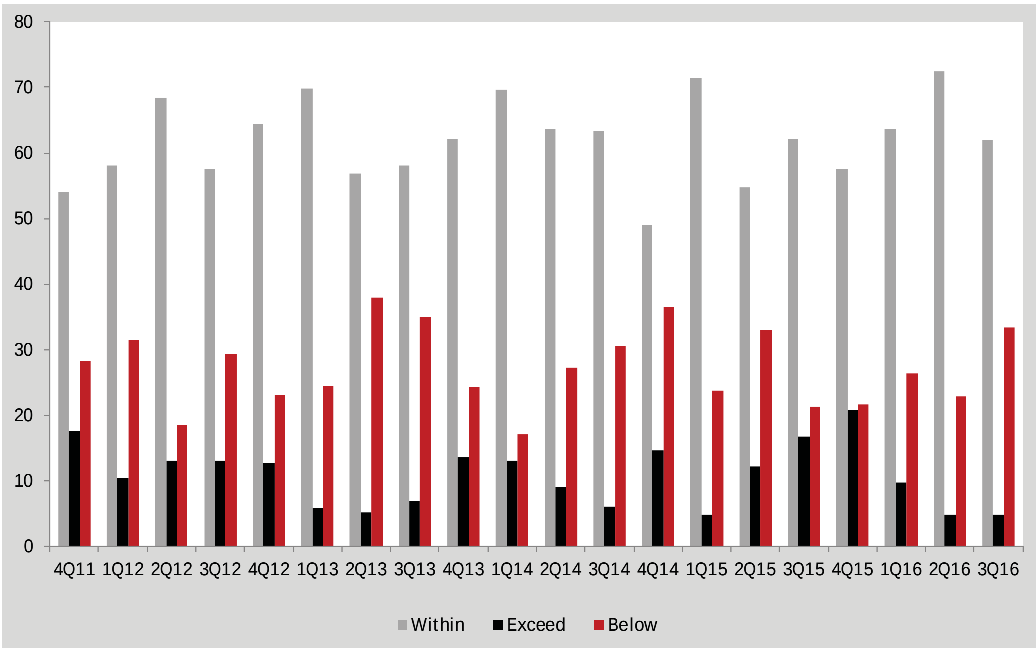


Source: Bloomberg, MIDFR

- It is notable that prior to the 3QCY16 earnings reporting season, the aggregate earnings of FBM KLCI constituents was estimated to come in at RM15.16b. On that score, basing on the actual results, the aggregate figure of RM14.25b accounted for 94.0% of our estimate.

- Under MIDFR Universe, we made 45 changes to our stock recommendations with 16 upgrades and 29 downgrades. Moreover, target price changes involved 7 upward against 7 downward adjustments. Also,

Chart 7: MIDFR Universe: Earnings Surprises



Source: MIDFR

we recently added AEON Credit Service (M) Bhd, Cahya Mata Sarawak Bhd, Inari Amertron Bhd, Superlon Holdings Bhd and Tiong Nam Logistics Holdings Bhd to our universe and ceased coverage of Parkson Holdings Bhd and Protasco Bhd.

- The percentage of companies within MIDFR Universe which registered earnings that came below our expectations risen to 33% in 3QCY16 from 23% in the prior quarter. Nevertheless, it is noteworthy that the percentage of positive surprises remained at 5% during the quarter under review vis-à-vis in 2QCY16.
- Accordingly, companies with results that were in line with expectations declined to 62% in 3QCY16 from 72% in the prior quarter.
- Banking and Technology were the few sectors which recorded higher total earnings (as reported) in 3QCY16 when compared to both the preceding quarter and corresponding period last year.

Table 6: MIDFR Universe - Earnings Surprises

Sectors	Within	Exceed	Below
Automotive	100%	0%	0%
Banking	70%	10%	20%
Building material	100%	0%	0%
Construction	0%	13%	88%
Consumer	50%	0%	50%
Finance	67%	0%	33%
Glove	25%	0%	75%
Healthcare	100%	0%	0%
Insurance	67%	0%	33%
Media	33%	0%	67%
Oil & Gas	50%	17%	33%
Plantation	44%	11%	44%
Property	80%	0%	20%
REIT	83%	0%	17%
Technology	50%	0%	50%
Telecommunication	75%	0%	25%
Tobacco	100%	0%	0%
Transportation	78%	0%	22%
Utility	100%	0%	0%
Total	62%	5%	33%

Source: MIDFR

Table 7: MIDFR Universe - Sectorial Quarterly Net Profit (as reported, RM Million)

	YoY%	QoQ%	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14
Automotive	(168.5)	(262.2)	-71	44	39	-220	104	167	273	183
Banking	9.2	17.4	6,257	5,328	5,496	5,589	5,728	5,738	5,589	5,753
Building materials	(185.8)	(104.2)	24	-571	-89	20	-28	-60	38	-24
Construction	(10.1)	20.4	481	399	303	638	535	642	449	428
Consumer	(25.7)	(25.5)	298	401	471	428	402	352	429	361
Finance	(3.9)	(10.3)	157	175	150	88	163	193	227	495
Glove	(26.0)	14.4	190	166	237	295	257	207	181	156
Healthcare	13.4	(4.3)	257	268	290	466	227	323	243	359
Insurance	11.2	(51.9)	137	285	135	162	123	141	120	170
Media	(86.6)	(90.0)	27	274	237	187	205	245	185	105
Oil & Gas	(6.1)	116.2	1,713	792	949	1,318	1,825	1,803	1,712	1,574
Plantation	1,204.2	(0.7)	1,415	1,424	1,839	2,312	108	1,727	753	1,172
Property	0.9	(16.6)	869	1,043	718	1,006	862	1,234	951	1,190
REIT	11.4	(14.4)	336	392	333	671	301	668	312	806
Technology	1.2	0.9	136	135	93	147	135	113	98	91
Telecommunication	(27.6)	9.8	1,358	1,237	1,608	1,510	1,875	1,728	1,603	1,712
Tobacco	(18.8)	335.2	209	48	175	195	257	215	243	187
Transport	3,064.8	(60.1)	793	1,989	1,921	630	25	2,314	791	1,387
Utility	70.1	(30.2)	2,059	2,948	1,727	2,514	1,210	1,278	2,612	2,919
Total	16.3	(0.8)	16,658	16,787	16,641	17,966	14,324	19,040	16,786	19,030

Source: MIDFR

- On the other hand, Automotive, Building Material, Consumer, Finance and Media sectors were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 3QCY16.

- Prior to the just concluded earnings reporting season, the aggregate 3QCY16 earnings of FBM KLCI constituents were estimated to come in at RM15.16b. Hence, basing on the actual results, we thereby conclude that the 3QCY16 earnings of FBM KLCI constituents slightly lagged (i.e. more than -5ppts) our expectation as the aggregate figure of RM14.25b accounted for only 94.0% of our estimate.

Table 8: FBM KLCI - Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
3QCY16	2	5
2QCY16	1	4
1QCY16	0	8
4QCY15	7	7
3QCY15	5	8
2QCY15	4	9

Source: MIDFR

Table 9: Sectorial Valuation

KLCI: 1,674.35	Earnings Growth (%)			PER (x) 1/			Recommendation
	FY15	FY16	FY17	FY15	FY16	FY17	
Automotive	(30.9)	(85.1)	114.1	19.4	94.1	44.0	Neutral
Aviation	(22.3)	(942.6)	15.9	(74.6)	12.4	10.7	Positive
Banking	(0.4)	(3.7)	12.3	11.9	12.8	11.4	Neutral (+)
Cement	(3.4)	(28.1)	(1.1)	30.1	35.2	35.6	Neutral (-)
Construction	(10.2)	9.2	19.9	18.5	16.8	14.0	Positive
Consumer	2.3	6.8	16.6	23.0	23.5	20.1	Neutral
Finance	(51.6)	(7.3)	19.1	15.1	19.1	16.1	Positive
Glove	31.9	5.2	11.5	31.6	22.4	20.1	Neutral
Healthcare	15.4	(2.5)	34.0	50.9	51.0	38.1	Positive
Insurance	9.4	(5.1)	12.0	17.4	19.3	17.2	Positive
Media	25.8	(4.0)	8.7	22.1	22.9	21.1	Neutral
Oil & Gas	6.9	2.9	(15.8)	20.5	18.2	21.7	Positive
Plantation	(35.3)	4.2	21.8	29.8	29.9	24.6	Positive
Port	(2.3)	18.4	5.9	27.6	24.6	23.2	Positive
Power	(7.3)	19.4	(7.4)	12.2	10.7	11.5	Positive
Property	(1.7)	2.1	5.8	12.7	13.5	12.7	Neutral
REIT	(18.4)	62.0	3.5	28.6	19.9	19.2	Neutral
Shipping	14.7	(5.2)	11.8	21.9	18.1	16.2	Positive
Steel	(21.7)	123.4	(101.7)	(1.4)	(1.5)	90.2	Negative
Technology	56.0	6.6	23.3	27.8	24.0	19.5	Neutral
Telecommunication	(5.6)	(1.1)	0.2	27.2	23.4	23.3	Neutral
Tobacco	1.0	(42.3)	18.4	17.6	24.4	20.6	Neutral (-)
Toll	(0.4)	26.1	48.1	19.5	17.9	12.1	Positive
MIDFR Universe	(5.5)	3.2	8.5	18.8	17.8	16.4	
FBM KLCI 2/	(0.9)	1.4	3.8	17.9	17.1	16.5	

1/ As at 8 Dec 2016
2/ Only 27 FBM KLCI component stocks covered under the MIDFR Universe
Source: MIDFR

- It is also notable that the ratio of outperformer against underperformer among the FBM KLCI constituents remains skewed toward the latter at 2:5 in 3QCY16. The outperformers were Petronas Dagangan and Tenaga Nasional while the underperformers were CIMB, Maybank, MISC, Sime Darby and Telekom Malaysia.

- While the 3QCY16 ratio was quite comparable to the preceding 2QCY16 performance, nonetheless it was a clear improvement over the zero outperformer against 8 underperformers in 1QCY16.

- The aggregate FY2016 earnings of the FBM KLCI constituents under our coverage were adjusted lower by -1.3% to RM53.58b vis-à-vis our earlier estimate pursuant to the prior reporting season. Likewise, the aggregate FY2016 earnings of the stocks under MIDFR coverage universe was also trimmed by -2.0% to RM69.30b vis-à-vis our earlier estimate pursuant to the prior reporting season.

IV. VALUATION AND STOCK SELECTION

VALUATION

- **FBM KLCI valuation is mostly cheaper relative to its regional peers.** As at the close of week ended 2 December, the PER of FBM KLCI stood at 15.4x based on forward year earnings (current year earnings: 16.4x). With a standard deviation (SD) to the PER of 0.04, the valuation of FBM KLCI is nominally lower and relatively cheaper in comparison to most its main regional peers.

Table 10: FBM KLCI - Valuation against regional markets

	FBM KLCI	FSSTI	JCI	SET	PCOMP
SD	0.04	-0.57	0.30	0.58	0.66
PER	15.4	13.1	15.1	13.9	17.8
PER (+1SD)	16.9	15.5	16.7	14.9	18.8
PER (Mean)	15.3	13.9	14.4	12.5	15.8
PER (-1SD)	13.8	12.4	12.1	10.1	12.7

Source: Bloomberg, MIDFR   Note: Data for Mean and SD calculations are from Jan 2006 to present

- **Plausible justification to above average valuation in international markets.** Against other international markets, the FBM KLCI is trading at a nominally lower SD to the PER valuation. It must however be noted that these international markets are at different phases of the economic cycle. As their economies are either recovering or are still struggling to recuperate, it is not unusual for the SD to the PER valuation yardstick to hover substantially above the parity mark. But in contrast, most of the emerging economies are arguably at advanced stages of the growth phase or even entering into the maturity phase of the economic cycle.

- **Easing valuation trend precipitated by QE3 taper...** It is notable that the PER of FBM KLCI has exhibited a descending trend towards its long-term mean since its peak in end-2013. It must also be highlighted

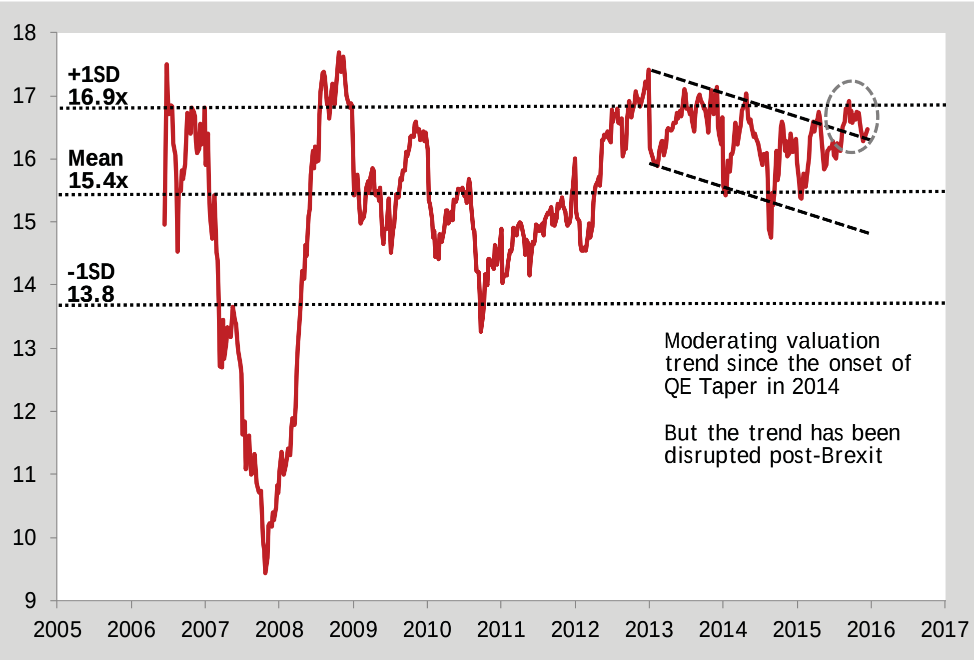
Table 11: FBM KLCI - Valuation against international markets

	FBM KLCI	DJIA	S&P500	Euro Stoxx	FTSE
SD	0.04	0.25	0.62	0.33	1.03
PER	15.4	15.0	16.2	12.7	14.8
PER (+1SD)	16.9	16.5	16.9	14.0	14.8
PER (Mean)	15.3	14.5	15.1	12.0	12.5
PER (-1SD)	13.8	12.6	13.4	10.0	10.3

Source: Bloomberg, MIDFR Note: Data for Mean and SD calculations are from Jan 2006 to present

that the valuation apex corresponded with the onset of QE3 taper beginning January 2014. Hence the downward trend was arguably precipitated by relative tightening of liquidity pursuant to the unwinding of QE3. Thenceforth, the valuation contraction continued on due to US interest rate liftoff in mid-December last year.

Chart 8: PE Ratio of FBM KLCI (with Mean and +/- 1-Standard deviation lines)



Source: Bloomberg, MIDFR

- **...has been disrupted post-Brexit.** However, the descending valuation trend has been disrupted post-Brexit arguably due to (i) “loosest tightening” tendency of the US Fed, i.e. from initial projection of 4 rate increases in 2016 down to only 1 hike, and (ii) aggressive monetary easing by other major economies, i.e. Europe & Japan moved from so-called zero interest rate policy (ZIRP) to negative interest rate policy (NIRP). On this score, we expect the valuation level of FBM KLCI to remain mildly elevated in the foreseeable future at SD to the PER of circa +1.0 (based on current year earnings).

- **Trajectory of FBM KLCI to be dictated by...** Empirical observations between earnings and price are conclusive with regard to the nature of their secular direct relationship. This is despite the ever present 'noises' from short-term price volatility which is influenced by market sentiment and other situational issues. Hence our assessment on the likely longer-term trend path of the FBM KLCI is highly dependent on the expected earnings growth performance during the next 12 to 18 months.

- **...the pace of recovery in corporate earnings growth.** On that score, it must be highlighted that the (Bloomberg) consensus FBM KLCI earnings growth is forecasted to improve further to 7.5%yoy in 2017 from an estimate of 5.5%yoy growth in 2016. The anticipated current and forward year growth pace is in stark contrast to the recessionary earnings performance of between 2013 and 2015.

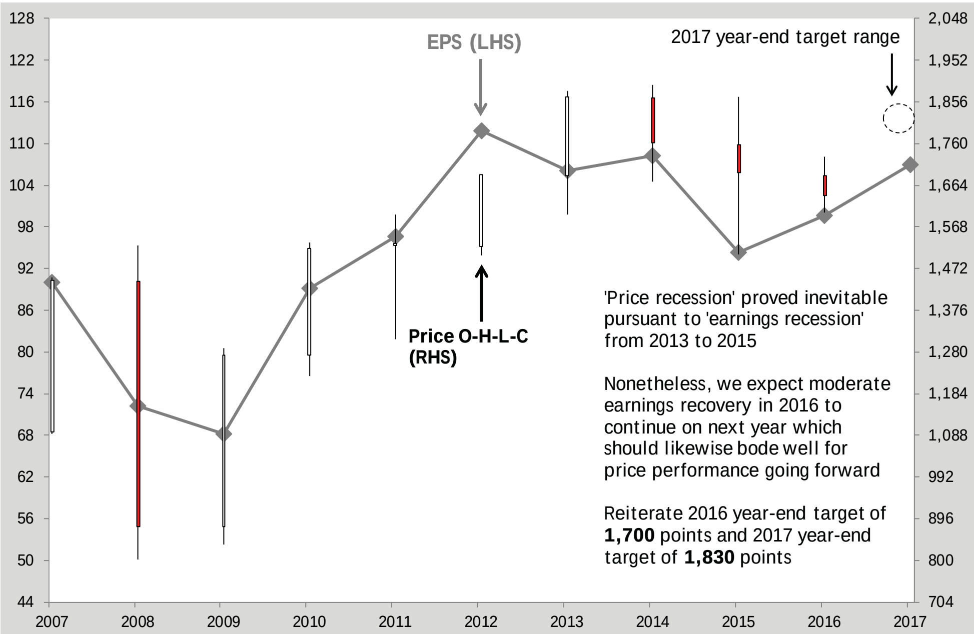
Table 12: FBM KLCI historical and forward consensus earnings growth

	EPS	YoY (%change)
CY2017(F)	107.00	+7.45
CY2016(E)	99.58	+5.52
CY2015	94.37	-12.77
CY2014	108.19	+1.93
CY2013	106.14	-5.05

Source: Bloomberg, MIDFR

- **Macro outlook may restrict market downside.** In addition, as the outlook for Malaysia's economy remains rather sanguine with our in-house GDP growth estimates for this year and next expected at 4.1% and 4.3% respectively, we do not foresee the equity market turning bear anytime soon. Having said that, even amidst continued decent macro growth, we remain mindful of intermittent cyclical pullbacks that may take place as a result of situational issues which are affecting market sentiment.

Chart 9: FBM KLCI - Earnings versus Price



Source: Bloomberg, MIDFR

- **Reiterate year-end 2017 FBM KLCI target at 1,830 points...** It is notable that FBM KLCI price trajectory since 2013 mimicked the underlying depressed to tepid earnings performance. On that score, the anticipated continuing recovery of earnings growth in 2017 may likewise see the market benchmark inching out of the ongoing price recession. Therefore, premised on the rooted behaviour whereby earnings and price are trending broadly hand-in-hand, we reiterate our 2017 FBM KLCI target at 1,830 points which equates to PER17 of 17.1x.

- **...and year-end 2016 FBM KLCI target of 1,700 points.** Also, we reaffirm our year-end 2016 FBM KLCI target of 1,700 points which equates to PER16 of 17.1x.

STOCK SELECTION

- **Portfolio & stocks selection criteria.** While we remain an advocate of a 'bias' toward risk-conservative equity portfolio, we are also conscious over capital gains opportunities. Accordingly, we would like to recommend portfolio exposures with a combination of stocks in the following order of preference (high to low): (i) inherent earnings quality, (ii) attractive valuation, and (iii) Growth at Reasonable Price (GARP) strategy (refer to our Quant View Report : GARP Investing dated 23 Nov 2016).

- Below is a list of 10 stocks that fit the above mentioned criteria, which come from various sectors within our stock universe

  - **Malaysian Resources Corporation Berhad (BUY, TP: RM2.08).** Key Catalysts for the company includes: (i) construction orderbook of RM1.5b providing 36-months construction backlog underpinned by 1.91x FY15 construction revenue cover, (ii) Development of Kwasa Damansara Plot C-8 (RM3.0b), Kuala Lumpur Sports City (RM1.6b) and Cyberjaya City Centre (RM9.0b GDV) and (iii) potential sale of EDL for RM1.8b to unlock its balance sheet.

  - **Tune Protect Group Berhad (BUY, TP: RM2.18).** We are overweight on Tune Protect Group premised on (1) the Group has a first mover's advantage of digital insurance space and it will continuously grow within that parameter. Tune has (2) also predominant market share in local travel insurance and extends to establish new airline partnerships and venture beyond airline industry in the next two years. This will translate into positive significant fundamental impact, which (3) we expect sturdy FY17 estimated earnings growth and improvement in underwriting margin of 15% and 23% respectively. On balance sheet, the Group will stand on (4) strong forecasted double digit ROE of 17% and (5) a net cash position. Indeed, our TP of RM2.18 is at (6) undemanding valuation of PBV and PER of 2.8x and 15.5x against its 3-year historical PBV and PER average of respective 3.6x and 17.8x.

  - **Malaysian Bulk Carriers Berhad (BUY, TP: RM1.04).** The Baltic Dry Index (BDI) which measures charter rates across dry bulk ship sizes and routes has recently surpassed the 1200 level after averaging at 500 for the majority of 1HFY16. The recent surge in the BDI can be attributed to a recent increase in coal and iron ore imports from China due to lower domestic production of these materials and a pick-up in demand for construction and power generation. In addition, the prospects of the US embarking on infrastructure spending as part of its stimulus measures have also propped up sentiment on the industry. Our BUY call on Maybulk with target price of RM1.04 is based on 5-year average price-to-book (PB) ratio of 0.88x.

  - **Deleum Berhad (BUY, TP: RM1.25).** Deleum is an oil and gas services specialist with undemanding valuation currently trading at forward PER of only 7x. The company's orderbook stands at approximately RM2.9b providing earnings visibility of up to four years. In addition, the company is a frontrunner for PETRONAS maintenance, construction and modification (MCM) works worth approximately RM500m for its portion. Our TP of RM1.25 is based on EPS17 of 12.5sen pegged to PER17 of 10x. Our target PER17 is based on its five year historical average rolling PER. At peak valuation, the stock traded at PERs in excess of 18x.

» **Muhibbah Engineering Berhad (BUY, TP: RM3.05).** Key Catalysts are: (i) Construction orderbook of RM3.0b providing 36-months construction backlog or 3.5x construction revenue, (ii) steady growth of 15.0% from operating income and (iii) annual growth of 5.0m from 3.3m passengers (11.0% growth rate) for the three concession airports; Siem Reap, Sihanoukville and Phnom Penh.

» **Air Asia Berhad (BUY, TP: RM3.45).** Airasia makes a re-entry into our top 10 picks after a recent share price correction which saw a 21% drop from its high of RM3.20 reached in August 2016 stemming from the Ringgit losing ground against the greenback. However, we are not too concerned about the falling Ringgit as Airasia's unhedged exposure to USD for its borrowings and expenses are capped at 33% and 50% respectively. Meanwhile, Airasia recently recorded a 9MFY16 load factor of 89% which was a Group record. Looking ahead, 4QFY16 will be even better as Oct-Nov loads have already hit 93%. Airasia highlighted that it has received 8 non-binding bids for full ownership in AAC and 1 for an 80% stake. We are increasingly optimistic on the potential for special dividends as the deal draws nearer to a possible conclusion. Recall that a divestment of a 70-80% stake in Airasia's leasing arm could translate into proceeds of RM2.9b-RM3.3b (RM1.04-RM1.19 per share) which could be used to pare debts, fund future expansion and be paid out as special dividends. Our TP is based on FY17 earnings, pegged to a PER of 8.5x.

» **Ta Ann Holdings Berhad (BUY, TP: RM4.70).** We like the company due to (i) its good set of earnings in 9MFY16 due to better than expected FFB production; its production growth is the strongest among peers (+8%yoy in 9MFY16) and (ii) better outlook for timber division due to recent strengthening of USD and Sarawak State Government's effort to promote timber products in Japan.

» **My E.G. Services Berhad (BUY, TP: RM2.84).** MYEG has an attractive business model and strong cash-rich balance sheet. As at 1QFY17, it has a net cash position of RM49.7m. It is also enjoying an attractive profit margin of more than 50%. The upcoming implementation of the Customs tax projects would also reaffirm the group's revenue and earnings growth trajectory. Our TP of RM2.84 is premised on FY18EPS of 10.8sen pegged to FY18 forward PER of 26.3x. Our target PER is based on its 3-year historical low PER.

» **Kuala Lumpur Kepong Berhad (BUY, TP: RM29.05).** Key positives about the company includes: (i) Its high exposure to palm oil business and good earnings growth of +33%yoy to RM1.05b in FY16. (ii) new capacities in the fatty acid business has started to contribute positively to the company, with FY16 EBIT for downstream division surging by 75% to RM323m.

» **Bermaz Auto Berhad (BUY, TP: RM2.45).** Significant value has emerged after a 10% fall in share price since the market sell down post-US elections. Ex-cash, BAuto now trades at just 9x CY17F earnings. The JPY has actually weakened to RM3.80-3.90 levels and it was mainly the USD (which

BAuto has no exposure to) that strengthened against the Ringgit in the past month. Key share price catalysts over the next 12 months: (1) Attractive dividend yield of 7% (based on 85% payout ratio) underpinned by net cash which accounts for 12% of market cap and a solid 9% FCFE yield (FY17F). Listing of Philippines unit will bump yields up further given potential one-off special dividends (See BAuto report dated 1st Nov 2016). (2) Value unlocking from the listing of BAuto Philippines (BAP). Current market cap attributes practically no value to BAuto's stake in BAP relative to the 16x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 9x CY17F earnings. (3) A more than doubling in associate earnings contribution to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market.

Table 13: Top 10 Stock Picks

Stock	BETA	Price (RM) 08-Dec	Target Price (RM)	% Price Return	% Div. Yield	% Total Return
MRCB	1.0	1.30	2.08	60.0	3.3	63.3
Tune Protect	1.1	1.43	2.18	52.4	3.1	55.5
Maybulk	1.2	0.70	1.04	48.6	0.0	48.6
Deleum	1.8	0.87	1.25	43.7	6.6	50.2
Muhibbah	1.2	2.16	3.05	41.2	2.3	43.5
AirAsia	1.2	2.53	3.45	36.4	3.8	40.2
Ta Ann	0.4	3.76	4.70	25.0	3.7	28.7
My E.G.	0.5	2.25	2.84	26.2	1.2	27.4
KL Kepong	1.0	24.06	29.25	21.6	2.7	24.3
Bermaz Auto	1.0	2.12	2.45	15.6	6.6	22.2

Source: Bloomberg, MIDFR (as at 8 Dec 2016)

B. 2017 ISSUES, RISKS AND THEMES

I. THE DRAGON REAWAKENS

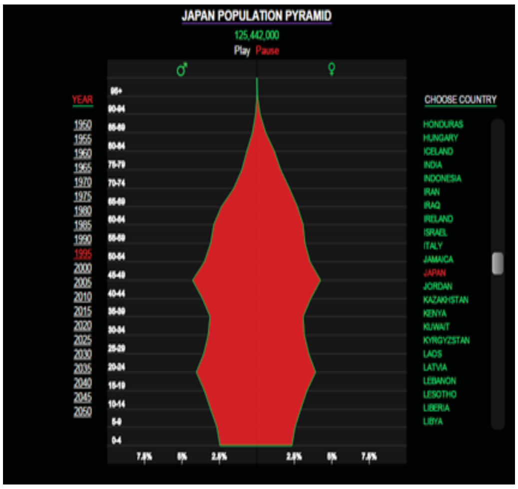
POPULATION AND ECONOMY

- **Like Japan decades before, China is greying…** China lifted the one child policy in 2015 in view of its increasingly greying society. On this score, it is notable that the prevailing age demographic in China echoes the condition that existed in Japan some 2 decades ago.

- **…while its economy is slowing…** Apart from the population age profile, the current economic phase of China also arguably reflects the circumstances that existed in Japan in the 1990s. For one, it is noteworthy that China is now the world's second largest economy, the same spot held by Japan 2 decades ago. More crucially, China economy has been experiencing incessant slowdown during the past several years which was the same predicament facing Japan in 1990s.

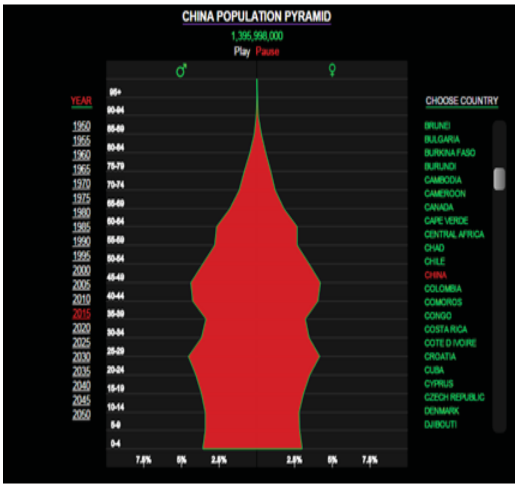
- **…which complicates structural reform.** As a greying society, it is difficult for China to rapidly reorient its economy towards a consumption-based growth model as older working people are generally more interested in savings and investment but less on consumption. Likewise, Japan was beleaguered by a similar structural problem a couple of decades ago. In order to deal with the incessant slowdown, the expeditious way out is to continue relying on the investment-led growth model and supported by monetary pump-priming.

Chart 10: JAPAN - Population age pyramid (1995)



Source: worldlifeexpectency.com

Chart 11: CHINA - Population age pyramid (2015)



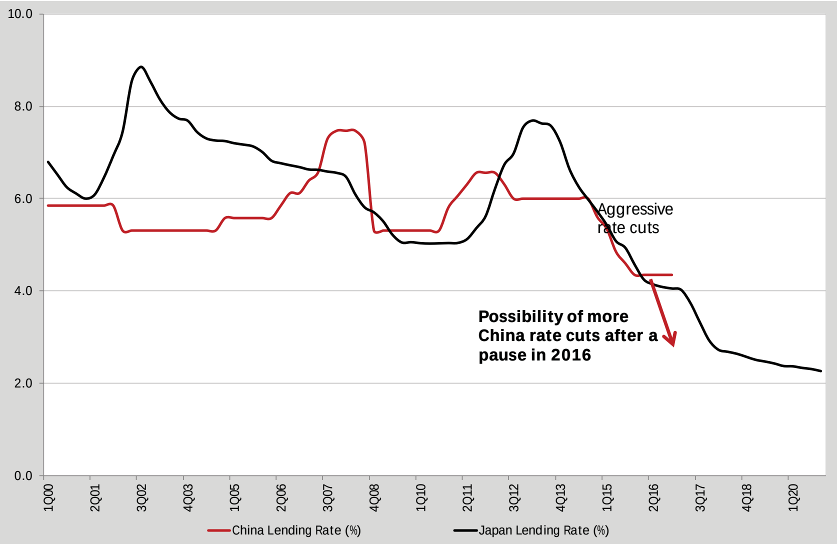
Source: worldlifeexpectency.com

MONETARY RESPONSE

- **Like BOJ decades ago, PBOC takes a similar step…** Furthermore, it is interesting to note that the monetary actions taken by China's PBOC since 2014 to-date bear a high resemblance to the stance taken by Japan's BOJ in 1992 onward. It seems the PBOC is borrowing a leaf out of BOJ's old monetary playbook in the face of an enduring economic slowdown.

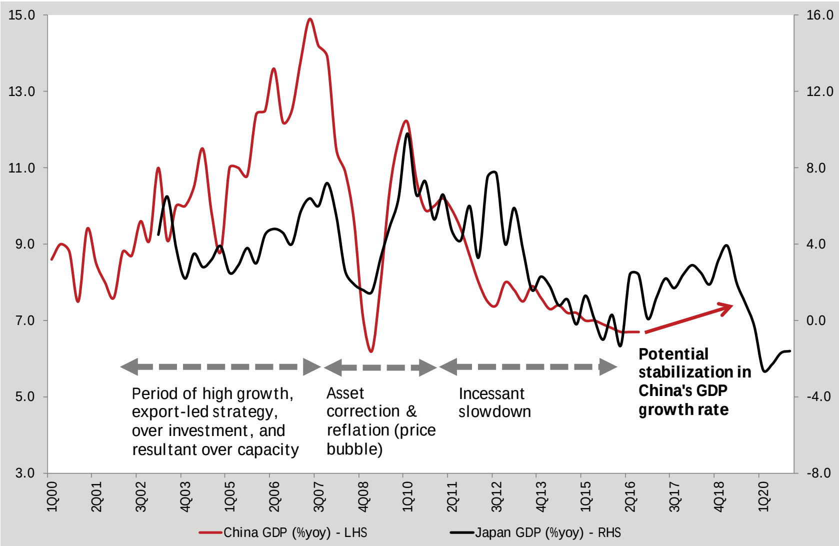
- **…of aggressive rate cutting.** It must be highlighted that Japan's economy reacted quite favorably to the series of BOJ-administered liquidity injections as its output rate began to stabilize in 1994. Thenceforth, the BOJ temporarily stopped cutting rates but resumed again in 1995 so as to lend further support to the ensuing recovery. In fact, Japan's economy recorded an encouraging 3-year recovery until 1996 (before its output finally plummeted together with most of the East Asian economies in 1997/98).

Chart 12: Lending Rate - JAPAN (rescaled 22 years forward) versus CHINA



Source: Bloomberg, MIDFR

Chart 13: GDP Growth - JAPAN (rescaled 22 years forward) versus CHINA



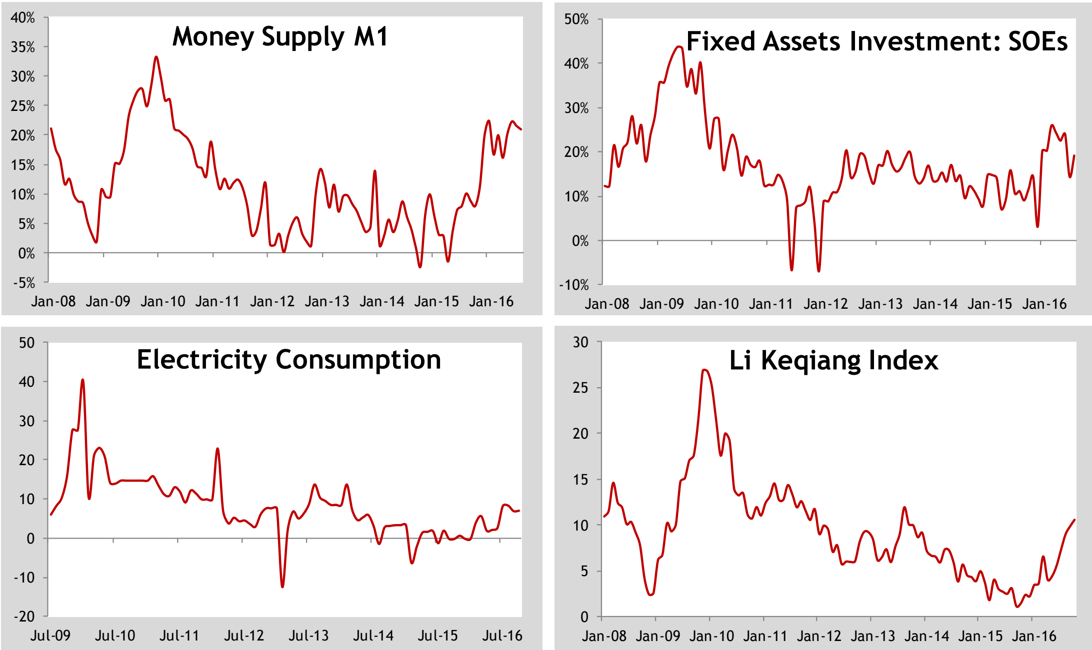
Source: Bloomberg, MIDFR

CHINA REAWAKENING

- **Monetary easing is bearing positive results for China…** In reflection of the above, there is a good likelihood that China's economy may likewise react favorably to the series of PBOC-administered liquidity injections since 2014. Some of the recent economic numbers out of China are pointing toward macro stabilization. The reawakening of China economy is evident by multitude of so-called 'green shoots' such as rebounding money growth, fixed investments, electricity consumption, and semiconductor sales.

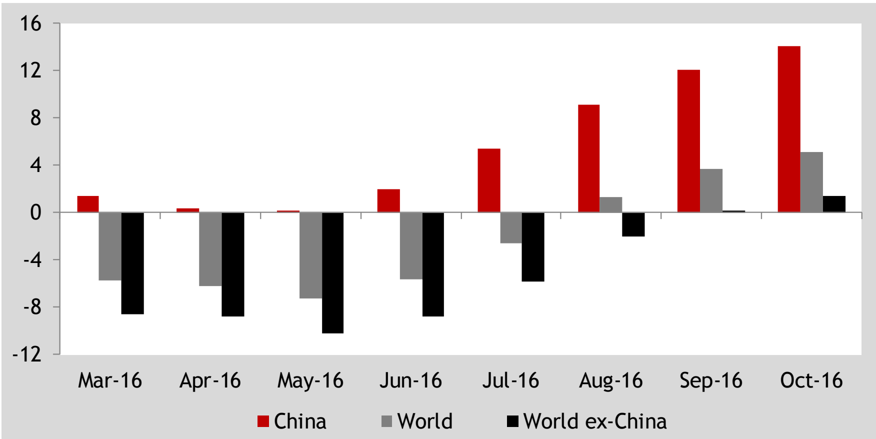
- **…but the pump-priming effort, without structural reform, may prove transient.** In addition, while there has been zero cut by PBOC thus far in 2016 after 5 rate cuts last year, we would be least surprised to see PBOC resuming its rate cuts after the current hiatus so as to lend additional support to the economy. Having said that, we are cognizant of the need for China to continue addressing the underlying economic imbalances lest the fledgling recovery may not be sustainable in the longer-term like what happened to Japan decades earlier in 1997/98.

Chart 14: China 'green shoots' evident of economic reflation



Source: Bloomberg, CEIC

Chart 15: China leading rebound in semiconductor sales (%yoy)



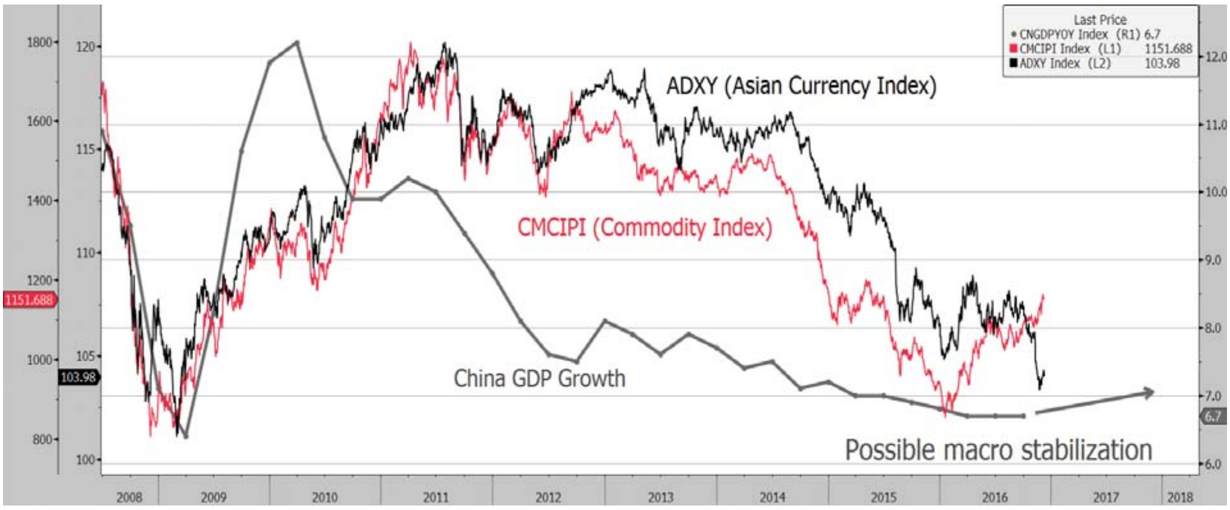
Source: SIA

POSITIVE IMPACT ON BROADER RISK ASSET PRICES

- **Meanwhile, for the next few years, expect positive implications to the broader region…** The implications of China's macro stabilization are manifold towards the broader region in general and Malaysia's equity market in particular. Foremost, it may help to arrest the multi-year downtrend in world's commodity prices since 2012. The favorable shift in the terms of trade of commodities and its value-added products would in due course (current decoupling of positive correlation is deemed transient) result in favorable currency movements for the countries along the production value chain.

- **…as well as Malaysia's output and corporate earnings in particular.** The Malaysian economy, its external sector in particular, should benefit from the potential improvement in China's macro outlook. The FBM KLCI, with significant weightage among its commodity-based constituents, may see a continuation of earnings upcycle after 3 years of negative and sub-par growth from 2013 to 2015.

Chart 16: China GDP Growth versus Commodity Prices (CMCIPI) and Asian Currencies (ADXY)



Source: Bloomberg, MIDFR

- **As equity price trajectory is empirically earnings-dependent…** The continued recovery in earnings growth is central to our assessment on the likely price trajectory of the FBM KLCI going forward. It is supported by empirical observations between earnings and price which are conclusive with regard to the nature of their secular direct relationship. This is despite the ever present 'noises' from short-term price volatility which is influenced by market sentiment and other situational issues.

- **…hence expect the FBM KLCI to regain upward thrust.** Therefore, premised on the empirically rooted behaviour whereby earnings and price are trending broadly hand-in-hand, we reiterate our view that the FBM KLCI shall regain its upward thrust going forward amidst intermittent cyclical pullbacks.

II. EFFECTS ON TRADE BALANCES FROM EXCHANGE RATE DEPRECIATION

- Theoretically, the depreciation of a local currency is good for the export sector, ceteris paribus; it would increase competitiveness of export goods in foreign markets. On the other hand, it would cause higher level of import price.

- The higher import price could bring inflationary pressure especially those who import a lot of industrial products, energy resources, intermediate goods and consumer goods. Hence, the overall economic impact of currency depreciation can't be easily concluded nor quantified.

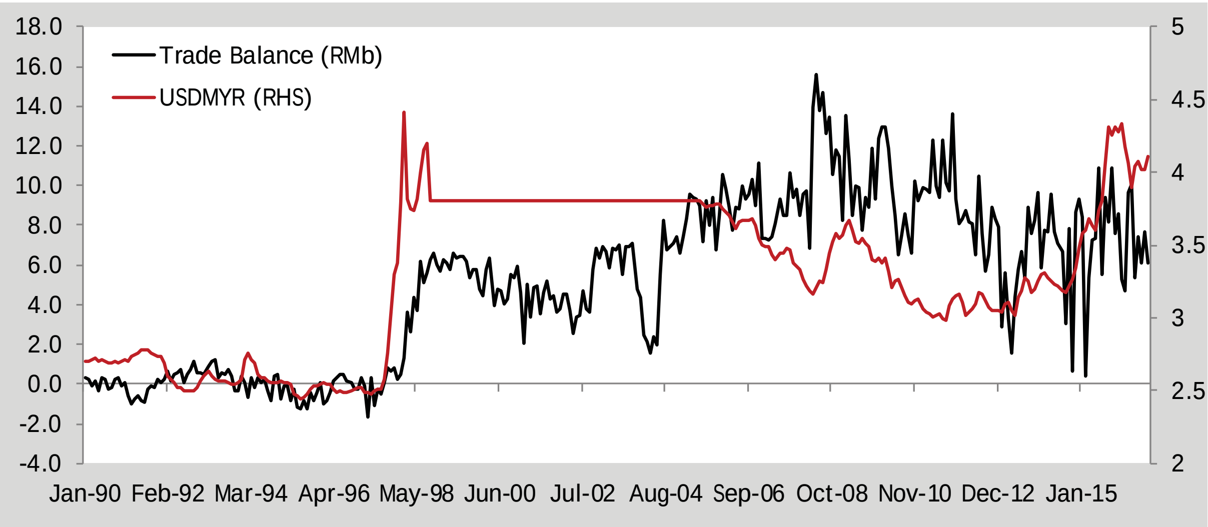
- The exchange rate in a given economy often plays a more prominent role than the interest rate in the transmission mechanism of monetary policy. For most developing countries, it has been assumed that depreciation is an appropriate macroeconomic fundamental to support the export sector.

- In these regards, higher exports and lower imports will increase the trade surplus of a country and in turn, also increases the aggregate demand (AD) resulting in higher level of the real GDP (economic growth).

- This implies that there are two elements to be noted on currency depreciation and its impact on trade balance. Firstly, we suppose that a country has export potential, and depreciation has the price elastic for export goods in foreign markets. Secondly, we also assume that depreciation is supported by sound macroeconomic fundamentals that help to ensure a country's competitiveness in foreign markets i.e. the economy has capacity to produce more output for export.

- Although economic theory suggests the above scenarios with respect to the impact of depreciation on trade balance and economic growth, the results from empirical research is inconclusive. Sometimes depreciation would bring negative impact on trade balance. Some studies show that there should be a set of necessary conditions on the size of import demand, export demand and supply elasticities of depreciation.
- This can be interpreted from two different aspects. Firstly, the elasticity of demand for exports and imports is price inelastic, and the reduced price of export goods abroad would lead to only a small increase in quantity sold. Hence, the total amount of exports may be reduced (in USD, but will increase in Ringgit). Furthermore, the impact of the depreciation may require some time to adjust in the real economy.
- In the short run, the demand for export goods in foreign markets may be inelastic, but as time goes on, the demand for goods become price elastic in the long run, and hence bring greater impact to the export sector. Secondly, the state of the global economy could affect the export sector. When the global economy is in recession, depreciation may not bring much impact on the demand for export goods abroad and vice versa.
- Considering the current trend in global trade, where growth is subdued; any changes in currency (depreciation) will be muted, at least in the short term.
- Another major determinant in favour of the trade balance (positive) with regards to currency depreciation is the overall composition of exports. The country with high percentage of export of manufactured goods would benefit more from the depreciation of currency as compared to those which relies on export of commodities and agricultural products. This is due to the ability of the sector to respond and taking advantage of the change in foreign exchange market.
- In this regards, we would aspect Malaysia's trade balances to benefit from the current depreciation of MYR.

Chart 17: Malaysia - Trade Balance vs USDMYR



Source: CEIC, MIDFR

III. GLOBAL TRADE SLOWDOWN: WHY IT MATTERS

- One of the main catalyst behind the growth of the world economy in recent decades is mainly attributed to the expansion in world trade. The inclusion of China in WTO in 2001, help to accelerate the world trade by opening up its huge domestic economy of nearly 1.2 billion people. However, in the last 5 years growth in global trade has seen significant declines, translating into slowdown in the overall global economic growth.

- In concurring this trend, World Bank reduces its world growth forecast from 2.9% to 2.4% in April 2016, IMF echoed a similar tone with downward revision of its forecast from 3.5% to 3.2%. However, IMF was optimistic that world growth will rebound slightly in next year to 3.5%, driven by growth from the emerging markets.

- In regards to trade, WTO has also trimmed down its world trade growth forecast from 2.8% to 1.7% in 2016. The global trade growth forecast reflects a slowdown in China as well as slowdown in demand from developed economies. The 1.7% growth figure marked the first time that global trade was expected to lag the growth of the world economy in the last 15 years.

- The moderation in global trade is pointing toward a sign of impending global recession rather than sluggish expansion. Global trade growth is one of the major contributors to supply-side gains in global GDP. Therefore, a slow-down in underlying global trade growth reflects possible losses in welfare.

- From a trend perspective, over the longer term, global trade has grown at twice the rate of world GDP and the more recent trends are showing that the relationship has broken down. The main question at hand is whether the slowdown is a cyclical or trend phenomenon.

- Various factors can be linked to the global trade slowdown which are among others;

  » **Weak economic activity, particularly in respect to investment.** The dramatic slowdown in investment activity since 2012, especially investment, contributes significantly to the decline in trade activity. Lack of investment could possibly cap the future expansion of both trade and global growth.

  » **Stalled trade liberation initiatives** are also one of the contributing factors that distort the global trade growth.

  » **Spikes in protectionism measures are on the rise.** Measures like anti-dumping, countervailing duties, temporary trade barriers are among some the signs that protectionism in on the rise. Protectionism is killing the global economy. One could blame China for the slowdown in global trade activity, though we opine that the problem is not with China specifically, but on the increasing trend of protectionism globally – which of course also applies to China. Nowadays most countries are trying to reduce their imports content while increasing their exports i.e. imports substitution, which eventually lead to very competitive trading environment with factories shifting to countries with lower cost of production. A winner has yet to emerge, though countries such as China and Vietnam have strong chance of winning the war, with recently US becoming a major threat with Trump's biasedness towards protectionism. However, in the long run we are of the view that countries which possess the most free trade agreements (FTA) with other countries would eventually benefit the main beneficiaries.

  » **Shrinking global value chain** would result in companies moving their production lines nearer to their markets, depleting inter-countries trade opportunities. Innovation and change in technology will drive down production cost and reduce the comparative advantage of cheap labour propositions, making it possible for firms to invest in capital and be nearer to their respective target market without depending on the cheap factor of production.

- In gauging through the significant impact of global trade slowdown, we have to bear in mind the following three main connections;

  » **Exports are source of jobs**, and higher paying jobs is an outcome of higher productivity

  » **In the larger perspective, exports improve the trade balance (or net exports).** Subsequently, aggregate demand in an economy will increase and if there is enough slack, this will result in higher levels of national income and lower levels of unemployment. Falling exports put this process into reverse.

  » **Governments can react to falling exports through more or less discriminatory ways.** One should fear if the government decides to counter falling exports by offering fiscal incentives and subsidised trade finance, with the (often unsaid) goal of stealing market share from other country exporters. Another bad option is seeking to preserve the national trade balance by discriminating against imports, done by matching a fall in exports with a fall in purchases from abroad. Preferred alternatives would involve undertaking reforms to improve export performance and negotiating deals with other countries to open up new commercial opportunities around the globe.

- A quick look into the sectors within companies under our coverage reveals that sectors that shipped more their physical products overseas would be hit the most from a slowing global trade, as follows:

Sector	% of Overseas Revenues
Technology	83
Rubber Gloves	98
Plantation	66
Oil & Gas	34

Source : Bloomberg, MIDFR Estimates

- In addition, the spill over effects will also be felt by the sectors providing services to these sectors such as Shipping & Ports and Banks, which provide shipping services to ship the physical products and trade financing facilities respectively.

C. SECTORAL VIEW

I. AVIATION (TRANSPORTATION)

All geared up for an exciting 4QFY16 .... POSITIVE

- **Record high load factors expected in 4QFY16.** Several factors have led to strong demand for travel including a weaker Ringgit helping inbound tourists, a return of Chinese tourists in FY16 as well as direct international flights from secondary cities, i.e. KK, Langkawi and Kuching. Malaysia Airasia logged a 9MFY16 load factor of 89% which was a Group record. However, this will be short-lived as Oct-Nov loads have already hit 93% and will only get better in December. Meanwhile, AAX is expected to record load factors above 80% in 4QFY16 despite adding more than 20% in capacity. We maintain our BUY calls on both AirAsia (BUY, TP: RM3.45) and AAX (BUY, TP: RM0.50).

- **More details on the sale of Asia Aviation Capital (AAC) in 4QFY16.** Airasia highlighted that it has received 8 non-binding bids for full ownership in AAC and 1 for an 80% stake. Bidders would be allowed to conduct due diligence on AAC's in December while the deal is targeted to be concluded in April 2017. We are increasingly optimistic on the potential for special dividends as the deal draws nearer to a possible conclusion. Recall that a divestment of a 70-80% stake in Airasia's leasing arm could translate into proceeds of RM2.9b-RM3.3b (RM1.04-RM1.19 per share) which could be used to pare debts, fund future expansion and be paid out as special dividends.

- **Concerns on the Ringgit's slide could be overblown.** Airasia's share price has corrected by 21% from its high of RM3.20 in August. We believe that the sell down could have stemmed from the Ringgit losing ground against the greenback. However, we are not too concerned about the falling Ringgit as Airasia's unhedged exposure to USD for its borrowings and expenses are capped at 33% and 50% respectively. In addition, Oct-Nov 2016 average USD/MYR exchange rate stands at 4.23, still below the 4.28 recorded in 4QFY15 which saw Airasia recording core net profit of RM464m.

- **10MFY16 traffic growth at Malaysian airports of +5.4%yoy exceeded our forecast of +4%yoy.** We expect pax traffic to continue to perform well in the final 2 months of 2016 due to the school holiday period. Traffic growth was underpinned by airline capacity expansions, namely Malindo and AAX. KLIA main terminal building (MTB) saw strong growth of +34.2%yoy in October (ytd: +9%yoy) due to MAB resuming its capacity expansion after a year of cuts. Meanwhile, MTB's growth was also aided by Malindo shifting its operations and expanding. Despite KLIA2 losing Malindo to MTB, Airasia and AAX were able to fill in the void, registering year-to-date pax growth of +4.7%yoy in KLIA2.

- **PSC revision neutral on MAHB's earnings** as our calculations indicate that PSC revenue could see only a minor net increase of +1.1% (+RM61.5m) based on FY16F PSC revenue. Our estimate is derived by multiplying the change in PSC rates against departures by airports (KLIA, KLIA2 and other airports) as well as destination (ASEAN, Non-ASEAN and domestic). Also, we assume that there is a fair chance (50%) that MAHB could negotiate with the government to be compensated by MARCS as the revised PSC rate for ASEAN at KLIA and other airports of RM35 would be significantly lower than the RM71 stated in its operating agreement. Hence, we have a BUY call on MAHB with TP of RM7.60.

II. CONSTRUCTION

Times of sturdy growth .... POSITIVE

- **4 key drivers will influence positive impact for the sector.** Infrastructure largesse from the strong need of public land transport is expected to housing and impact the construction sector in FY17 favourably.

Our investment thesis is supported by the roll-outs of project under the National Transformation 2050 (TN50) in Budget 2017. The 4 key drivers for construction sector are; (i) waterworks, (ii) rural connectivity, (iii) infrastructure and (iv) affordable housing.

- **Strong surge of projects expected.** The construction sector will expect to see a strong surge of projects amounting to RM97.9b which is +73.2% above our expectation of RM56.5b. Notably, construction for railway and roads amounts to RM62.8b or 64.2% of the total project roll-out under the Budget 2017. Roadworks concentrate in Sarawak hinterlands while East Coast Rail Line will focus on the key nodes in the Eastern Corridor Economic Region (ECER) such as Kuantan, Kemaman and Kuala Terengganu.

- **Maintain POSITIVE.** We maintain positive on the sector due to positive underlying dynamics based on (i) on-going/upcoming projects of KVMRT2, LRT3 and the new projects under TN50, (ii) attractive average sectoral ROE of 15% compared to average of 11.4% for the market benchmark, (iii) relatively inexpensive valuation with average PER of 11.54x, and (iv) unprecedented largesse to the sector especially to railway construction and affordable housing which accounts for 13.4% respectively of the total estimated sector budget . Among the stocks under our coverage that will benefit are as follows: MRCB (BUY, TP: RM2.08), Muhibbah (BUY; TP: RM3.05), IJM (BUY; TP: RM4.00), CMSB (BUY; TP: RM4.36).

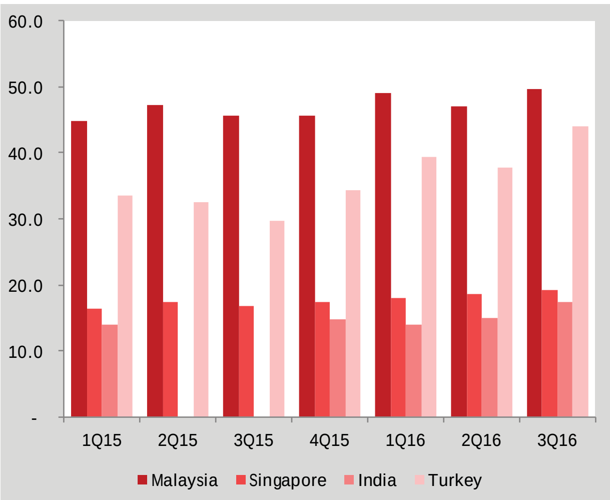
III. HEALTHCARE

Better year ahead as demand remains resilient .... POSITIVE

- **Demand remains resilient.** We continue to believe that the demand for healthcare is still resilient. This is evident from the recent earnings announcement where both IHH and KPJ recorded healthy inpatient admissions across their home markets despite the marginal decline in revenue intensities. Going into 2017, we opine that the demographic factors such as increase in ageing population and increase in lifestyle diseases will continue to drive the adoption of private healthcare services. Additionally, with Ringgit at its current level, it will be attractive for medical tourism traveller to seek medical treatments in Malaysia as oppose to its neighbouring countries. Furthermore, the increasing adoptions of medical insurance policy and employer tie-up with private hospital operators are also expected to encourage the usage of private medical services.

- **Earnings to improve with better Ringgit.** Over the past three quarters, we note that revenue intensities have been declining, albeit marginally despite the increase in inpatient admissions. This is mainly attributable to the increase in admissions of local patients as opposed to medical travellers which tends to generate higher revenue. This is as a result of soft consumer sentiment which deters patients from taking up serious procedures for fear of inflated costs. This is especially true for consumers who are in the cost-sensitive segment and those who are paying for the medical services via their own pockets i.e.: out-of-pocket (OOP) spending. We opine that

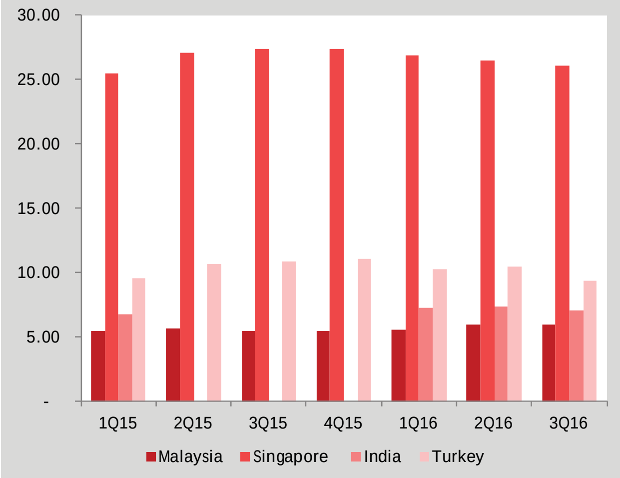
Chart 18: IHH's quarterly inpatient admissions ('000 number of patients)



Source: Company, MIDFR

this segment which accounts for 30% of private sector's revenue is affected by the rising cost of living due to the implementation of GST and also weakening of Ringgit. Having said that, we think that the consumers' healthcare spending will likely improve in 2017 along with the improvement in Ringgit.

Chart 19: IHH's revenue per inpatient (RM'000)



Source: Company, MIDFR

- **Increasing costs a temporary dampener.** The current condition with the currency market has left the healthcare operators with potentially higher cost for medical consumables. That said, we think this situation will be temporary as we expect Ringgit to trade with less volatility in 2017 as oppose to 2016. Furthermore, we think that higher contributions from newly opened hospitals from both healthcare players will help to cushion the impact from the currency fluctuations.

- **Maintain POSITIVE.** All in, we are reiterating our POSITIVE stance on the sector as we expect demand for healthcare services to remain robust in 2017. We think that the sector's earnings growth will remain resilient despite increase in medical consumable costs which is mainly due to unfavourable forex environment. Our POSITIVE stance is premised on: (i) strong demand for quality healthcare and; (ii) lack of public healthcare amenities to cater for patients especially in the urban areas. We also opine that private healthcare operators will continue to be the preferred choice for the urban dwellers with higher disposable income and insurance coverage. IHH Healthcare (TP: RM6.58) is our Top Pick for the sector.

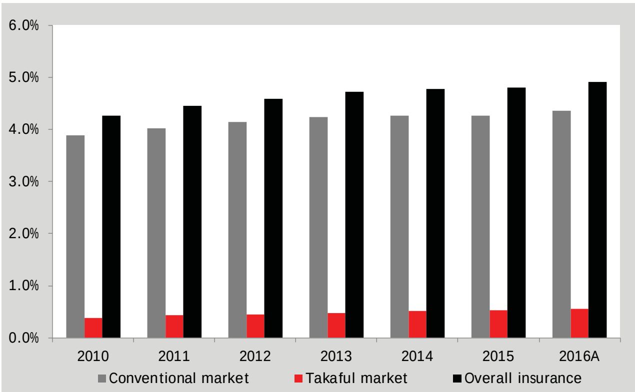
IV. INSURANCE

Premium growth to remain steady .... POSITIVE

- **Accelerating penetration rate.** The growth of Malaysia's insurance industry is expected to persist next year, having seen moderate growth in total gross direct premium of 6.6% in 1HCY16 and also a 5-year CAGR of 7.8% (2010-2015). Comparatively against Asia-Pacific countries, Malaysia's insurance industry penetration rate over GDP this year is at only an annualized 4.91%. With further room for growth, we expect insurers will continue to benefit from lagging expansion of Malaysia insurance industry particularly in takaful market.

- **Takaful market to continue grows unabated.** We believe that untapped potential for all classes of the takaful market will continue to spur growth while we believe that the downside risk to the overall insurance industry will be limited. Takaful's gross direct contributions over GDP, annualized for 2016, have only reached a penetration rate of 0.56%. Therefore, we anticipate potential expansion of takaful market based on the expectation of a pick-up in the penetration rate that will be backed by the

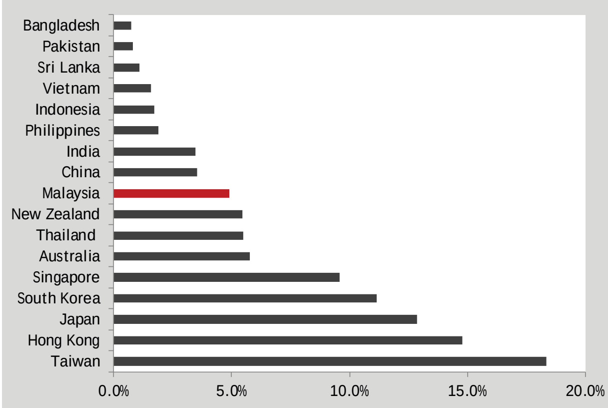
Chart 20: Penetration rate over Malaysia GDP



Source: BNM, MIDFR estimate

continued growth of domestic Islamic finance industry. It will also be supported by migration of corporate clients to takaful products and untapped potential of non-Muslims segment.

Chart 21: Penetration rate by Asia-Pac market



Source: Various

- **Strategic change for de-tariffication to drive growth.** For the overall general insurance market, we expect conditions of the market will remain challenging that will intensify due to the competition following the second phase of de-tariffication of motor and fire insurance next year. To-date, we have yet seen any new products launch in the first phase as insurers adopt a 'wait-and-see' approach. We opine that is still too early to ascertain the overall impact to the industry at this stage. We view that it is imperative for insurers to reinvent operating tools for a risk based product pricing and more custom-tailored innovative products to capture market demand. We expect the positives will be coming from insurers' response to changes and through deploying sophisticated pricing tools that will lead to exploring opportunities in this dynamic market, resulting in better underwriting profit.

- **Beneficiary of booming construction and robust activities in port and dry bulk shipping sectors.** On the positive side for general insurance market, we expect an upsurge in insurance coverage for contractor's all risk & engineering and liability. The industry will be benefiting from the inflow of projects from the implementation of ETP projects and future intra-urban and interstate railway related projects from 2016-2020, which may amount to more than RM48b to be rolled out. Marine and cargo insurance are also expected to contribute growth to the overall market on the back of prospective double-digits growth in Ports' throughput and increase in shipping activities.

- **Favourable life insurance market.** The development of life insurance and family takaful markets will continue to be achieved through specific initiatives under the LIFE Framework to reshape long-term sustainable growth. We view that the main drivers of life insurance growth is the pent up demand and consumer awareness for health insurance products attributable to rising health care costs. On another bright note, we expect the combined of life and family investment-linked products will continue to gain traction after registering commendable growth of 14.6% in 1HCY16 as compared to corresponding period last year. We believe that an alluring investment yield offered by investment products holds major competitive advantage in attracting new customers to shift from low fixed and traditional deposit rates of conventional banks.

- **Downside risks** to the sector include (1) unfavourable regulatory changes, (2) interest rate movement that could affect insurer portfolio returns and product pricing, (3) intense competition from de-tariffication of motor and fire insurance, and (4) higher-than-expected claims.

- **We still see a lot of excitement in the sector** despite the challenges and potential headwinds. Additionally, the growing landscape of digital technologies will bring the insurance sector to the next level by creating significant operational efficiencies and improve customer loyalty. Hence we maintain our POSITIVE recommendation on the sector. We reiterate our BUY calls for all insurance/ takaful companies under our coverage universe, namely Syarikat Takaful Malaysia (BUY, TP: RM4.84), LPI Capital (BUY, TP: RM17.84), and Tune Protect (BUY, TP: RM2.18).

V. OIL AND GAS

Opportunities in the midst of challenges.. POSITIVE

(Downstream positive, Upstream negative)

- **Oil price review.** Brent crude oil prices in 2016 were volatile, trading between the low of USD27.88pb in January to a high of USD55pb in December. The year average is at USD45pb, in-line with our forecasts made in early 2016. Moving forward, we are expecting prices to remain volatile, averaging higher at approximately USD50pb in 2017. Despite accords have been reached to limit the supply of crude oil from OPEC member countries, the actual production cut remains to be seen – both Iran and Iraq have been producing at record high at over 90% of their production capacity. In addition, the recently agreed production ceiling is only for the period of six months and no firm figures have been set. As such, downside risks to global crude oil prices remain.

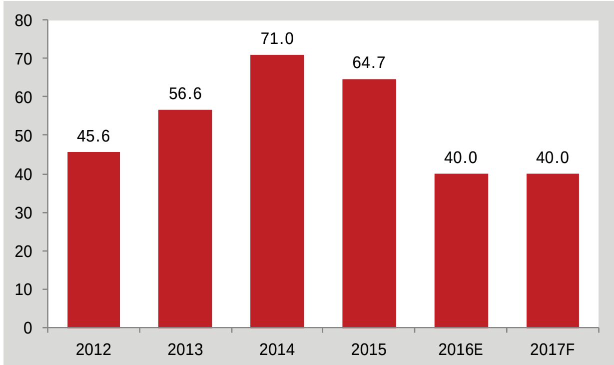
- **CAPEX expectations from oil majors.** In 2016, capital expenditure (CAPEX) for major global oil and gas producers including independent exploration and production companies had declined by close to -30%yoy. In 2017 however, the outlook remains rosier as CAPEX is expected to pick up pace by a humble +2.8%. Locally, CAPEX from PETRONAS had been waning, similar to global trend. In 2016, PETRONAS' CAPEX is expected to be at approximately RM45-50b, a significant decline compared with that of 2015 and 2014 at RM64.7b and RM71b respectively. In FY17, CAPEX by PETRONAS is expected to hover at levels seen in 2016 as the bulk of CAPEX will be dedicated towards RAPID in Pengerang, Johor.

- **Offshore assets and vessel charter rates.** Large offshore asset utilisation rates and

Chart 22: Brent Crude Oil Price

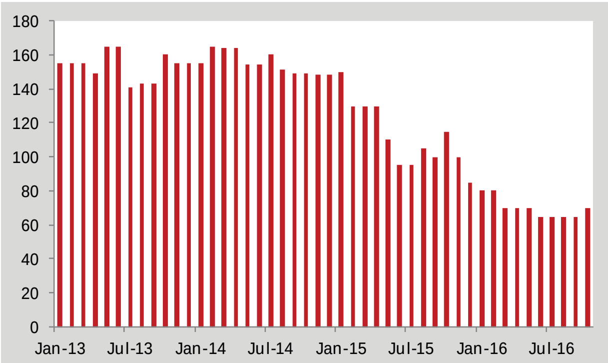
Source : Bloomberg

Chart 23: PETRONAS Capital Expenditure



Source: PETRONAS

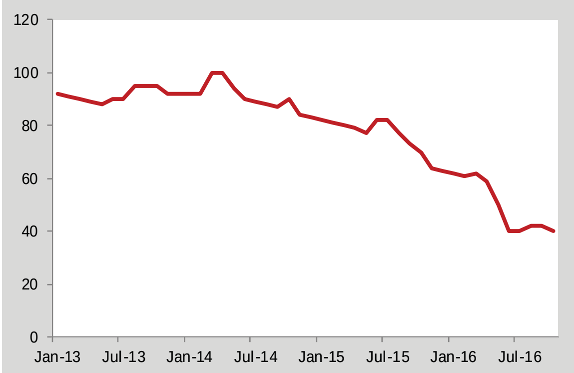
Chart 24: South East Asia Jackup Rates



Source : IHS

charter rates are expected to remain depressed into 2017. Currently, the global utilisation rate (UR) for Jackup rigs is at 58.3% compared with 63.5% in January 2016. The situation is bleaker in South East Asia where the average UR for large offshore assets including jackups, drillships, semisubs and tenders is at only 36%. Charter rates for jackups in SEA remains depressed at approximately USD75-80k per day. Charter rates for offshore support vessels (OSV) in SEA also remains depressed at approximately USD0.9-1.1 per brake horsepower per day. We are not expecting the UR and charters rates to stage meaningful improvements in 2017.

Chart 25: South East Asia Jackup Total Contract Utilisation



Source : IHS

- **Target niche service providers.** All is not doom and gloom in the oil and gas sector as opportunities still exist, especially for asset light and niche service providers. We are bullish on two such companies - Deleum Berhad (TP:RM1.25) and Gas Malaysia Berhad (TP:3.07). We like Deleum for its niche business in the supply of gas turbines and the aftersales maintenance, repair and overhaul (MRO) services in addition to the slickline business. As for Gas Malaysia, we continue to favour the incentive based regulation (IBR) regime as it provides earnings stability and also the company's ability to increase its customer base and subsequently the volume sold.

- **All things considered, the oil and gas industry still offers attractive trading opportunities** in line with the volatile movements in the global crude oil mart. We are negative on asset-heavy companies with heavy reliance on upstream exploration and production activities but we remain positive with downstream related companies. Having said that however, we recommend investors to cherry pick stocks within niche segments of the oil and gas value chain. For example, Dayang Enterprise Berhad (TP: RM0.95) and Deleum Berhad (TP: RM1.25) are frontrunners which have niche expertise with the upstream maintenance, construction and modification (MCM) works for PETRONAS and its production sharing contractors. Petronas Dagangan (TP: RM24.80), Petronas Chemicals (TP: RM6.46) and Petronas Gas (TP: RM19.63) are also safe investable companies within niche specialized industries

VI. PLANTATION

Upgrading 2017 average CPO price to RM2725/MT .... POSITIVE

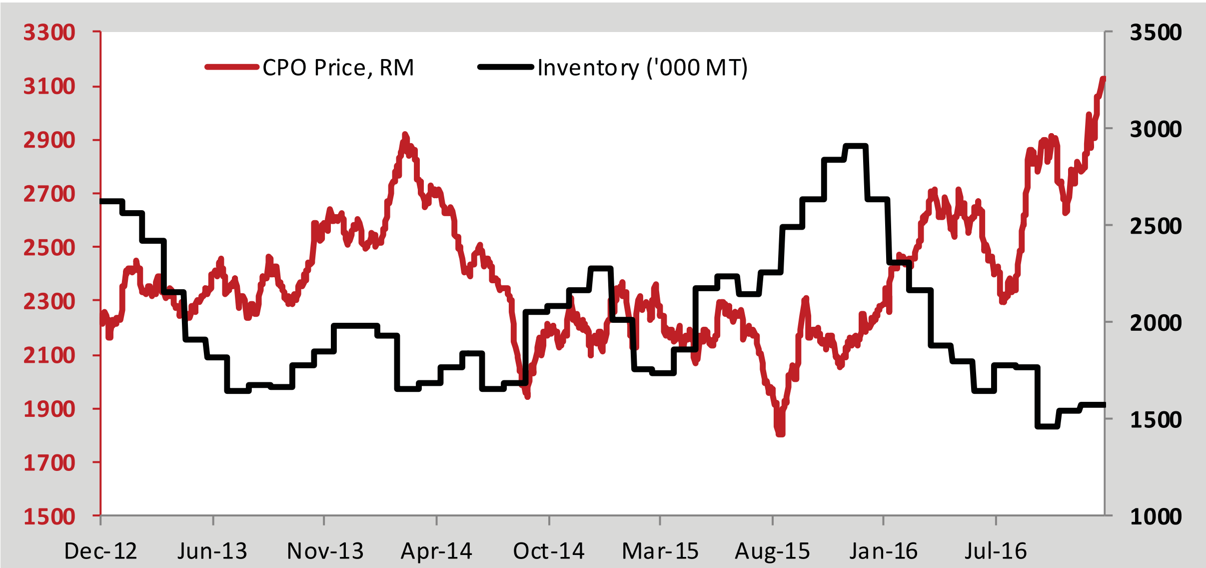
- **Beneficiary of strong USD.** CPO price stands to gain from the strong USD as it gains competitiveness against soybean oil which is priced in USD. A strong USD should increase the demand for CPO as it will be cheaper for consumers to use palm oil instead of soybean oil. We have incorporated the latest assumption of average USDMYR rate of RM4.20 for our CPO price estimate.

- **Inventory to dip below the critical level of 1.5m MT in 1QCY2017.** Malaysia palm oil stockpile is expected to drop below the critical level of 1.50m MT towards in 1QCY2017. The impact of El Nino on oil palm tree production is still lingering and we expect production to recover only in 2QCY2017. Coupled with the seasonal low cycle in first quarter, CPO production will not be enough to satisfy demand. As a result, inventory is expected to drop to the range of 1.45m to 1.50m MT by end-Feb 2017. This is a positive factor to CPO price which we think has not been fully realized by the market.

- **US record high biofuel mandate is positive for CPO price.** Recently, United States has increased its biofuel mandate by 6% to 19.28b gallons in 2017 which is a new record. The news has caused soybean oil price to surge in the Chicago Board of Trade (CBOT) market. Note that soybean oil is the main input used to produce biofuel in the US. In August-2016, 54% of the total input used to produce biofuel in US came from soybean oil. The news is positive to CPO price as it is used as a common substitute to soybean oil.

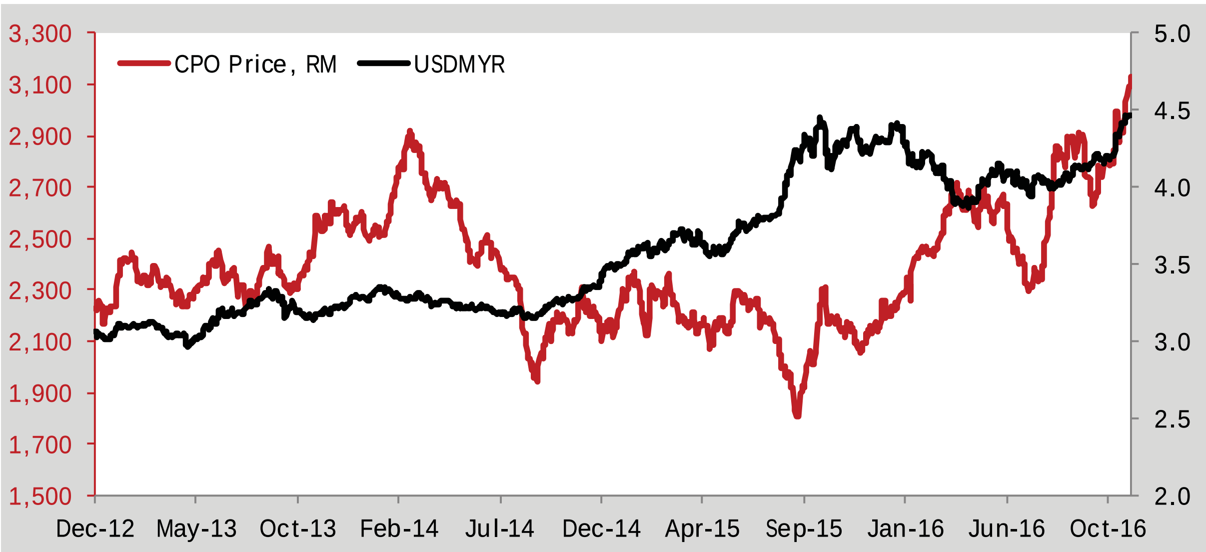
- **Maintain POSITIVE view on the sector.** In line with higher CPO price assumption, we have increased our earnings assumption for FY16 and FY17 for all planters under our coverage. Accordingly, our Target Price has been increased for all planters except FGV which is maintained as we are using 1.0x Price to Book Value method. For PPB, we are changing our valuation method to 1.0x Price To Book Value as we noticed that the stock price stability reflects its Book Value rather than the volatile earnings of the Company.

Chart 26: Relationship between CPO price and inventory



Source: MPOB, MIDFR

Chart 27: Relationship between USDMYR and CPO price



Source: Bloomberg, MIDFR

Table 14: Plantation key industry indicators

	2014	2015	2016E	2017E
Average CPO price (RM/MT)	2384	2154	2625	2725

- **Top pick is KLK (New TP: RM29.25; Old TP: RM29.05).** Our top pick is KLK due to: i) 70% of its EBIT is from upstream palm oil plantation business, ii) positive outlook for downstream division from new capacities in the fatty acid business and iii) good track record in earnings delivery historically.

- **Other BUY calls** are IOICORP (New TP: RM5.30; Old TP: RM5.05) and TAANN (New TP: RM4.70; Old TP: RM4.50). We like IOICORP due to its pure exposure to palm oil business both in the upstream and downstream divisions. The Company's profit is also expected to recover in FY17 after the uplift of RSPO suspension. We also like TAANN due to: i) its FFB production growth is the strongest among peers (+8%yoy in 9MFY16), ii) better outlook for timber division due to recent strengthening of USD and Sarawak State Government's effort to promote timber products in Japan.

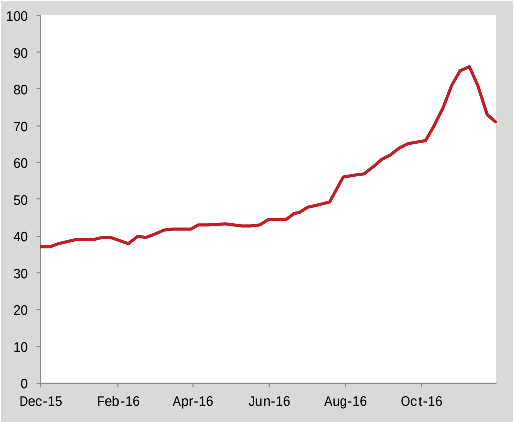
VII. POWER (UTILITY)

Putting lazy balance sheets to work.. POSITIVE

- **2016 was a watershed year** for the power sector thanks to the prolonged heatwave throughout 1H16 which drove demand growth to over 4%. Given the exceptionally high base in 2016 we expect demand growth in 2017 to moderate to just 2% relative to the 2.2%-4.3% growth levels seen a few years prior to 2016.

- **The rising coal price** coupled with a weak RM in 2H16 will likely translate into significantly reduced ICPT rebates in the upcoming review (which determines effective tariffs for 1H17). If coal price and the Ringgit stay at current levels (of USD71/tonne f.o.b. price and USD:RM4.43) over the next six months, we do not rule out the possibility of an ICPT surcharge in the 1H17 review (for 2H17 tariffs).

Chart 28: Coal Price Trends (5500kcal, USD/tonne)



Source: Bloomberg, MIDFR

- **The move to increase coal contribution** will help lower overall generation cost as coal generation cost is still 30%-40% cheaper than gas generation at current price levels. Tenaga has been raising coal contribution to overall system generation from 45% when the IBR was implemented to 52% now. This is targeted to increase to around 58% next year, especially after the addition of Malakoff's new 1000MW Tanjung Bin coal plant earlier this year and TNB's upcoming Manjung 5 1000MW coal plant scheduled for Oct17.

- **Reserve margin should remain comfortably above the 20%-25% required levels.** The addition of over 2000MW capacity in 2016 comprising (1) Malakoff's Tanjung Bin plant (1000MW) commissioned in March 2016 (2) TNB's Prai plant (1071MW) (3) Ulu Jelai hydro (372MW) has raised the estimated reserve capacity to 29%. In 2017 around 1400MW of new capacity is expected to come on-stream from Tenaga's Manjung 5 (1000MW) and Pengerang co-generation (400MW) and this will lift reserve capacity further to 33%.

Table 15: Pipeline of new power projects

Power Projects	Fuel	Capacity (MW)	Operation date
Pengerang co-generation	Gas	400	Jun-17
TNB Manjung Five	Coal	1,000	Oct-17
Additional Chenderoh	Hydro	12	Oct-18
Jimah East Power	Coal	2,000	Jun 2019 (Phase 1), Dec 2019 (Phase 2)
Tekai	Hydro	156	Dec-20
Project 4A (Pasir Gudang)	Gas	1,000	Jan-20
Edra	Gas	2,400	Jan-21
Tekai	Hydro	168	Jul-21
Telom	Hydro	132	Dec-22
Nenggiri	hydro	416	Dec-24
Lebir	hydro	274	Dec-24

Source: Energy Commission, TNB, MIDFR

- **Balance sheets are underutilized.** All the local power players are sitting on strong balance sheets, i.e. low net gearing of 0.35x - 1.20x relative to regional average of 1.5x. Tenaga in fact, is one of the most underleveraged among regional peers at just 0.35x net debt-to-equity. This positions the local power sector strategically to capitalize on acquisition or expansion opportunities that may arise in the current downcycle, particularly overseas. We also see scope for dividend upside - besides an underleveraged balance sheet; Tenaga entails strong FCF yields of 6%-7% (FY16F) while YTL Power entails FCF yields of up to 13% (FY17F).

- **Key sector catalysts:** (1) Players are sitting on underutilized balance sheets, particularly Tenaga. A key focus will be finalization of Tenaga's capital optimization plan soon (which will paint better clarity on Tenaga's new dividend policy) and the outcome of legal proceedings on its RM2.1b tax issue with the IRB which has been an overhanging concern. (2) Regional expansion on the cards for players i.e. Tenaga is on the lookout for regional opportunities after having acquired GMR Energy (India) and GAMA Enerji (Turkey) this year while YTL Power's expansion of its Indonesian operations via Tanjung Jati bodes well due to diminishing returns in Malaysian power generation.

- **We maintain POSITIVE on the power sector.** Tenaga (BUY, TP: RM16.80/share) is our top sector pick. Key catalysts over the next 12 months: (1) Dividend catalyst on the back of FCF yield of ~7% (FY16F/17F), an under-geared balance sheet and a capital optimization exercise to be finalized by end CY16, (2) Overseas expansion provides scope for stronger growth and better returns in the mid-term, (3) Strong earnings visibility post-ICPT implementation, (4) Resolution of Tenaga's RM2b tax dispute with the Inland Revenue Board.

- **We remain NEUTRAL on YTL Power (TP: RM1.40/share)** given: (1) Continuous delays in the PPA extension for its 585MW Paka plant - legal proceeding between TNB and the Energy Commission will drag into 2017 on this, (2) Overcapacity in the Singapore market impacting Power Seraya negatively - the situation has stabilized but recovery could be some way out, (3) Potential drag from YES 4G's initial losses. However, dividend yields are very attractive at 6%-7% (FY17F-18F, FYE June).

VIII. SHIPPING AND PORT (TRANSPORTATION)

Ports and dry bulk shipping .... POSITIVE

- **Port Klang throughput growth showing no signs of a slowdown.** Both Westports and NCB grew by double digits, at +10.1%yoy and +14.2%yoy respectively. Much of the growth can be attributed to the Intra-Asia trade lane where Asean trade has been robust. Within the sector, we have BUY calls on Westport (TP: RM5.00) and MMC (TP: RM2.94).

- **Shipping alliance route announcements have been promising for Westports.** The Ocean Alliance has included Westports in its Trans-Pacific and Asia-Middle East services, allaying concerns that WPRTS could be snubbed by the mega alliance in favour of Port of Singapore (PSA). Meanwhile, WPRTS is still vying for Ocean Alliance's Asia-Europe, Asia-Mediterranean and Asia-Red Sea services as well as services for THE Alliance. We reckon that WPRTS has a decent chance of securing a number of port calls within these services due to its cheaper tariffs while offering similar speed and efficiency.

- **WPRTS has brought forward its CT9 wharf extension plans** in view of 1) Concerns on port congestion (utilisation rate has exceeded 80% due to higher than expected growth); 2) ITA expiration in FY17 and; 3) In anticipation for future requirements of shipping customers. CT9 phase 1 is scheduled to be complete by end-FY17 (from: FY18) entailing an additional 0.5m twenty-food equivalent unit (TEU) capacity to reach 14m TEU by FY17 (from: 13.5m TEU).

- **Seasonal uptick for petroleum and LNG shipping in 4QFY16.** Petroleum tanker charter rates in 4QFY16 could improve as a colder winter and increased refinery activity is expected. MISC could be well positioned to secure higher term charter rates in 4QFY16 as its term to spot mix has fallen to 50:50 (from 60:40). Meanwhile, LNG rates could also trend higher as demand for LNG cargo picks up in Japan, China, Argentina and Egypt with a +9% increase in imports already witnessed since August 2016. Charters rates should hold their ground going into 4QFY16 as a colder winter is expected in the northern hemisphere. We have a NEUTRAL recommendation on MISC (TP: RM8.05).

- **US infrastructure spending positive on the dry bulk shipping sector.** The Baltic Dry Index (BDI) which measures charter rates across dry bulk ship sizes and routes has surged over the 1,200 level after averaging at around 500 for the majority of 1HFY16. The recent surge in the BDI can be attributed to a recent increase in coal imports from China arising from limits imposed on locally produced coal and expectations that the US will increase infrastructure spending which requires import of dry bulk materials. We have BUY call on Maybulk with target price of RM1.04 based on 5-year average price-to-book (PB) ratio of 0.88x.

IX. BANKING

Cautious optimism for a better year ahead .... NEUTRAL (positive bias)

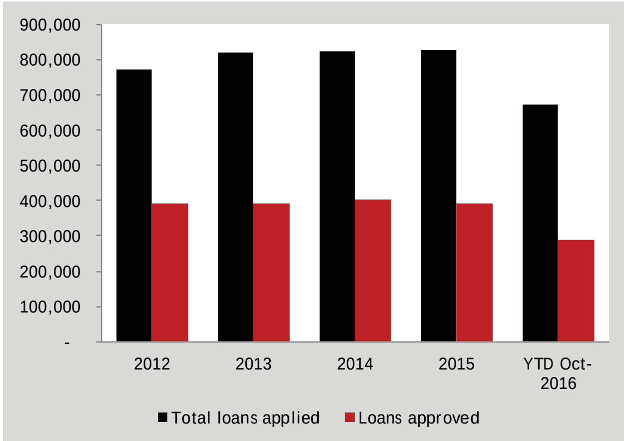
- **A challenging 2016...** The main observation we have made of the banking industry in 2016 is the overall cautiousness of the banks in terms of lending activities and ensuring stable asset quality. Loans growth had come in short of our expectations thus far. For example, total loans grew +4.5%yoy as at 31 October 2016, down from +9.1%yoy registered on the same period last year. This was due to slower growth in all sectors except for financing, insurance and business services. In terms of asset quality, we have seen a slight uptick in 2016. As at end October 2016, gross impaired loans (GIL) ratio came in at 1.65% from

1.60% registered as at end October 2015. In terms of liquidity, we believe it is still ample as loans to deposit ratio (LDR) was 89.4% as at 31 October 2016. We can surmise that 2016 had been a challenging year for the banking sector which had caused the banks to be very prudent and selective in growing its assets.

- **...But cautiously optimistic for next year.** For 2017, the question beckons whether we will see similar performance and behaviour. We do not believe that will be the case. We are cautiously optimistic of the prospect of the banking industry in 2017. Our cautious optimism is premised on the fact that our economic team is projecting better GDP growth next year at 4.3%yoy. This is supported by better external demand and robust domestic demand. In addition, we have observed that although the yield for 10-year MGS and 6- month Malaysian Treasury Bills (MTB) have spiked since November 2016, the spread have also risen. This can be interpreted as the bond market believing that the Malaysia's economy will continue to grow in the immediate future. As such, this should have a positive impact on the banking sector.

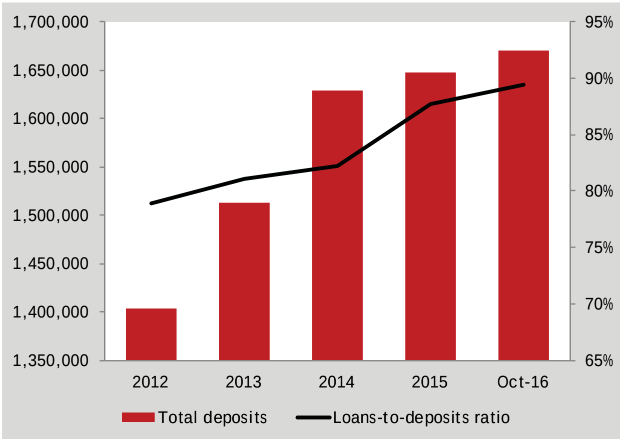
- **Loans growth will recover.** We expect that loans growth will be higher in 2017 comparatively to 2016 coming in at high single digit. Loans approval rate appears to be on an uptrend where it came in at 49% in the month of October 2016, vs. 43.3% and 42.3% registered in September and August 2016 respectively. Higher loans approval should translate in better loans growth in the coming month. As for loans demand, there was a year-to-date 2016 decline of -2.8%yoy. However, this was not surprising given the soft demand for cars and residential property this year. As for 2017, our respective analyst expect demand to recover for cars while remaining flat for residential property. Along with SME loans, which we have seen high growth this year, should provide some support to loans growth.

Chart 29: Banking system totals loans applied and approved (RMm)



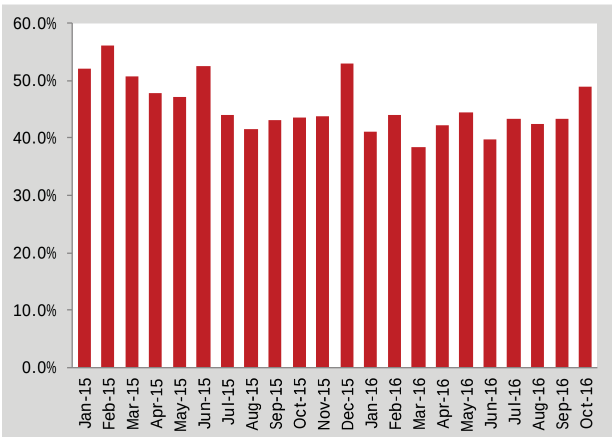
Source: BNM, estimated by MIDFR

Chart 30: Banking system totals deposits and LDR (RMm)



Source: BNM

Chart 31: Total loans monthly approval rate



Source: BNM

- **No undue concern for asset quality.** We expect asset quality to remain stable in 2017. Although, there was an uptick of +5bps yoy in GIL ratio as at end October 2016, we are not overly concerned. This is due to the fact that GIL ratio was 1.75% as at end October 2014. We based our assumption of a stable GIL on the fact that the growth in impairments of individual accounts may be waning.

- **Ample liquidity expected.** In terms of deposits, we expect that growth will be slightly better than the +2.6yoy that came in as at end October 2016. Indeed, in the September round of results, we have been pleasantly surprised with pace of deposits growth registered by some banks. More encouragingly, CASA have grown +2.8%yoy as at end October 2016, ensuring a stable CASA ratio of 25.9%, resulting in a stable LDR. Liquidity coverage ratio as at end October 2016 was above the minimum 70% at 127%. We expect the trend of CASA growth, CASA ratio and stable LDR to continue in 2017. More importantly, it gives room for banks to grow its loans book should the economic situations comes in better than expected.

- **Headwind from NIM compression in 2017.** Main headwind for the banking sector will be the continued pressure to net interest margin (NIM). We believe that the NIM compression will be coming mainly from the expected Overnight Policy Rate cut in 1HCY17, as assumed by our economics team. However, we have noticed that there is no undue competition in pricing of deposits or loans by the banks. This will ensure stability of NIM in 2017 should it continue.

- **Potential write-backs may boost earnings.** In terms of earnings, we expect some recovery following from stable operations and the waning of impairments. We understand that the banks have been actively restructuring and rescheduling (R&R) individual loans accounts. While these accounts may be still performing, banks would still have to impair these R&R loans accounts. Hence, there is a potential of write-backs to boost earnings in 2017.

- **While we are expecting better performance for the sector in 2017,** we are cognizant of the potential headwinds especially on NIM compression and on the slight chance of asset quality declining. Hence, after taking everything into consideration, we maintain our recommendation of NEUTRAL with a positive bias for the sector. Our BUY calls are CIMB (TP: RM5.90), Public Bank (RM22.20), Hong Leong Bank (TP: RM15.00) and Affin Holdings Bhd (TP: RM2.50)

X. AUTOMOTIVE

Stuck in first gear ....NEUTRAL

- **2016 was a miserable year for autos** with a double whammy of weak demand and a weak RM. In this report, we trim our 2016 TIV forecast to 576,636 units (from 593,302 units previously) given the weak build up to the typical year-end sales campaigns. Sales up to 10M16 has been weak (-14%ytd) partly due to consumers holding back purchases ahead of a pick-up in new launches in 2H16 and rumors of a first car buyer incentive prior to Budget 2017 announcement, which did not quite materialize as it was expected to.

- **On the bright side, we expect 2017F TIV to recover by 2.2% to 589,033 units,** off the exceptionally weak base in 2016 and considering the national car segment's volume model launches e.g. Perodua Bezza, Proton Persona, Proton Saga, Proton Ertiga towards end 3Q16 and 4Q16, which will see their full year impact next year. Proton specifically, should also see the benefits of the Government's RM4,000 rebate for Iriz puchases trickle in next year (for 1st car buyers and for Uber-driving purposes as announced under Budget 2017). We expect Proton to lead TIV growth and gain market share to 14.6% next year from 12.4% in 2016.

- **Volume growth aside, the issue of a weak RM still persists and in fact worsened in 4Q16.** To recap, the RM weakened to USD:RM4.46 post-US elections and has remained at this level so far. Our economics team has revised our year-end RM forecast to USD:RM4.35 from USD:RM4.10 previously while 2017 year-end forecast now stands at USD:RM4.20.

- **Earlier in 2016, key Japanese players, Toyota and Honda raised pricing** for their models between 3% - 9% (or an average of 5%) to partly offset the 25% weakening of the RM against the USD in 2015. On our previous estimates the price hike only covers 34% of the incremental cost from the weaker RM. With the RM having weakened a further 9% since then, a fresh round of price hike looks very likely. On top of this, the JPY-exposed players (that did not participate in the previous hike) are likely to do so this time around as the JPY had also appreciated 14% against the RM in the past 12 months. The price hikes might impact TIV if it materializes.

- **We cut our FY17F earnings to reflect higher average USD assumption of USD:RM4.30** from USD:RM4.00 previously following the change in our economic team's forecast. We now expect UMW to register a larger FY17F net loss of RM161m from RM12m previously and Tan Chong to register an RM171m net loss from RM81m previously. Bermaz Auto is the only auto company under coverage expected to remain profitable in CY17F as its exposure to JPY imports is limited to CBU models and earnings is supported by its booming Philippines unit as well as exports. Our projections have yet to factor in potential price hikes pending further clarity on this.

- **From a valuation standpoint,** most auto stocks under our coverage are already trading at 5%-50% discount to FY17F book value but to be fair, forecast risk is still pretty high considering the volatile forex environment. Earnings are worse than the 2008-09 crisis while meaningful upside catalysts are still lacking. More importantly, balance sheets are deteriorating as a result of the losses and negative cash flows. Auto players are building up debt to finance working capital and the big question is how long this can be sustained before players need to resort to a cash call, which in turn will dilute valuations. Notwithstanding the slight recovery in 2017F TIV, we remain NEUTRAL on the sector.

- **Tan Chong and UMW remain as NEUTRALs** but TP's cut to RM1.90 and RM5.15 from RM1.95 and RM5.30 respectively. Our top sector pick is Bermaz Auto (BUY, TP: RM2.45/share). Key company-specific catalysts over the next 12 months: (1) Attractive dividend yield of 7% underpinned by net cash which accounts for 12% of market cap and solid 10% FCFE yield (FY17F). Listing of Philippines unit will bump yields up further given potential one-off special dividends (See BAuto report dated 1st Nov 2016). (2) Value unlocking from the listing of BAuto Philippines (BAP). Current market cap attributes practically no value to BAuto's stake in BAP relative to the 16x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 9x CY17F earnings. (3) A more than doubling in associate earnings contribution to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market.

Table 16: TIV Projections for 2016/17F

	2013	2014	2015	2016F	2017F
Proton	138,683	115,783	102,175	71,523	85,827
Perodua	196,071	195,579	213,307	203,261	209,935
Toyota	91,185	102,035	93,760	64,382	75,964
Honda	51,544	77,495	94,902	88,259	89,141
Nissan	53,156	46,352	47,235	38,510	39,488
Mazda	9,197	11,382	14,325	14,952	15,436
Others	115,957	117,839	100,927	95,749	73,242
Total	655,793	666,465	666,631	576,636	589,033
Market Share					
Proton	21.1%	17.4%	15.3%	12.4%	14.6%
Perodua	29.9%	29.3%	32.0%	35.2%	35.6%
Toyota	13.9%	15.3%	14.1%	11.2%	12.9%
Honda	7.9%	11.6%	14.2%	15.3%	15.1%
Nissan	8.1%	7.0%	7.1%	6.7%	6.7%
Mazda	1.4%	1.7%	2.1%	2.6%	2.6%
Others	17.7%	17.7%	15.1%	16.6%	12.4%
Growth					
Proton	-1.7%	-16.5%	-11.8%	-30.0%	20.0%
Perodua	3.7%	-0.3%	9.1%	-4.7%	3.3%
Toyota	-13.3%	11.9%	-8.1%	-31.3%	18.0%
Honda	47.5%	50.3%	22.5%	-7.0%	1.0%
Nissan	46.6%	-12.8%	1.9%	-18.5%	2.5%
Mazda	45.2%	23.8%	25.9%	4.4%	3.2%
Others	1.1%	1.6%	-14.4%	-5.1%	-23.5%
Total	4.5%	1.6%	0.0%	-13.5%	2.2%

Source: MAA, MIDFR

XI. CONSUMER

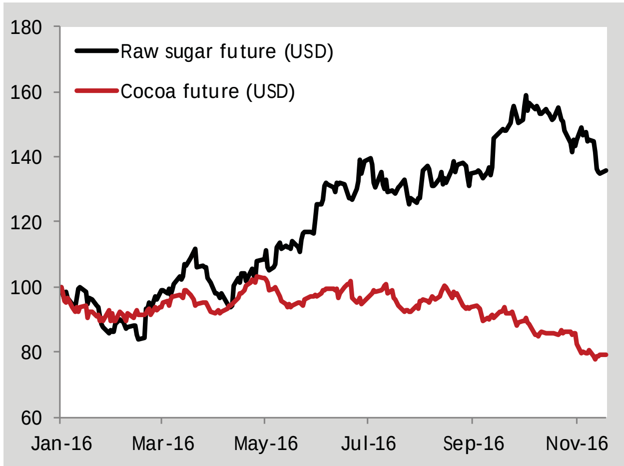
Cautious outlook going forward ....NEUTRAL

- **Consumer sentiment is not expected to improve to a meaningful level**. Consumer sentiment index (CSI) for 3Q16 has marginally dropped by -4.9 points to a 73.60. This is however, still reasonably higher than the 63.8 level recorded in 4Q15 which is the lowest since 2006. The drop in consumer sentiment is attributable to the pessimistic view of consumers towards the current environment which marked by the volatile equity market, weakening Ringgit and increases in the prices of goods and services that have cut into buying power. We expect that the drop in CSI will continue in 4Q16 before slightly improving in FY17. However, we do not expect that the improvement will reach to a meaningful level.

- **Mild effect on consumer spending despite increase disposable income.** The government has introduced various measures amongst others the 3% cut in EPF contribution from March, the increase in minimum wages from July (RM1,000 for Peninsular Malaysia and RM920 for East Malaysia) and the increase in BR1M payout (increases by RM50 to RM150) in Budget 2017 in order to spur consumer spending. Nevertheless, we observe that during the year, prices of consumer staples have increased which might direct or indirectly (through higher retail prices) negatively impact consumer. For instance, subsidies have been removed for 25kg wheat flour (+24% increase from RM33.75 to RM42) as well as bottled cooking oil which has seen increase as much as +60%. Also, the wholesale prices of refined sugar has been increased to RM2,500 per mt from RM1,800 per mt (+31.6%). There are also talks among the local refined sugar producers with the government to increase the retail ceiling price of refined sugar which is currently at RM2.84 per kg by 20% to 30%. Hence, we expect that the measures taken to increase income will be even out by the rising prices.

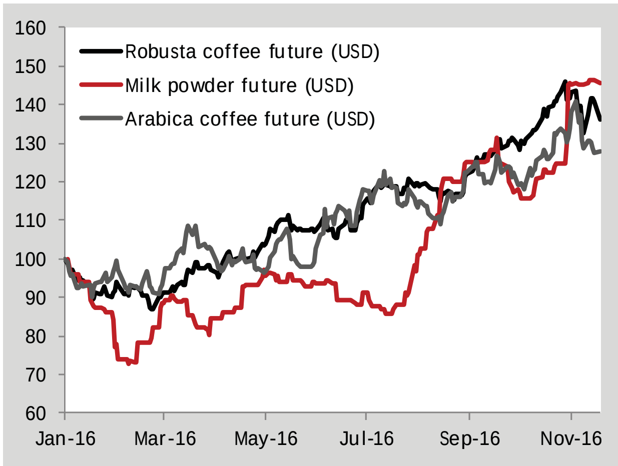
- **Commodity uptrend will affect food and beverages sector.** Commodities such as milk powder, coffee, sugar and cocoa are key ingredients in beverage products. The price of milk powder and coffee has shown strong upward trend during the year. On top that, the sector is further pressured by the depreciating ringgit as commodities are traded USD. In regards to raw sugar price, it was trading approximately USD 0.15/lb in January, and peaked at USD0.24/lb (+60%) in October. The price has now gradually decreased to USD0.20/lb (-35.9%) in November. The earlier run-ups price was due to the deficit in supply as El Nino weather event earlier in the year led to droughts in parts of south and south-east Asia including major producers India and Thailand. However, rains had returned in September and it is expected that production should rise in 2017/18 bringing about a more balanced market. With the rising commodity prices and weakening ringgit, F&B companies are experiencing thinning margin. We understand that local F&B players such as Nestle (HOLD. TP: RM82.82) and F&N (HOLD, TP: RM25.32) have taken proactive measures in improving operating efficiency hence, able to absorb the rising raw material costs.

Chart 32: Normalized daily price trend of raw sugar and cocoa futures



Source: Bloomberg

Chart 33: Normalized daily price trend of Arabica coffee, Robusta coffee and milk powder futures



Source: Bloomberg

- **Moderate growth is expected in the Retail sector.** The retail sector has recorded a growth rate of -4.4% and +7.5% for 1Q16 and 2Q16 respectively (as recorded by Retail Group Malaysia). The strong growth rate in 2Q16 is also partly due to the low base effect. The 2Q16 marked the first anniversary of the implementation of Goods & Services Tax (GST) by Malaysian government on April 1, 2015. In FY15, Malaysian retailers suffered a severe decline in retail sales which recorded only RM96.1b or +1.4% growths. As retail sector has a direct relationship with the economic performance of our country, we expect a 4% growth in the sector in line with our in-house GDP forecast of 4.3% in 2017. This is in view of the current weak economy as well as more increases expected in prices of retail goods and services due to weakening of ringgit resulting in Malaysian consumers stay cautious of their spending. In such environment, retail companies that target mass market and value-for-money consumer segment will thrive.

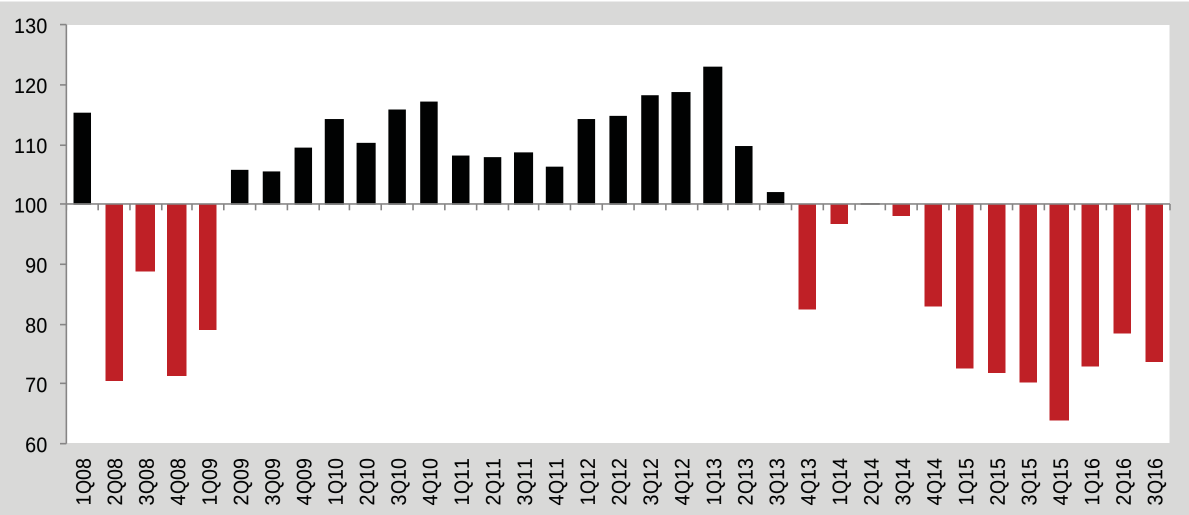
- **Retain Neutral.** All in, we are not overly concerned on the commodity cost uptrend as we believe that local F&B companies have taken appropriate measures in improving internal operating efficiency. Also, in the retail segment, moderate growth is expected in line with the GDP forecast. We maintain our neutral call on the sector due to the lack of re-rating catalysts.

XII. MEDIA

Consumer sentiment to remain lackluster ....NEUTRAL

- **Cautious sentiments persist.** Consumer sentiment index (CSI) has been persistently below 100 points for the past nine quarters since the beginning of 2015. The latest CSI as at 3Q16 came in at 73.6points, which is mainly attributable to uninspiring employment and financial outlook. The Malaysian Institute of Economic Research (MIER) indicated that "the decline in the CSI does not portend any major let-up in spending patterns in the coming months." Moving forward, we expect the CSI to remain at similar level due to lack of rerating catalyst to significantly boost the consumers' confidence.

Chart 34: Consumer sentiment index (points)

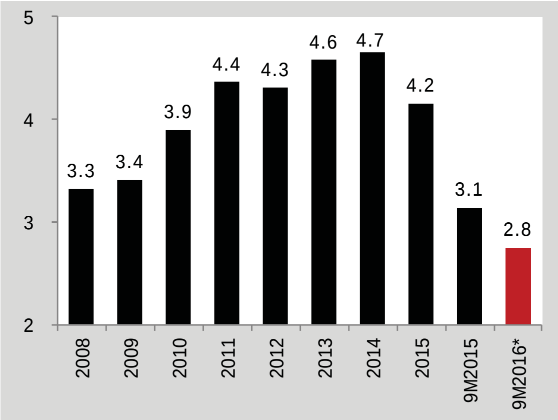


Source: MIER

- **Dwindling print media adex.** Advertising expenditure (adex) from the print media segment continues to dwindle after peaking in 2014 at RM4.7b. For 9M16, print media adex declined by -12.3%yoy to RM2.8b. Lower demand for the print media has also affected the operating margin of the media companies due to lower utilisation rate of the printing plants. The reduction in print media adex was mainly due to the shift in consumer preference on the mode of viewing i.e. from hardcopy to digital platform. The shift in preference has led advertisers to allocate more budget on the digital platform as compared to the traditional platform. In addition, advertising fee incurred for the digital platform is also much cheaper, further encouraging the shift in advertising preference. Apart from the low-cost factor, companies are more inclined to the digital platform due to its much wider reach as well as availability of interactive features. We can safely assume that the print media adex will continue to slide, unless media companies come up with new innovations.

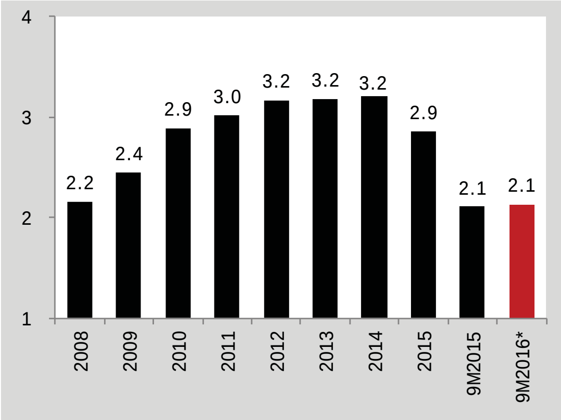
- **Free-to-air (FTA) TV adex trending down.** Similarly, adex from the FTA TV segment has been on the decline since 2015. Predominantly, annual FTA TV adex normally came in at approximately RM3.0b. However, the advent of technology has initiated the changes on TV viewership trend. The new digital platform has created much greater varieties and much lower costs to increasingly demanding viewers. Nonetheless, there could be resumption in TV adex growth in the long term once the digital terrestrial television broadcasting service is implemented nationwide.

Chart 35: Newspaper adex (RM'b)



Source: Nielsen, MIDFR

Chart 36: FTA TV adex (RM'b)



Source: Nielsen, MIDFR

- **Higher revenue from non-adex streams.** As outlook for traditional-based revenue is expected to continue to be lackluster, media companies are seen to be tapping into the consumer market by venturing into the home shopping business. This can be seen in Astro Malaysia Holdings Bhd's and Media Prima Bhd's active participation in the home shopping businesses with their respective joint venture partners. Leveraging on non-adex contribution could potentially provide some buffer for the challenging print media and TV segments. That being said, revenue contribution from non-adex streams remains minute at this juncture. Meanwhile, Star Media Group (Star) has also place heavy reliance on its subsidiary, Cityneon Holdings Ltd, to become the main contributor to the group's financial performance in the future.

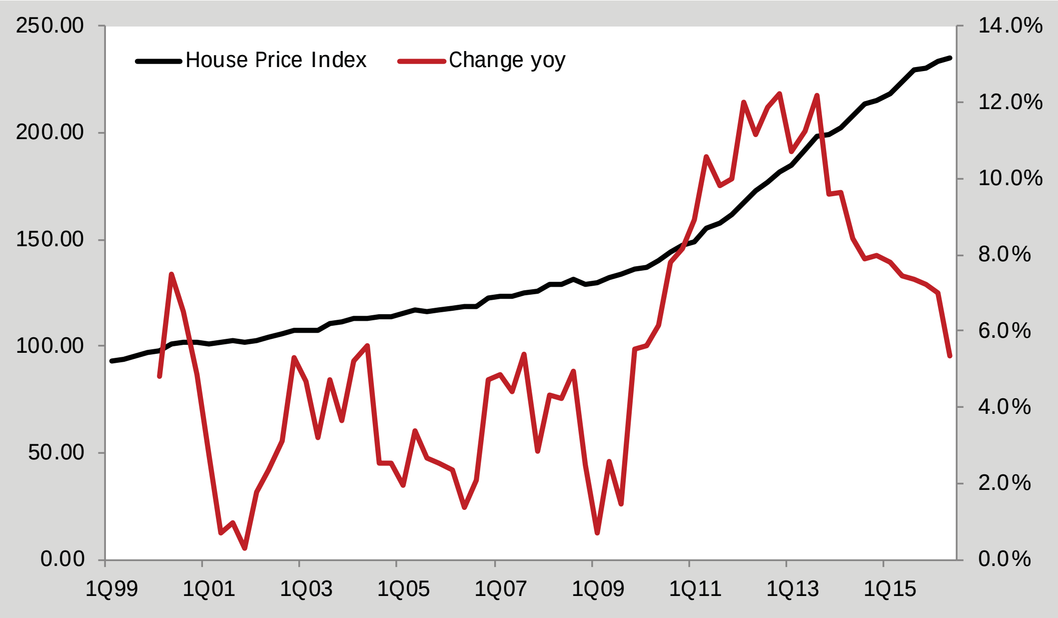
- **Maintain NEUTRAL.** We do not expect much earnings growth prospect from media counters mainly due to the weak consumer sentiments. Nonetheless, we view that media stocks have been favoured by investors due to its attractive dividend yield. For FY17, company with strong cash pile such as Star Media Group Bhd (HOLD, TP:RM2.46) to provide an attractive dividend yield of approximately 6%. In addition, Media Prima Bhd (SELL, TP:RM0.78) and Astro Malaysia Holdings Bhd (BUY, TP:RM3.78) have diversify from their traditional core businesses. As such, we reiterate our NEUTRAL stance on the sector. Our top pick for the sector reside with Astro Malaysia Holdings Bhd due to better earnings visibility and strong cash generation capability which enables the adoption of a progressive dividend policy.

XIII. PROPERTY

Looking ahead into a lackluster year...NEUTRAL

- **House Price Index growth slowed to 5.3% in 2Q2016.** HPI grew by 5.3%yoy to 235.4 in 2QCY2016. Note that this is significantly lower than the 5-year average growth of 9.3%. Among the key states, the slowest yoy growth was recorded in Penang (+4.6%yoy to 266.1). Kuala Lumpur HPI growth was better at +6.9%yoy followed by Selangor's +6.6%yoy. We believe that the outlook for property price is better in Greater KL (Selangor and KL) due to the support from urbanization factor.

Chart 37: Malaysia House Price Index



Source: Bank Negara, MIDF Research

- **Slight recovery of property transaction value in 2Q2016.** According to the latest Property Market Report released by National Property Information Centre (NAPIC), Malaysia property market transaction value has improved by 3.6%qoq to RM32.0b in the 2Q2016. The increase in transaction value is consistent with the rise in transaction volume by 4.4%qoq to 83,517 units. For residential market, house price range from RM500k to RM1.0m registered the highest growth of 13.6% followed by RM400k to RM500k (10.0%) and above RM1.0m (9.6%). We are positive on the quarterly increase as buyers may have returned to purchase property. Having said that, the 1H16 property market transaction value is still lower than 1H15 by 15.6%.

- **But Approved Loan for Purchase of Property is still lower yoy.** The latest Bank Negara statistics show that "Approved Loan for Purchase of Property" in October 2016 declined 9%yoy to RM11.0b, a twenty first continuous decline yoy since Feb 2015. The decline in approved loan was mainly due to lower approval rate from the bank. On a monthly basis, some improvement is seen with approved loan of 4% increase mom. On a cumulative basis, total approved loan for 10M2016 is at RM100.3b (-18%yoy).

- **Consumer Sentiment Index has improved slightly.** The latest publication from Malaysian Institute of Economic Research (MIER) shows that 3Q2016 Consumer Sentiment Index (CSI) has weakened to 73.6 from 2Q2016's 78.5. We gather that while household income has improved the employment and financial

Table 17: Property Sales Data

Quarter	Transaction Value (RM m)	Transaction Volume, unit
1Q15	38,956	93,490
2Q15	37,616	92,917
3Q15	37,513	85,889
4Q15	35,813	89,809
1Q16	31,721	80,011
2Q16	32,878	83,517
Change, yoy (2Q16 vs 2Q15)	-12.6%	-10.1%
Change, qoq	3.6%	4.4%
1H15	76,572	186,407
1H16	64,599	163,528
Change, yoy (1H16 vs 1H15)	-15.6%	-12.3%

Source: NAPIC, MIDF Research

outlook is still uninspiring. We believe that the data suggest that the demand outlook for potential property buyers remains soft in 2017 and they are likely to remain price sensitive.

- **Maintain NEUTRAL with UOADEV (BUY; TP: RM2.68) as our top pick.** We see value emerging in UOADEV after the recent fall in share price which prompt us to upgrade the stock to BUY recently. We like the stocks for: i) minimum 60% sales growth expected in FY16 to RM1.3b (against FY15's RM800m), ii) sturdy balance sheet of UOADEV with net cash of 44 sen per share and iii) highest dividend yield among peers at 6.3%. Besides, we also expect positive sentiment on UOADEV following the inclusion of UOADEV into FBM Mid 70 Index as mid-cap fund managers may allocate more funds to invest in UOADEV.

XIV. REAL ESTATE INVESTMENT TRUST (REIT)

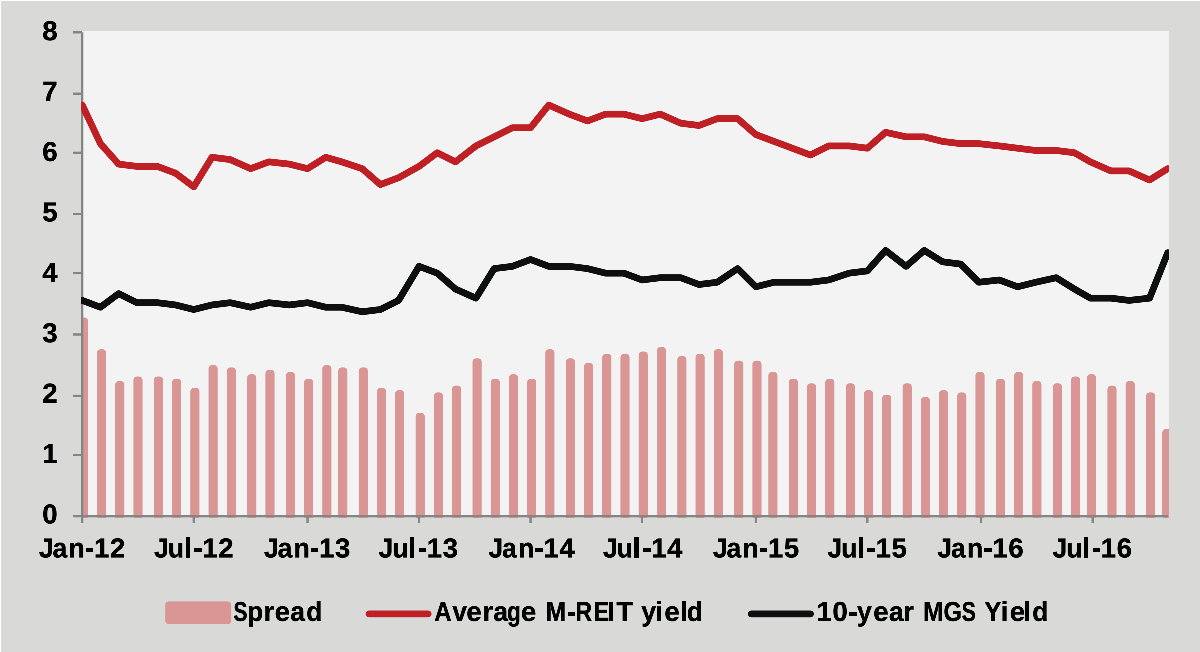
MGS yield assumption raised ....NEUTRAL

- **Narrowing spread between M-REITs and 10-year MGS Yield.** MGS yield spiked in November to above 4.45% following the foreign funds outflow from emerging markets. The spike in MGS yield is negative to REITs due to narrowing spread between dividend yield of REITs and MGS yield which reduce attractiveness of REITs. Note that spread between dividend yield of REITs and MGS yield declined sharply in November, making it the thinnest spread in the past five years.

- **MGS yield assumption at 4%.** We recently revised our MGS yield assumption higher by 25 basis points to 4.0% from 3.75% in view of high likelihood of Federal Reserve raising interest rate which would keep MGS yield volatile going forward. The revision in MGS yield assumption has resulted in downward revision in our target prices for REITs under our coverage as higher MGS yield assumption translates into higher discount rate in our Dividend Discount Model (DDM) valuation.

- **Maintain Neutral on REITs sector.** Outlook for retail sector in Malaysia is expected to show marginal improvement in 2017 as we see that consumer sentiment should have bottomed out in 2015. In this context, we expect slightly better outlook for retail sales in Malaysia which should underpin rental

Chart 38: Spread between REITs yield and 10-year MGS yield

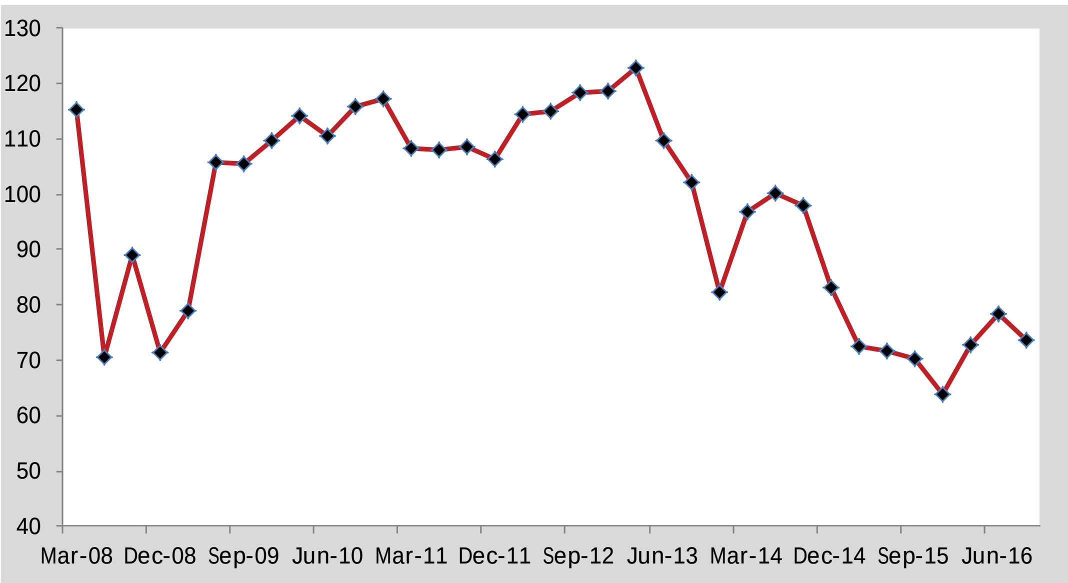


Source: Bloomberg, MIDF Research

reversion for retail segment to remain in positive territory. Meanwhile, we opine that office segment of Malaysia property market will continue to be tenants' market due to the oversupply of office space which render limited upside to rental reversion. Overall, we maintain our Neutral rating on REITs sector.

- **Top Picks are SUNWAY REIT (BUY; TP: RM1.83) and CMMT (BUY; TP: RM1.69).** We like SUNWAY REIT as we are positive on its retail division which would mainly underpin by resilient performance of its flagship Sunway Pyramid Shopping Mall while its office division should see recovery in FY17 from the low base in FY16. As for CMMT, we continue to see positive earnings outlook which would be driven by the steady performance from Gurney Plaza and East Coast Mall. We also opine that earnings downside risk from Sungei Wang Plaza (SWP) is limited as SWP has become the smallest earnings contributor to

Chart 39: Bottoming consumer sentiment index in 2015



Source: Bloomberg, MIDF Research

CMMT in 9MFY16 at 12% as compared to contribution of 19% in FY15 and 27% back in FY13 following steep earnings contraction in the past few years. We are NEUTRAL on KLCCP Stapled Group (TP: RM7.16), Axis REIT (TP: RM1.68), Pavilion REIT (TP: RM1.68) and IGBREIT (TP: RM1.63).

XV. GLOVES

Limited near term growth ....NEUTRAL

- **Raw materials price to remain on the increasing trend.** From our observation, we note that the raw material prices are on an increasing trend. We attribute this mainly to China's motor vehicles purchase tax cut (increase latex demand for tire manufacturing) as well as the temporary shutdown of some petrochemical companies (supply disruptions) there. We think that the current trend will spill over into first half of 2017 as we are expecting the annual wintering season for rubber trees (from March to May) to also cause the rubber prices to remain elevated as supply during the period declines.

- **Pricing competition to persist in the near term.** We are expecting that price competition will continue especially in the nitrile segment up until 2018. This is due to the fact that new glove production capacities that will come on board in the next two years will increase the total industry capacity by about 47% to 157.8b pieces from the current 107b pieces per annum production capacity. As scalability is no longer an issue, it is now a buyers' game. We are expecting more product innovation, process automation and higher utilisation rate to be undertaken by the glove players in order to ensure input cost per glove stays low and pricing remains competitive against other industry players.

Chart 40: Monthly average NR price (USD/kg)

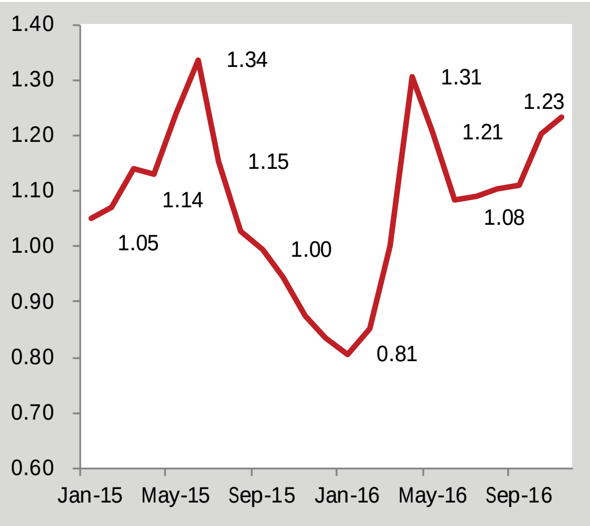
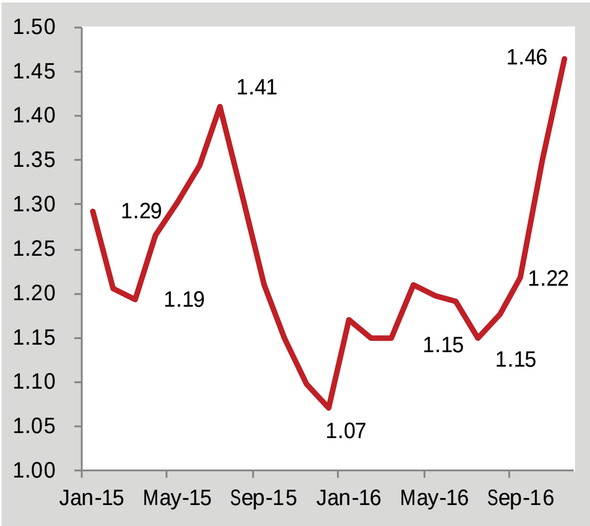


Chart 41: Monthly average NBR price(USD/kg)



Source: Bloomberg, MIDFR

- **New BNM policy to affect earnings growth.** Bank Negara Malaysia (BNM) announced on 5 December 2016 that exporters need to convert 75% of the proceeds in foreign currency into Ringgit. The measure was introduced to support the falling ringgit post the US election back in November 2016. We understand that this will result in the glove players having to engage in double conversion as USD is converted to MYR and back to USD for trading purposes. We think this will likely translate to higher production costs and loss of earnings due to the double conversion.

- **Maintain NEUTRAL.** We are maintaining our NEUTRAL stance on the sector as we view the near term prospects for the glove industry remains challenging. This is on the back of: (i) increasing raw material prices; (ii) ongoing price competition as well as; (iii) the new counterproductive policy announced recently by BNM. Despite having a cautious outlook on the near term prospects of the sector, we remain positive on the sector's long term outlook which is expected to benefit well from the current expansion in capacity.

XVI. TELECOMMUNICATION

Another round of spectrum reallocation in 2017..NEUTRAL

- **More spectrums due for reallocation.** The existing licenses for 2,300MHz and 2,600 MHz bands are set to expire in 2017. In addition, the 700MHz band is expected to be free up in 2017 following the TV analogue switch off which is now scheduled to take place in 2018. The reallocation of the three spectrums could take place as early as 1H17 via 'spectrum assignment'. There could be more mobile service providers (such as Webe and YTL) contesting for the reallocation. This is particularly so for the 700Mhz due to its wider coverage capability.

- **Borrowing to increase further.** The new pricing announcement for the three spectrums could also follow suit. In the recent allocation, the four incumbents has paid huge sums for the spectrums' rights by relying on a combination of borrowings and/or internally generated funds. We expect the same exercise would take place, putting more pressure on the balance sheet.

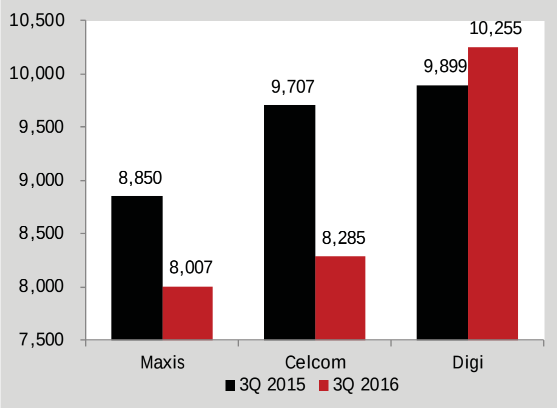
- **More competitive postpaid realm.** In November 2016, Webe's has made its RM79 postpaid plan available while doing away with its old criteria. Maxis, Digi, Celcom and Umobile have also revised their postpaid packages to be more competitive. As at 3Q16, Digi and Celcom's postpaid ARPU continue to decrease, brought about by the changes in the postpaid plans. However, Maxis' postpaid ARPU has increased slightly mainly due to higher proportion of MaxisONE plan subscribers as we view that the lower-tiered Maxis postpaid customer has port out to the competitors (refer to chart 42). To minimise the impact of lower ARPU, it is imperative that the mobile service providers step up efforts to increase

Table 18: Existing spectrum allocation

Spectrum (MHz)	Company							
	Redtone	Maxis	Umobile	Celcom	Altel	Digi	Webe	YTL
2600	2 x 10MHz (2017)	2 x 10MHz (2017)	2 x 10MHz (2017)	2 x 10MHz (2017)	2 x 10MHz (2017)	2 x 10MHz (2017)	2 x 10MHz (2017)	2 x 10MHz (2017)
2300	30MHz (2017)						30MHz (2017)	30MHz (2017)
2100		2 x 15MHz (2018)	2 x 15MHz (2018)	2 x 15MHz (2018)		2 x 15MHz (2018)		
1800		2 x 20MHz (2032)	2 x 15MHz (2032)	2 x 20MHz (2032)		2 x 20MHz (2032)		
900		2 x 10MHz (2032)	2 x 5MHz (2032)	2 x 10MHz (2032)		2 x 5MHz (2032)		
850							2 x 10MHz	
700	2 x 40MHz will be reframed for mobile broadband (LTE) in 2018							

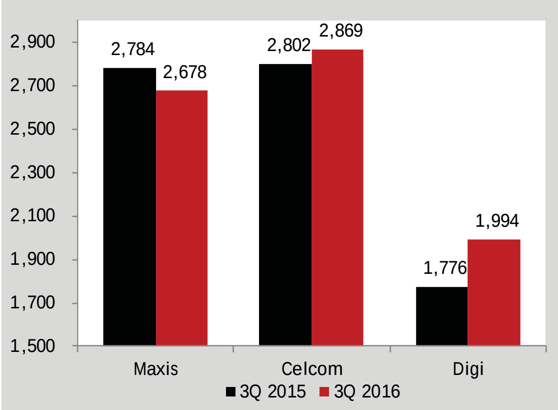
Source: MCMC, MIDFR

Chart 42: Postpaid customer base



Source: Various, MIDFR

Chart 43: Prepaid customer base



Source: Various, MIDFR

their respective customer base. Moving forward, we can see intense competition between Digi and Celcom due to similar postpaid entry plan. Meanwhile, Maxis will continue to position themselves as the premium mobile service provider.

- **Webe's prepaid plan to debut in 2017.** According to the management of Telekom Malaysia Bhd (TM), Webe is expected to launch its prepaid plan in 2017. We expect the move will further intensify the competition for the local prepaid market. Currently, Digi and Celom's prepaid ARPU have been under pressure to remain competition. On the contrary, Maxis prepaid ARPU increases slightly at the expense of its prepaid customer base. With the inclusion of new prepaid plan by Webe, we could see further erosion to the prepaid ARPU in general. In addition, the prepaid GST rebates for the users will be ending in 31st December 2016. As such, we do not discount the possibility that mobile users may trim the credit allocation to make up for the additional 6% GST.

- **Continuous proliferation of internet.** Data revenues continue to rise mainly driven by higher data consumption. As at 3Q16, the data traffic recorded by the three main mobile service providers increase between 84.4% to as much as 137.7%. The increase is in-tandem with the prominent trend in mobile internet surfing in view of the rapid expansion of 4G networks. At present, 4G has reached at least 72% population coverage. Moving forward, higher data revenue will continue to be the saving-grace for the mobile service providers.

- **Shareholding relooking its shareholding in mobile giant.** In view of the competitive mobile landscape, some of the shareholders are relooking their stakes in the mobile giant. According to newswires, Saudi Telecom is exploring the option to sell its indirect stake in Maxis Bhd. ON a separate note, Telenor ASA is also said to be reviewing options for its 49% stake in Digi.Com Bhd. Should any of this news materialise, we are of the view that it would bring about negative sentiment in the industry.

- **More affordable fixed-line broadband in the offing.** During budget 2017, the government announced that fixed-line broadband service providers will be offering the services at a higher speed for the same price. In addition, within the next two years, the same package would have its speed doubled while having its price cut by 50%. This could translate into lower profit from the broadband revenue segment. In addition, profit margin could also be compressed if fixed line broadband providers are unable to bring down the cost of providing the broadband (i.e. cost per mb). Nonetheless, the impact could be partially buffered by the increase in fixed-line broadband users as TM is currently carrying out the High Speed Broadband Project Phase 2 (HSBB 2) and Sub-Urban Broadband (SUBB) projects.

- **Maintain NEUTRAL.** Competition remains intense as new players seek to take away market share from the mobile giant in the already-saturated market. On another note, the hefty cost of acquiring and maintaining new spectrum allocation serves as a challenge to local mobile players. Mobile service providers are seen to rely heavily on borrowings to fund the 900MHz and 1800MHz spectrum fees. We expect the balance sheet will be impacted furtherer for the allocations of 700MHz, 2300MHz and 2600MHz. To seek refuge from the competitive mobile landscape, we advise investors to shift the telecommunication portfolio to fixed line players such as Telekom Malaysia (Buy; TP:RM7.42). All in, we maintain our NEUTRAL stance on the sector.

XVII. TECHNOLOGY

Counting on the next generation iPhone to steer demand ....NEUTRAL

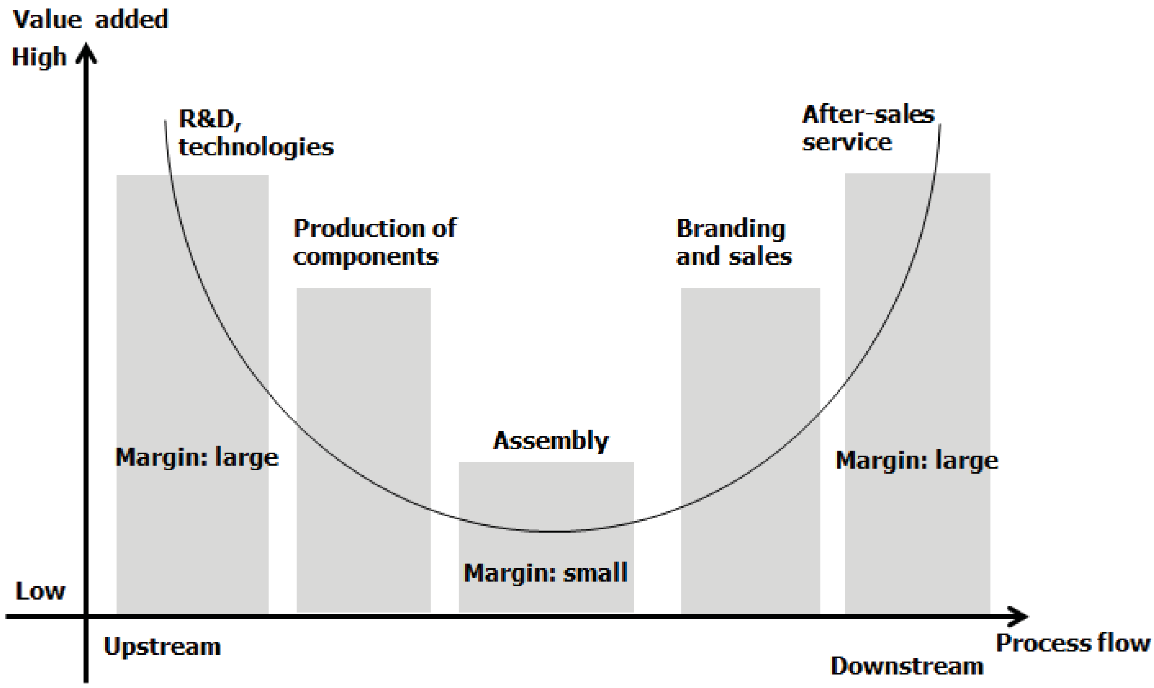
- **Monthly sales pick up pace.** In recent months, the Global Semiconductor Sales (GSS) has shown improvement on a year-over-year basis since August 2016. Higher sales were recorded across all regions with the exception of Europe. Sales growth from China has remains impressive, charting a double digit growth. On another note, higher sales are also seen for nearly every major semiconductor products. Nonetheless, on a year-to-date basis, the GSS still trail behind the World Semiconductor Trade Statistics' (WSTS) sales forecasts.

- **Higher sales expectation for 2017.** The WSTS has revised upward 2017 sales projection by +3.7% to USD346.1b. This translates into an expected annual increase of +3.3%yoy from +2.0%yoy previously. The upward revision reflects expectation of better sales growth, mainly from the sensor and memory product categories. We view that high sensor sales are in tandem with the uptake in the Internet of Things (IOT). Meanwhile, higher memory sales forecasts could be driven by shortage of NAND flash memory and new 3D NAND ramp-up coming on-stream. More importantly, sales estimates from Asia Pacific region are expected to increase by +3.2%yoy.

- **Equipment purchases activities to remain active.** On a year-to-date basis, the Book-to-Bill (BTB) ratio has generally been encouraging. BTB ratio has been at or above parity for nine months. This shows that there are strong investments made by device manufacturers to either add or improve existing production line. We attribute this to the strong purchase activity in China. We remain sanguine that the strong purchasing activities in China will continue as it is stepping up efforts to become a major player in semiconductor design and manufacturing. According to newswires, logic manufacturers focus their spending on ramping fabs for the introduction of high-volume 10-nanometer production in 2017 and memory producers are focusing on the move to 3D NAND flash.

- **No immediate risk in relocation of production.** There could be a disruption within the semiconductor's supply chain due to the possible relocation of offshore production into the U.S. However, management is of the view that the risk of assembly operations being relocated is minute at this juncture. This would be a costly exercise as labour costs would increase significantly. In addition, the assembly process provides smaller margin which is usually in the mid-teens. As such, initial focus could be to relocate high-value added services which provide much better profit margin.

Chart 44: Semiconductor value chain



Source: Companies, MIDFR

- **Possible scale down in iPhone 7 production.** Apple is expected to cut down the production of iPhone 7 and iPhone Plus despite the two variants debuted in September 2016. Initial interest in iPhone 7 could be boosted by the interest in the "Jet Black" models and the demise of Samsung Galaxy Note 7. However, demand in China and other markets have reduced substantially. We view that the decrease in demand could possibly be due to: i) limited improvements in the iPhone 7 line-up, ii) negative perceptions with regard to the battery issue for the iPhone 6 line-up, and iii) avid Apple customer waiting for the next generation, 10th anniversary iPhone. According to newswires, Apple will revamp the phone's design, with edge-to-edge OLED displays, glass casings as well as finally introducing the ability to wirelessly charge the device.

- **Initiatives to strengthen Ringgit.** One of the measures taken by bank Negara Malaysia (BNM) to support Ringgit is to allow exporters to retain only up to 25% of export proceeds in foreign currency and also ensure payments to domestic suppliers are in Ringgit. Recall that generally revenue of semiconductor companies is usually received in U.S Dollar (USD). Meanwhile, only 50% of the costs are denominated in Ringgit. This would mean that they would need to convert the USD-denominated income to Ringgit and subsequently reconvert it back to U.S Dollar. We view that this measure could result in foreign currency translation loss. In view of this, our channel checks indicated that these companies are in the midst of applying for waiver from this measure. On this score, it is notable that the announced measures allow exporters to hold higher foreign currency balances, with approval from BNM, to meet their obligations in foreign currency.

- **Maintain NEUTRAL.** We are comforted by the accelerating sales performance for the past three consecutive months since August 2016 which is mainly led by China. In addition, sales from the America have also registered a slight growth in October 2016 after dropping for the past 14 months. However, the recent upgrade in WSTS' sales projection suggested that sales growth for 2017 remains tepid at +3.3%yoy (previously +2.0%yoy). We view that the subdued sales growth could be partially due to the concern on Apple's ability to attract its fan to upgrade to the new iPhone 7 line-up as well as the next generation of iPhone. In addition, the BNM's measures to support the Ringgit, if too inflexibly implemented, may translate into additional cost of doing business for the semiconductor companies. All factors considered, we maintain our NEUTRAL stance on the sector.

XVIII. BUILDING MATERIALS

Times of stagnant growth... NEUTRAL (negative bias)

- **Stagnant growth.** We are looking at the sector with a negative persepctive based on the premised of declining average utilisation capacity of cement manufacturers from 25.5mt/year in FY15 to 23.5mt/year in FY16 from a total integrated capacity of 29.8mt/year. The unappealing scenario stems from the slowdown in the property mart. We are estimating that the average utilisation rate of the 11 integrated cement manufacturers in Malaysia to be within the average of range 85% throughout FYE16 and could decrease more to 80-75% by FYE17. However, we reckon that the utilization capacity will only stabilize between the ranges of 75% to 70%.

- **Stable ASP.** Therefore, we maintain our assumption of average selling price (ASP) of cement to be within the modest range of RM241/mt to RM250/mt from RM270/mt in FY15 due to declining price of raw materials. Having said that, we surmise the selling price range of our assumption will not deteriorate further as the ASP will hit its low base consequently hitting a sector wide oversupply of cement in Peninsular Malaysia.

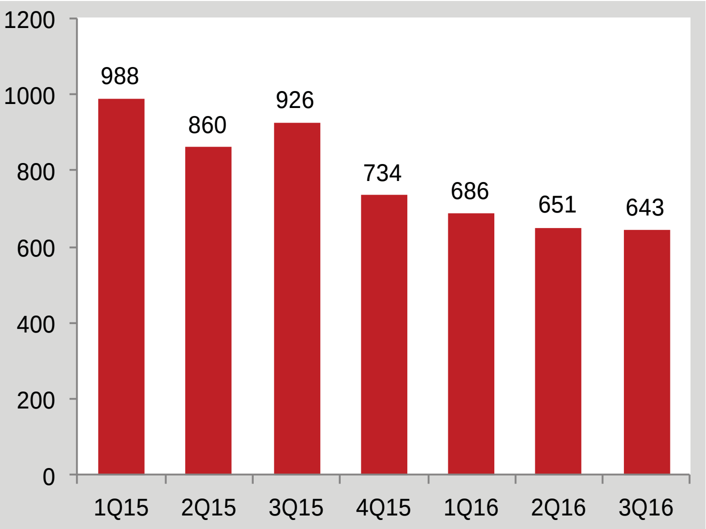
- **Maintain NEUTRAL.** Altogether, we reckon the earnings' trend to remain insipid for FYE16 and FYE17. Hence, reaffirm our NEUTRAL stance on both sector and Lafarge Malaysia (TP of RM5.50).

XIX. TOBACCO

Volume under pressure with rising demand for illicit .... NEUTRAL (negative bias)

- **Four consecutive quarters of volume contraction.** The tobacco industry is experiencing four consecutive quarters of volume contraction. On a year-over-year basis, total industry volume (TIV) declined by -30.6% while on a quarterly sequential basis, TIV has declined by -6%, -5% and -2% respectively since the first quarter this year. We note that this is mainly due to: (i) the unprecedented hike in price back in November 2015; (ii) rise in demand for illicit cigarettes as well as; (iii) competition coming from e-cigarettes. However, we think that this condition will persist throughout 2017

Chart 45: YTD total industry volume (TIV)

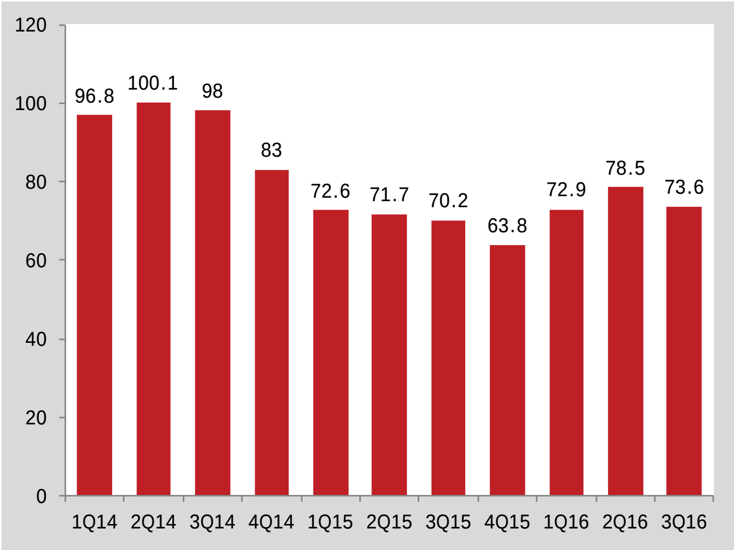


Source: BAT

as we are expecting the resilience in demand for illicit cigarettes to continue.

- **Rising cost of living give rise to illicit cigarettes.** We continue to believe that the rising cost of living is encouraging the adoption of illicit cigarettes as a cheaper alternative to the legal cigarettes. Priced as low as RM5 per packet, the illicit cigarettes proved to be more attractive to consumers who are sensitive to price increases. We believe that the current soft consumer sentiments will spillover to 2017 as the consumer sentiment index (CSI) remains under 100 points which is below the threshold level of optimism. Therefore, we opine that the volume for the legal cigarettes will continue to be pressured by the increasing demand for illicit cigarettes as a result of this. As of May 2016, the market share for illicit cigarettes hit 49.9% as opposed to 36.9% in FY15.

Chart 46: Consumer sentiment index (CSI)



Source: MIER

MIDF RESEARCH STOCK UNIVERSE as at 8 December 2016

	FYE	Rec.	Price (RM)	Target Price	Net Profit (RM m)			EPS (sen)			EPS (% chg)			PER		
					FY15	FY16F	FY17F	FY15	FY16F	FY17F	FY15	FY16F	FY17F	FY15	FY16F	FY17F
CONSTRUCTION																
Gamuda	Jul	BUY	4.82	5.50	682.1	817.8	838.3	28.9	33.8	33.8	-7.5	-10.2	29.9	16.2	18.1	13.9
WCT	Dec	SELL	1.77	1.61	209.4	128.6	163.4	18.4	10.3	13.1	70.4	-44.0	27.1	9.7	17.3	13.6
Hock Seng Lee	Dec	BUY	1.59	2.19	76.2	137.3	143.8	13.9	25.0	26.2	-0.9	80.1	4.7	12.0	6.6	6.3
IJM Corp	Mar	BUY	3.40	4.00	480.9	698.0	494.0	16.3	19.4	19.4	-44.7	36.2	-12.8	20.0	14.7	16.9
MRCB	Dec	BUY	1.30	2.08	330.4	116.1	137.5	18.5	5.4	6.4	107.2	-70.7	18.4	7.0	24.0	20.3
Muhibbah	Dec	BUY	2.16	3.05	85.6	109.4	136.3	18.7	22.8	28.4	-2.8	21.8	24.6	11.7	9.6	7.7
SunwayCon	Dec	BUY	1.65	1.74	127.2	128.6	n.a.	9.8	9.9	n.a.	-22.0	1.1	n.a.	16.7	16.5	n.a.
Vivocom	Dec	BUY	0.16	0.40	8.8	73.3	n.a.	0.5	2.3	n.a.	80.0	319.9	n.a.	29.6	7.1	n.a.
Cahya Mata Sk	Dec	BUY	3.91	4.36	248.1	259.0	n.a.	23.3	24.1	n.a.	8.8	3.4	n.a.	16.5	15.9	n.a.
CONGLOMERATE																
MMC Corp	Dec	BUY	2.38	2.94	1,664.4	319.2	408.6	54.6	10.5	13.4	237.0	-80.8	28.0	4.2	22.0	17.2
YTL Corp	Jun	NEUTRAL	1.58	1.50	1,017.6	1,140.7	1,226.2	9.8	10.8	10.8	-34.7	-10.2	23.1	15.4	17.2	13.9
TELECOMMUNICATIONS																
DiGi	Dec	NEUTRAL	4.99	5.02	1,722.6	1,721.5	1,750.2	22.2	22.1	22.5	-14.9	-0.3	1.7	22.3	22.4	22.0
Axiata	Dec	NEUTRAL	4.64	4.74	2,554.2	1,802.2	1,705.2	29.5	20.1	19.0	6.9	-31.9	-5.4	14.5	21.3	22.5
Maxis	Dec	NEUTRAL	6.05	6.55	1,739.0	1,939.0	1,968.0	23.2	25.8	26.2	1.2	11.5	1.5	25.9	23.2	22.9
Telekom	Dec	BUY	6.11	8.18	700.3	903.6	953.0	18.7	24.0	25.4	-18.3	28.6	5.5	32.8	25.5	24.2
MEDIA																
Astro	Jan	BUY	2.78	3.78	519.4	659.1	701.8	10.0	12.7	12.9	16.3	18.0	9.3	26.3	22.3	20.4
Media Prima	Dec	SELL	1.11	0.78	138.7	51.6	60.0	12.5	4.7	5.4	83.2	-62.8	16.3	9.0	24.1	20.7
Star	Dec	NEUTRAL	2.30	2.46	133.0	80.6	95.1	18.0	10.9	12.9	19.3	-39.4	18.0	13.1	21.6	18.3
SEMICONDUCTOR																
Unisem	Dec	BUY	2.35	3.06	155.5	150.2	155.2	22.0	20.5	21.1	117.1	-7.1	3.3	11.1	11.9	11.5
Globetronics	Dec	NEUTRAL	3.34	3.64	71.3	28.1	40.9	25.3	10.0	14.5	10.5	-60.7	45.6	13.6	34.6	23.8
My E.G.	Jun	BUY	2.25	2.84	68.1	198.3	259.0	2.9	8.3	8.3	33.8	107.0	40.0	78.6	38.0	27.1
Inari Amertron	Jun	BUY	3.30	4.32	152.5	184.0	211.6	19.1	19.1	19.1	19.9	-17.2	21.2	17.4	21.0	17.3
PLANTATION																
Sime Darby	Jun	BUY	8.14	9.05	2,430.0	2,259.0	2,347.0	39.6	34.0	29.2	-28.8	-3.0	-24.1	20.5	21.1	27.8
Felda Global	Dec	NEUTRAL	1.64	1.77	107.0	-67.0	125.0	2.9	-1.8	2.8	-67.4	-163.3	-252.2	56.6	n.a.	58.7
Genting Plant	Dec	NEUTRAL	10.74	11.50	189.7	265.0	337.0	24.5	33.4	33.1	-50.4	4.5	29.6	43.9	42.1	32.5
IJM Plant	Mar	NEUTRAL	3.30	3.30	90.4	149.0	207.0	10.7	16.9	16.1	-2.8	-74.4	486.4	n.a.	n.a.	n.a.
IOI Corp	Jun	BUY	4.40	5.30	51.9	1,353.0	1,506.0	0.8	21.5	20.5	-98.5	1,118.3	105.2	n.a.	n.a.	n.a.
TSH Res.	Dec	NEUTRAL	1.88	2.15	-105.5	79.0	130.0	-7.9	5.8	9.1	-176.1	-171.4	63.2	n.a.	33.7	20.7
KL Kepong	Sep	BUY	24.06	29.25	869.9	1,163.0	1,233.0	81.7	109.2	108.5	-12.2	83.0	-27.5	29.0	15.9	21.9
PPB Group	Dec	NEUTRAL	16.00	16.80	1,051.3	733.0	910.0	88.7	61.8	75.4	14.7	-31.5	24.2	17.7	25.8	20.8
TOBACCO																
BAT	Dec	SELL	44.98	41.27	910.1	525.7	622.4	318.7	184.1	218.0	0.9	-42.2	18.4	14.2	24.6	20.8
GLOVE																
Kossan	Dec	BUY	6.59	7.85	202.5	171.5	228.2	31.7	26.8	35.7	39.1	-15.3	33.1	20.5	24.2	18.2
Hartalega	Mar	NEUTRAL	4.75	4.48	209.7	262.0	282.7	13.5	16.0	16.0	-13.9	16.2	1.7	35.2	30.3	29.8
Supermax	Jun	NEUTRAL	2.13	2.42	95.6	110.8	117.5	14.1	16.5	16.5	0.0	-0.7	18.0	15.4	15.5	13.1
Top Glove	Aug	NEUTRAL	4.97	5.24	279.8	376.1	380.8	22.6	30.0	30.0	55.4	27.5	4.1	22.3	17.5	16.8
HEALTHCARE																
KPJ	Dec	NEUTRAL	4.18	4.05	135.3	141.1	169.7	13.0	13.5	16.2	-7.3	3.3	20.3	32.1	31.1	25.9
IHH Healthcare	Dec	NEUTRAL	6.40	6.58	933.9	911.1	1,176.0	11.4	11.1	14.3	23.2	-2.7	29.1	56.2	57.8	44.8
UEM Edgenta	Dec	NEUTRAL	3.24	3.41	191.2	119.0	223.3	23.5	14.3	26.9	-5.6	-39.1	87.6	13.7	22.4	12.0
CONSUMER (F&B, Retail)																
Padini	Jun	NEUTRAL	2.60	2.81	80.2	146.8	168.1	12.2	22.3	22.3	-11.8	71.3	6.9	20.8	12.1	11.3
Panasonic	Mar	NEUTRAL	31.80	35.32	99.5	152.6	158.9	164.0	251.2	251.2	23.3	47.6	3.8	19.7	13.3	12.8
Nestle	Dec	NEUTRAL	76.20	82.82	590.7	680.1	743.0	252.0	290.0	316.8	7.2	15.1	9.2	30.3	26.3	24.1
MSM	Dec	NEUTRAL	4.80	4.02	275.3	147.7	200.4	39.2	21.0	28.5	7.1	-46.3	35.7	12.3	22.8	16.8
F&N	Sep	NEUTRAL	23.40	25.32	280.1	442.3	449.3	76.5	120.7	120.7	7.7	37.6	14.6	29.5	21.4	18.7
AEON Co.	Dec	NEUTRAL	2.58	2.35	133.4	77.4	155.4	9.5	5.5	11.1	-37.3	-42.0	100.8	27.3	47.0	23.4
INDUSTRIAL PRODUCT																
Daibochi	Dec	NEUTRAL	2.30	2.14	26.7	26.7	27.1	4.1	9.8	10.0	12.4	140.5	1.5	56.4	23.4	23.1
SuperIon	Apr	BUY	2.36	2.89	9.4	19.1	n.a.	11.8	24.0	24.0	60.9	77.6	14.6	20.2	11.3	9.9
BANKING																
Hong Leong Bk	Jun	BUY	13.34	15.00	2,233.2	1,903.0	2,298.0	108.8	92.7	112.0	5.9	-14.8	20.8	12.3	14.4	11.9
Hg Leong Fin.	Jun	BUY	15.20	17.20	1,620.7	1,563.0	1,640.0	154.3	136.5	143.2	-5.3	-11.5	4.9	9.9	11.1	10.6
RHB Bank	Dec	NEUTRAL	4.83	5.15	1,511.4	1,924.0	2,177.0	37.7	48.0	54.3	-24.4	27.3	13.1	12.8	10.1	8.9
Affin Holdings	Dec	BUY	2.31	2.50	369.3	504.0	524.0	19.0	25.9	27.0	-46.1	36.5	4.0	12.2	8.9	8.6
MayBank	Dec	NEUTRAL	7.90	8.10	6,835.9	6,081.0	7,156.0	67.1	59.7	70.2	-3.0	-11.0	17.7	11.8	13.2	11.3
Alliance Fin.	Mar	NEUTRAL	3.89	4.05	530.8	522.0	553.0	34.8	34.2	36.3	-6.5	-1.7	5.9	11.2	11.4	10.7
CIMB	Dec	BUY	4.64	5.90	2,849.5	3,619.0	4,087.0	32.1	40.8	46.1	-10.4	27.0	12.9	14.4	11.4	10.1
AMMB	Mar	NEUTRAL	4.45	4.55	1,918.6	1,302.2	1,350.0	63.8	44.8	44.8	7.7	-32.1	3.7	7.0	10.3	9.9
Public Bank	Dec	BUY	19.62	22.20	5,062.2	5,006.2	5,223.1	131.1	129.6	135.3	6.0	-1.1	4.3	15.0	15.1	14.5
BIMB	Dec	NEUTRAL	4.25	4.35	547.3	594.1	617.6	35.5	37.4	38.9	-0.3	5.3	4.0	12.0	11.4	11.0

Source: Company, MIDF Research

DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
FY15	FY16F	FY17F	FY15	FY16F	FY17F	FY15							High (RM)	Low (RM)
12.0	14.0	14.2	2.6	2.6	3.0	1.65	2.84	29.51	4.42	8.68	2,423.1	11,388.5	5.00	4.30
3.0	1.8	1.8	1.7	1.0	1.0	0.82	2.17	7.74	1.90	4.86	1,250.7	2,226.2	1.98	1.41
1.4	5.5	5.7	0.8	3.3	3.4	1.31	1.26	20.97	16.85	20.87	549.5	912.2	2.14	1.61
7.5	18.0	17.0	2.3	2.1	5.5	1.30	2.52	15.48	4.00	7.75	3,602.4	11,779.8	3.61	3.07
2.5	3.7	4.3	1.9	2.8	3.3	1.02	1.28	6.84	1.64	5.02	2,144.0	2,787.3	1.42	1.02
5.0	5.0	5.0	2.3	2.3	2.3	1.19	1.84	6.82	3.09	10.09	480.3	1,051.9	2.52	2.08
4.0	1.8	n.a.	2.4	1.1	n.a.	4.70	0.35	6.71	9.20	28.47	1,292.9	2,120.4	1.74	1.30
0.0	0.0	n.a.	0.0	0.0	n.a.	1.22	0.13	74.87	17.76	22.26	3,234.2	517.5	0.30	0.16
4.5	0.0	n.a.	1.2	0.0	n.a.	1.97	1.95	14.67	8.02	11.20	1,074.4	4,125.6	5.36	3.17
3.8	4.0	4.5	1.6	1.7	1.9	0.77	3.01	10.61	1.47	3.20	3,045.1	7,034.1	2.45	1.61
9.5	11.0	n.a.	6.3	6.3	7.3	1.05	1.44	6.04	1.36	4.16	10,526.6	15,895.2	1.82	1.44
22.0	21.9	22.3	4.4	4.4	4.5	66.48	0.07	24.90	36.92	331.46	7,775.0	38,564.0	5.49	4.31
20.0	15.0	15.0	4.7	3.5	3.5	1.63	2.62	9.06	3.21	7.01	8,971.4	38,397.5	6.48	4.11
20.0	21.0	21.0	3.3	3.5	3.5	9.89	0.61	22.55	10.21	45.94	7,510.3	45,061.7	6.89	5.36
21.4	21.2	22.3	3.5	3.5	3.6	3.07	2.00	7.71	3.70	11.24	3,757.9	23,073.7	6.90	6.09
11.0	12.0	13.0	4.2	4.6	4.9	25.00	0.11	11.24	8.92	100.25	5,209.5	13,701.0	3.02	2.41
10.0	4.0	5.0	8.9	3.6	4.5	0.84	1.33	3.61	2.21	3.16	1,109.2	1,242.3	1.54	1.07
18.0	14.0	15.0	7.6	5.9	6.4	1.61	1.47	7.91	4.68	6.68	738.0	1,741.6	2.70	2.27
10.0	11.0	12.0	4.1	4.5	4.9	1.32	1.85	11.92	8.88	11.08	733.8	1,790.5	2.77	1.94
20.0	20.0	18.0	5.8	5.8	5.2	3.46	1.00	8.21	7.86	9.38	281.9	972.5	6.64	2.70
1.0	2.7	3.6	0.4	0.8	1.2	12.42	0.18	50.71	19.72	35.71	2,400.3	5,376.7	2.52	1.72
6.4	10.2	12.1	1.9	2.4	3.1	4.43	0.75	14.21	16.93	21.77	961.3	3,191.5	3.96	2.57
25.0	31.2	31.6	3.1	3.3	3.3	1.54	5.28	5.48	3.75	6.75	6,643.4	53,944.6	8.33	7.00
4.0	4.0	4.0	2.4	n.a.	1.7	0.96	1.71	-0.43	-0.31	-0.75	3,648.2	5,983.0	2.52	1.31
5.5	8.4	10.6	0.5	0.6	0.8	1.94	5.56	14.76	2.80	4.51	793.5	8,537.6	11.56	9.80
6.0	8.0	11.0	n.a.	n.a.	n.a.	n.a.	1.94	4.34	0.93	1.51	880.6	n.a.	3.80	3.22
9.0	9.7	10.8	n.a.	n.a.	n.a.	n.a.	1.12	5.37	3.59	8.49	6,288.0	n.a.	5.04	4.07
2.0	1.5	2.4	1.1	0.7	1.2	1.77	1.07	9.51	2.39	5.06	1,355.7	2,562.3	2.20	1.80
45.0	64.5	68.4	1.9	2.1	2.7	2.42	9.81	9.65	8.68	14.11	1,065.0	25,239.7	25.00	21.72
25.0	18.5	23.0	1.6	1.2	1.4	0.95	16.45	17.82	3.28	3.50	1,185.5	18,564.9	16.98	15.24
312.0	180.0	214.0	6.9	4.0	4.7	27.44	1.65	11.47	43.55	96.17	285.5	12,934.5	58.40	40.70
12.0	7.4	10.2	1.8	1.1	1.6	4.01	1.62	10.46	11.62	17.56	639.5	4,150.1	9.50	5.90
6.5	6.5	7.0	1.4	1.7	1.4	4.95	0.96	17.18	13.13	17.12	1,641.4	7,796.8	6.15	3.81
5.0	5.5	6.0	2.3	2.5	2.8	1.43	1.52	8.60	5.73	9.27	671.3	1,456.6	3.56	2.01
10.0	17.0	18.0	2.0	2.9	3.4	3.48	1.45	12.49	13.62	19.76	1,252.8	6,326.9	7.03	4.20
7.0	6.8	8.2	1.7	1.6	2.0	2.82	1.49	4.96	3.60	9.04	1,047.7	4,389.7	4.40	4.06
3.0	5.0	6.0	0.5	0.8	0.9	2.40	2.67	10.79	2.57	3.76	8,231.7	52,682.9	6.79	6.15
15.0	10.0	18.8	4.7	3.1	5.9	1.99	1.61	3.81	4.55	7.79	831.6	2,669.5	3.98	3.09
10.0	11.5	12.0	4.0	4.0	4.5	3.45	0.73	10.56	17.18	29.30	657.9	1,664.5	3.08	1.78
50.0	150.8	156.9	1.5	0.5	4.7	2.54	12.72	13.52	14.90	18.86	60.7	1,959.7	39.92	23.00
240.0	265.0	285.0	3.1	3.5	3.7	23.98	3.18	14.06	27.33	95.98	234.5	17,878.3	81.80	72.13
26.0	13.8	18.8	5.4	2.9	3.9	1.65	2.91	6.40	5.43	7.25	703.0	3,374.3	5.12	4.55
57.5	60.3	91.9	2.5	2.5	2.7	4.16	5.43	9.25	12.02	19.37	366.5	8,276.5	27.00	18.08
4.0	4.0	4.0	1.5	1.5	1.5	1.98	1.31	2.02	1.91	4.20	1,404.0	3,636.4	3.00	2.47
5.1	6.3	6.6	2.2	2.7	2.9	1.68	1.37	7.74	9.05	14.71	272.1	625.9	2.43	2.03
2.0	9.5	n.a.	0.8	3.8	4.0	2.02	1.18	18.43	15.20	18.63	79.4	189.0	2.60	1.70
41.0	41.0	40.0	3.1	3.1	3.0	1.4	9.51	24.34	1.00	14.3	2,052.2	27,540.0	13.80	12.70
38.0	38.0	38.0	2.5	2.5	2.5	1.2	12.48	16.44	0.65	13.2	1,145.2	17,201.6	16.30	12.72
12.0	14.0	16.0	2.5	2.9	3.3	0.6	7.51	17.79	0.83	8.4	4,010.0	19,047.7	5.18	3.85
8.0	11.0	12.0	3.5	4.8	5.2	0.5	4.26	14.92	0.75	4.6	1,942.9	4,468.8	2.38	2.08
54.0	47.0	55.0	6.8	5.9	7.0	1.3	6.32	20.57	0.86	12.2	10,193.2	79,914.7	9.20	7.50
15.4	14.5	18.0	4.0	3.7	4.6	1.3	2.90	20.05	0.94	12.3	1,524.9	5,809.7	4.37	3.07
14.0	17.0	19.0	3.0	3.7	4.1	1.0	4.81	15.14	0.78	8.6	8,868.4	41,060.6	5.10	3.89
27.3	15.5	16.0	6.1	3.5	3.6	0.9	4.80	21.14	0.97	13.8	3,014.2	12,930.9	4.76	3.90
56.0	56.0	59.0	2.9	2.9	3.0	2.4	8.09	28.97	1.38	17.8	3,861.5	75,376.4	20.10	17.76
12.2	13.1	14.4	2.9	3.1	3.4	1.72	2.48	17.95	1.04	16.08	1,588.7	6,767.8	4.40	3.17

MIDF RESEARCH STOCK UNIVERSE as at 8 December 2016 (cont'd)

	FYE	Rec.	Price (RM)	Target Price	Net Profit (RM m)			EPS (sen)			EPS (% chg)			PER		
					FY15	FY16F	FY17F	FY15	FY16F	FY17F	FY15	FY16F	FY17F	FY15	FY16F	FY17F
FINANCE																
MBSB	Dec	BUY	0.90	1.08	257.6	212.3	298.4	8.9	3.7	5.1	-76.4	-59.0	40.6	9.8	24.0	17.1
Bursa Malaysia	Dec	NEUTRAL	8.65	8.95	198.6	195.8	208.8	37.2	36.5	38.9	0.0	-1.9	6.6	22.8	23.3	21.8
AEON Credit	Feb	NEUTRAL	14.32	15.40	215.7	234.8	243.7	149.8	163.1	163.1	23.0	-0.5	9.4	9.1	9.2	8.4
INSURANCE																
LPI Capital	Dec	BUY	16.74	17.84	321.0	259.4	289.0	96.7	78.1	87.1	13.0	-19.2	11.4	17.3	21.4	19.2
Syarikat Takaful	Dec	BUY	4.08	4.84	156.0	174.6	194.7	19.1	21.3	23.7	10.9	11.2	11.5	21.7	19.6	17.5
Tune Protect	Dec	BUY	1.43	2.18	69.0	84.2	96.9	9.2	11.2	12.9	-4.7	22.1	15.1	15.5	12.7	11.0
OIL & GAS																
SapuraKencana	Jan	NEUTRAL	1.55	1.71	1,432.8	195.5	192.6	23.9	3.3	3.3	26.5	-155.4	-124.6	6.4	n.a.	46.9
PetChem	Dec	NEUTRAL	6.90	6.46	2,782.0	2,771.0	2,948.0	35.0	34.6	36.9	12.9	-1.0	6.4	19.6	19.8	18.6
Wah Seong	Dec	SELL	0.77	0.65	9.5	12.2	62.3	1.2	1.6	8.1	-92.5	29.4	410.7	61.9	47.8	9.4
Bumi Armada	Dec	NEUTRAL	0.57	0.63	-234.6	-354.1	246.5	-4.0	-6.0	4.2	-192.6	50.9	-169.6	n.a.	n.a.	13.4
KNM Group	Dec	NEUTRAL	0.33	0.41	49.5	28.9	57.3	2.7	1.4	2.7	0.8	-48.9	98.3	12.5	24.4	12.3
Petronas Gas	Dec	NEUTRAL	21.28	19.63	1,987.5	1,798.1	1,832.0	100.4	90.9	92.6	7.8	-9.5	1.9	20.8	22.9	22.5
Dialog Group	Jun	NEUTRAL	1.54	1.68	275.1	270.3	273.9	5.5	5.1	5.1	153.0	2.9	-11.4	27.6	26.8	30.3
Gas Malaysia	Dec	BUY	2.52	3.07	106.2	144.6	156.1	8.0	11.3	12.2	-38.5	40.8	8.0	31.6	22.5	20.8
Dayang Ent	Dec	NEUTRAL	0.84	0.95	172.2	16.4	69.0	19.6	1.9	7.9	-8.7	-90.5	320.7	4.4	46.5	11.1
MMHE	Dec	SELL	0.86	0.77	43.9	60.8	87.4	2.7	3.8	5.5	-66.3	38.7	43.8	32.3	23.3	16.2
PetDag	Dec	NEUTRAL	23.46	24.80	790.0	853.4	880.4	79.5	85.9	88.6	57.4	8.1	3.2	29.1	27.0	26.1
Deleum	Dec	BUY	0.87	1.25	45.4	29.7	50.2	11.4	7.4	12.6	-23.5	-34.6	69.0	8.1	12.3	7.3
PROPERTY & REITS																
SP Setia	Dec	NEUTRAL	3.32	3.38	710.0	658.0	712.0	27.7	23.1	25.0	69.7	-16.6	8.2	12.3	14.7	13.6
UEM Sunrise	Dec	NEUTRAL	1.03	1.03	257.2	180.0	189.0	5.7	4.0	4.2	-46.2	-30.4	5.0	17.9	25.7	24.5
Sunway	Dec	NEUTRAL	3.00	3.25	732.4	515.6	557.6	41.8	25.4	27.5	-1.8	-39.1	8.1	7.0	11.5	10.7
UOA Dev't	Dec	BUY	2.30	2.68	417.0	406.8	430.2	28.0	24.9	26.4	21.7	-10.9	5.8	8.5	9.6	9.1
E&O	Mar	NEUTRAL	1.50	1.58	152.1	51.0	95.0	12.2	4.1	4.1	47.3	-75.4	35.2	11.9	48.3	35.7
Mah Sing	Dec	NEUTRAL	1.45	1.57	386.7	374.0	377.0	15.7	15.5	15.6	17.1	-1.3	0.8	9.0	9.1	9.1
Axis REIT	Dec	NEUTRAL	1.62	1.68	96.6	93.0	97.0	8.8	8.4	8.8	-12.7	-4.5	4.3	18.5	19.4	18.6
IGB REIT	Dec	NEUTRAL	1.57	1.63	254.0	268.0	288.0	7.3	7.7	8.2	-20.6	4.7	7.5	21.6	20.6	19.2
Sunreit	Jun	BUY	1.70	1.83	541.4	264.0	292.0	18.5	9.0	9.0	31.3	-40.4	-18.5	9.3	15.6	19.2
Pavilion	Dec	NEUTRAL	1.79	1.68	282.3	241.0	265.0	9.4	8.0	8.8	-44.7	-14.8	10.0	18.5	21.7	19.7
Capitaland	Dec	BUY	1.54	1.69	226.0	175.2	179.2	11.9	8.6	8.8	-10.4	-27.6	2.3	13.1	18.1	17.7
Glomac	Apr	NEUTRAL	0.73	0.76	87.0	57.5	86.2	12.0	7.9	7.9	-19.8	-6.2	-29.5	6.2	6.6	9.3
KLCC Stapled	Dec	NEUTRAL	7.80	7.16	542.8	719.0	724.0	30.1	39.8	40.1	18.5	32.3	0.7	25.7	19.5	19.3
Eco World	Oct	BUY	1.38	1.68	44.0	125.0	n.a.	2.6	4.5	n.a.	180.9	69.3	n.a.	51.9	30.7	n.a.
IOI Property	Nov	BUY	2.04	2.34	890.7	839.0	n.a.	25.8	19.0	n.a.	-16.7	3.4	n.a.	8.3	8.0	n.a.
TRANSPORT																
- Aviation																
AirAsia	Dec	BUY	2.53	3.45	541.2	1,319.4	1,362.9	19.4	47.4	49.0	546.7	144.4	3.3	13.4	5.5	5.3
AirAsia X	Dec	BUY	0.37	0.50	-349.6	165.8	242.8	-10.4	4.0	5.9	-40.9	-138.4	46.4	n.a.	9.3	6.3
MAHB	Dec	BUY	6.34	7.60	-16.6	56.0	180.0	-1.1	3.4	10.8	-102.3	-409.6	221.4	n.a.	182.8	56.9
-Logistics																
Tiong Nam	Mar	BUY	1.58	2.16	72.9	89.7	108.9	17.4	21.5	21.5	-2.1	6.3	16.4	9.0	8.5	7.3
- Ports																
Westports	Dec	BUY	4.35	5.00	504.9	603.2	639.0	14.8	17.7	18.7	-1.4	19.4	5.9	29.0	24.3	22.9
- Shipping																
Maybulk	Dec	BUY	0.70	1.04	-1,177.2	-74.3	19.6	-117.7	-7.4	2.0	-9,749.2	-93.7	-126.4	n.a.	n.a.	35.7
MISC	Dec	NEUTRAL	7.33	7.96	2,467.8	1,918.3	2,042.5	55.3	43.0	45.8	11.9	-22.3	6.5	13.0	16.7	15.7
TOLL																
LITRAK	Mar	BUY	5.74	6.50	137.9	249.3	258.4	26.8	47.4	47.4	2.6	25.0	41.7	21.3	17.1	12.0
UTILITIES																
Tenaga	Aug	BUY	14.00	16.80	6,118.4	7,152.5	6,708.5	108.4	126.5	126.5	-5.4	20.4	-3.1	12.9	10.7	11.1
YTL Power	Jun	NEUTRAL	1.45	1.40	918.8	674.7	763.7	13.2	8.7	8.7	-27.9	6.5	-38.2	10.7	10.0	16.2
AUTO																
Bermaz Auto	Apr	BUY	2.12	2.45	212.4	200.0	243.7	18.7	17.4	17.4	52.5	-7.6	0.7	11.1	12.0	11.9
UMW Holdings	Dec	NEUTRAL	4.97	5.15	-37.2	-123.0	-12.6	-3.2	-10.5	-1.1	-105.7	229.0	-89.8	n.a.	n.a.	n.a.
Tan Chong	Dec	NEUTRAL	1.83	1.90	74.9	-82.0	-81.0	11.5	-12.6	-12.4	-29.3	-209.5	-1.2	15.8	n.a.	n.a.
MBM Res.	Dec	UNDER REVIEW	2.32	2.90	84.0	118.1	128.8	21.5	30.2	33.0	-25.1	40.6	9.1	10.5	7.4	6.8
BUILDING MATERIAL																
- Steel																
Ann Joo Res.	Dec	SELL	2.04	0.85	-135.5	-135.5	14.1	-27.1	-27.1	2.8	-679.4	0.0	-110.4	n.a.	n.a.	71.7
Lion Industries	Jun	SELL	0.37	0.23	-254.8	n.a.	n.a.	-35.6	n.a.	n.a.	-49.5	218.7	n.a.	n.a.	n.a.	n.a.
- Cement																
Lafarge M'sia	Dec	SELL	7.45	5.50	251.0	180.0	178.0	29.5	21.2	20.9	-2.0	-28.3	-1.1	24.1	33.6	33.9
- Timber																
Ta Ann	Dec	BUY	3.76	4.70	188.2	122.0	126.0	41.8	27.4	27.0	50.4	-37.1	2.6	9.0	14.4	14.0

Source: Company, MIDF Research

DPS			Yield (%)			PBV	BV / share (RM)	Net margin (%)	ROA (%)	ROE (%)	No of shares (m)	Market cap (RM m)	52-week Price	
FY15	FY16F	FY17F	FY15	FY16F	FY17F	FY15							High (RM)	Low (RM)
2.9	2.4	3.4	3.3	2.7	3.9	0.76	1.16	12.95	0.52	4.37	5,798.8	5,102.9	1.50	0.69
34.5	33.0	35.2	4.1	3.9	4.1	5.80	1.46	40.15	9.38	23.89	536.3	4,553.0	9.43	8.06
57.0	61.2	63.5	4.2	4.3	4.5	2.31	5.93	20.34	3.52	20.23	144.0	1,972.8	15.18	10.78
70.0	70.0	70.0	4.2	4.2	4.2	3.16	5.29	26.76	7.16	14.92	332.0	5,550.8	17.00	14.78
7.4	9.0	12.0	1.8	2.2	2.9	4.39	0.95	10.94	2.32	24.63	820.9	3,415.1	4.44	3.72
5.0	4.2	4.4	3.5	3.0	3.1	2.23	0.64	23.10	6.95	17.13	751.8	1,067.5	1.72	1.10
3.4	1.4	1.4	2.2	0.9	0.9	0.75	2.03	-7.77	-2.17	-6.48	5,992.2	9,168.0	2.18	1.29
18.0	18.0	18.0	2.6	2.6	2.6	2.18	3.15	20.47	8.99	10.42	8,000.0	54,880.0	7.62	5.95
3.0	1.0	2.0	4.0	1.3	2.6	0.55	1.37	0.66	0.41	1.00	772.8	583.5	1.07	0.64
0.8	0.8	0.8	1.5	1.4	1.4	0.53	1.07	-16.25	-1.96	-4.85	5,866.3	3,314.4	1.07	0.50
0.0	0.0	0.0	0.0	0.0	0.0	0.26	1.25	1.76	0.67	1.07	2,132.8	703.8	0.53	0.31
60.0	55.0	55.0	2.9	2.6	2.6	3.48	5.99	40.35	12.50	15.51	1,978.7	41,236.8	23.50	20.54
2.2	2.4	2.4	1.4	1.4	1.6	3.18	0.48	11.64	7.13	11.88	5,350.3	8,185.9	1.63	1.46
8.3	11.3	10.9	3.3	4.5	4.3	3.36	0.75	4.00	6.91	14.88	1,284.0	3,248.5	2.80	2.16
3.5	0.0	0.0	4.0	0.0	0.0	0.65	1.34	2.11	0.50	1.37	876.8	762.8	1.46	0.73
0.0	0.0	0.0	0.0	0.0	0.0	0.53	1.66	2.47	1.41	2.27	1,600.0	1,416.0	1.34	0.84
60.0	71.0	68.4	2.6	3.1	3.0	4.45	5.20	3.39	10.57	17.12	993.5	23,008.4	26.30	22.16
5.5	3.5	6.0	6.0	3.8	6.6	1.25	0.73	4.57	4.41	9.31	400.0	366.0	1.28	0.82
4.0	16.9	18.3	1.2	5.0	5.4	1.27	2.68	11.74	4.25	8.27	2,853.4	9,701.7	3.59	2.80
1.6	1.1	1.2	1.6	1.1	1.1	0.69	1.48	10.29	1.51	2.51	4,537.4	4,628.2	1.25	0.93
11.0	11.0	11.0	3.8	3.8	3.8	0.80	3.66	11.59	3.22	7.15	2,028.0	5,942.1	3.24	2.87
15.0	15.0	15.0	6.3	6.3	6.3	1.12	2.13	24.76	9.28	12.35	1,631.3	3,898.9	2.77	2.03
0.0	1.6	3.1	0.0	1.4	1.1	1.13	1.28	8.81	0.99	2.20	1,257.2	1,822.9	1.86	1.38
6.5	5.8	5.8	4.6	4.1	4.1	1.07	1.33	12.13	5.65	10.15	2,409.4	3,421.4	1.70	1.24
12.6	7.6	7.8	7.7	4.6	4.8	1.29	1.26	55.88	4.34	6.88	1,105.2	1,801.4	1.85	1.49
8.2	8.0	8.5	5.2	5.0	5.4	1.47	1.07	54.78	5.18	7.31	3,493.5	5,519.7	1.74	1.26
8.7	8.1	8.9	5.1	5.3	4.7	1.25	1.38	62.60	4.95	7.99	2,945.1	5,065.5	1.84	1.43
8.2	7.4	8.1	4.8	4.3	4.7	1.38	1.25	58.22	5.07	6.26	3,022.5	5,229.0	1.90	1.46
8.6	8.3	8.4	5.5	5.3	5.4	1.20	1.30	50.81	4.28	6.55	2,031.5	3,169.1	1.61	1.34
4.3	2.7	4.0	5.7	5.4	3.7	0.49	1.50	13.12	4.11	7.70	723.4	535.3	0.92	0.69
34.7	34.9	35.9	4.5	4.5	4.6	1.11	6.98	53.65	4.10	4.95	1,805.3	13,991.3	8.00	6.80
0.0	0.0	n.a.	0.0	0.0	n.a.	0.99	1.38	7.30	1.80	3.96	2,796.7	3,831.5	1.51	1.20
6.0	8.0	n.a.	2.8	3.7	n.a.	0.59	3.67	35.70	4.73	6.74	4,408.7	9,478.7	2.65	2.01
4.0	10.0	10.0	1.5	3.8	3.8	1.21	2.15	20.95	6.19	29.64	2,782.9	7,235.5	3.30	1.26
0.0	0.0	0.0	0.0	0.0	0.0	1.60	0.23	5.41	3.96	26.24	4,148.1	1,534.8	0.50	0.18
8.5	10.0	13.0	1.4	1.6	2.1	1.34	4.59	1.45	0.25	0.63	1,659.2	10,237.2	7.30	5.21
4.0	6.4	6.9	2.5	3.2	4.1	1.08	1.45	13.57	5.26	12.55	416.8	654.4	1.76	1.13
11.1	15.0	15.5	2.6	3.5	3.6	7.66	0.56	35.88	14.97	31.78	3,410.0	14,663.0	4.59	3.62
0.0	0.0	0.0	0.0	0.0	0.0	0.69	1.02	-30.77	-3.54	-6.04	1,000.0	700.0	1.00	0.51
30.0	20.0	20.0	4.2	2.8	2.8	0.92	7.83	17.59	4.04	5.26	4,463.8	32,050.0	9.40	6.88
20.0	35.0	35.0	3.5	4.4	6.1	4.35	1.31	41.83	7.78	28.67	525.7	3,001.6	6.06	4.90
29.0	57.0	53.5	2.1	2.3	4.1	1.51	9.28	16.54	5.54	14.01	5,652.3	79,245.7	14.90	12.60
10.0	8.7	9.8	7.1	7.1	6.2	0.84	1.68	10.52	2.46	8.33	7,758.7	10,939.8	1.64	1.38
8.6	14.7	17.9	4.2	3.3	7.1	5.21	0.40	9.43	20.83	35.10	1,146.8	2,385.3	2.44	1.79
20.0	3.0	3.0	4.0	0.6	0.6	0.93	5.35	-0.85	-0.67	-1.31	1,168.3	5,829.8	8.22	4.75
5.0	0.0	0.0	2.8	0.0	0.0	0.44	4.14	-1.43	-1.59	-2.93	652.7	1,181.3	2.75	1.80
7.0	9.5	10.3	3.1	4.2	4.6	0.55	4.09	6.51	5.05	6.46	390.7	879.1	2.70	1.94
0.0	0.0	0.0	0.0	0.0	0.0	0.97	2.09	-7.69	-5.54	-14.62	500.6	1,011.1	2.23	0.60
0.0	n.a.	n.a.	0.0	0.0	n.a.	0.16	2.31	-31.67	-26.73	-45.47	685.3	253.6	0.53	0.22
32.0	20.0	19.0	4.5	2.8	2.7	1.99	3.57	6.54	4.13	5.82	849.7	6,041.3	9.40	7.01
16.7	14.1	14.5	4.4	3.6	3.7	1.33	2.83	11.16	5.93	9.61	444.6	1,680.8	4.79	3.11

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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.

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