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Market Outlook & Strategy 2Q2009

Dances With Bears, But Odds Are Improving

Executive Summary

- Whilst the global economy is mired in a severe recession, there are glimmers of hope that the US economic contraction might have hit the bottom in 4Q 2008 and policy measures are gaining traction in China. In other words, the odds for the global economy to gradually stabilise and recover are improving as the US implements measures to remove bad assets from banks' balance sheets and recapitalise the viable ones in order for credit to flow back to the private sector.

- In other words, we are holding to the view that the global economy will gradually stabilise towards end-2009, with a more meaningful recovery emerging from 1Q 2010. While Malaysia will not be able to avoid a recession and corporate earnings will likely contract at a double-digit rate in 2009, the market may have discounted much of the bad news and the uncertainties would no longer concern investors as much as they had previously.

- In our view, the risk-reward situation has begun to shift in favour of equities and investors should look beyond the sharp drop in earnings and begin to position their portfolios for the eventual recovery in the global economy. Consequently, we are maintaining our end-2009 KLCI target at between 940 and 1,050, despite expectation of a sharper contraction of 3.5% in the Malaysian economy for 2009.

- We continue to see values in the equity market amid the difficult market conditions and would advise investors to accumulate liquid fundamental stocks on weakness for longer-term performance. As we see less value proposition for the defensive stocks that have outperformed and are still expensive, we continue to advocate investors switching out of the defensives into liquid fundamental stocks that had suffered from significant price depreciation.

- Stock picking is still a preferred investment strategy, even though we have overweight recommendation on the banking, power and gaming sectors, which broadly match the sector weightings under the new FBM KLCI benchmark to be launched on 6 July 2009.

Please read important disclosures at the end of this report.

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Macro Economic Outlook

The Malaysian economy almost ground to a halt in the 4Q of last year and it is projected to worsen in 1H 2009 given the sharp contraction in exports, culminating in falling industrial production, private investment, employment and consumer spending. In this respect, we are cutting our real GDP forecast for 2009 to -3.5%, from -1.5% projected previously. However, we expect the Malaysian economy to bounce back to +3.8% in 2010, on the back of a recovery in external demand for the country's exports arising from the huge stimulus packages and the financial rescue plans implemented by governments globally as well as a pick-up in domestic demand following the implementation of two economic stimulus packages in the country.

Cut Our Real GDP Forecast For 2009 to -3.5%

The Malaysian economy will unlikely avoid a recession despite dishing out the "mini budget" of as large as RM60bn

Risk is still skewed towards the downside

The Malaysian economy almost ground to a halt (see Chart 1) in the 4Q of last year, as the deepening global credit crisis in late 2008 pared demand for the country exports. The sharp contraction in exports towards the end of last year will likely worsen in 1H 2009, given deteriorating global macroeconomic conditions. Already, Malaysia's exports fell by 27.8% yoy in January, the most on record. This has adversely impacted industrial production, private investment, employment and consumer spending. As a result, we believe **the Malaysian economy will unlikely avoid a recession** despite dishing out the "mini budget" of as large as RM60bn. Indeed, the **risk is still skewed towards the downside** given that the global credit market conditions have yet to stabilise.

Until the plan to remove toxic assets is put to work, we believe the US financial system will unlikely stabilise and the recovery will not begin

As it stands, despite the various bailout programmes and economic stimulus packages implemented, policy efforts in the developed countries have yet to resolve uncertainty over the long-term solvency of financial institutions. It is crucial for the US and European countries to address the root cause of the problem by removing the toxic assets from the balance sheets of the financial institutions and recapitalising the viable ones in order for credit to flow back to the economy and for growth to recover. However, there are glimmers of hope as the US government has announced a more detailed plan on 23 March to rid the financial system of toxic assets. One of the big problems with these plans is that many of these assets no longer trade, implying that it is not easy to price them, as banks may be unwilling to sell at too low a price, while investors may be unwilling to take risk. **Until this plan is put to work, we believe the US financial system will unlikely stabilise and the recovery will not begin**.

Chart 1
Exports Plunged And Domestic Demand Slowing Down Rapidly

% yoy

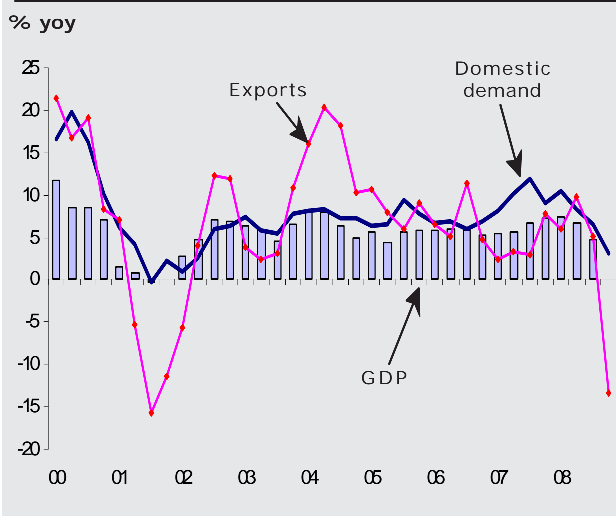
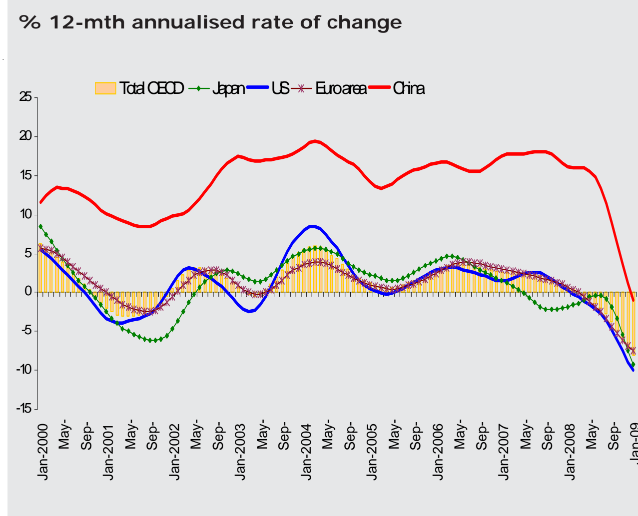


Chart 2
OECD Composite Leading Indicator Points To A Bleak Economic Outlook

% 12-mth annualised rate of change



Elsewhere in **Japan**, the government announced that it would **tap its US$1trn foreign exchange reserves to finance Japanese corporations' business activities abroad** through the Japan Bank for International Cooperation (JBIC) in March. The Japanese government's move suggests that the global credit crunch is still worsening and it will likely have significant implications on global trade.

Japan to tap its foreign exchange reserves to help its corporations

While the European Union (EU) has agreed to double the credit line to help non-euro countries stricken by the global credit crisis, it remains to be seen whether the move is enough to help the troubled nations. Without the increase in aid, it **risks dragging the Euroland's economy into a deeper recession**, if Central and Eastern Europe's economies continue to deteriorate, given the region's banking exposure to these troubled countries.

A fallout in Central and Eastern Europe economies could deepen the Euroland's recession

In this respect, we have **cut our real GDP forecast for 2009 to -3.5%**, from -1.5% projected previously and compared with +4.6% in 2008, in view of the sharp and rapid deterioration in exports. The economy, however, is projected to bounce back to register a moderate growth of +3.8% in 2010, on the back of a recovery in external demand for the country's exports underpinned by the huge economic stimulus packages and the financial rescue plans implemented by governments globally as well as the low interest rate environment. This will spill over to domestic demand, partly helped by the implementation of the two economic stimulus packages by the country.

Cut our real GDP forecast for 2009 to -3.5%, from -1.5% projected previously

Meanwhile, **risk of deflation is rising globally** given deteriorating global macroeconomic conditions, sharp contraction in demand, massive excess capacity in industries and low commodity prices. Although to some extent, the decline in consumer and producer prices in recent months was due to falling commodity prices and the high base effects given that it surged strongly in 1H 2008, the drop raises risk of deflation, as a period of sustained price declines will lead to increase in deflationary expectations. This could spur consumers to delay purchases in the hope of clinching better bargains in the future, resulting in further downward price pressure and a more protracted downturn in the global economy.

Risk of deflation is rising globally

Global Economy Has Not Hit The Bottom Yet

Meanwhile, **the global economy is still worsening**, as reflected in the OECD composite leading indicator's 12-month rate of change, which contracted by a larger magnitude of 8.0% in January, compared with -7.2% in December (see Chart 2). This was the 11th straight month of decline, pointing to a bleaker economic outlook in the OECD countries, which is likely to drag down the major non-OECD member countries as well. In addition, the continued fall in January-February's global manufacturing and services indices suggests that activities in these two major sectors in the world economy are mired in contraction, although the pace of contraction has started to narrow. As a result, the International Monetary Fund (IMF) cut its 2009 global economy forecast to between -0.5% and -1.0%, from +0.5% projected previously.

The global economy is still worsening

The IMF cut its 2009 global economy forecast to between -0.5% and -1.0%

In the **US**, the Fed's findings revealed that the economy has deteriorated further almost across the board in January-February. This was in tandem with the fall in consumer confidence to a record low of 25 in February, on the back of a worsening job market. As it stands, unemployment rate in the US surged to the highest in more than 25 years in February, and job losses exceeded 600,000 a month for the last three consecutive months, the first time that has happened since the collection of data began in 1939. The bleak job market will likely hurt consumer spending further. Meanwhile, the US manufacturing and services sectors contracted further in January-February, after a sharp fall in the 4Q of last year. Although the US government has approved the US$787bn stimulus plan to jump-start the economy on 11 February and announced a US$2trn rescue plan for the financial sector, the impact would only

The US economy is likely to suffer a contraction of 2.0-3.0% in 2009, before staging a modest recovery in 2010

come in towards the end of the year and in 2010. As a result, we believe **the US is likely to suffer a contraction of around 2.0-3.0% in 2009**, before staging a modest recovery in 2010.

Similarly, the **Euroland** economy continues to deteriorate, after falling deeper into a recession in the 4Q. As it stands, consumer and business confidence plunged to a record low in February, while manufacturing and services activities shrank by a larger magnitude in January-February, compared to the previous quarter. Similarly, **Japan**'s economic outlook continues to deteriorate, as businesses cut spending by the most in a decade in the 4Q of last year in response to the sharp drop in exports and industrial production. This forces company as large as Toyota Motor to seek help from the Japanese government.

The Euroland and Japan's economies continue to deteriorate

Meanwhile, **China** indicated that it would increase its spending significantly in 2009 to revive the economy, without actually announcing an increase to the government's 4trn yuan (US$585bn) stimulus package, as the collapse in exports has dragged the economy to its weakest growth in seven years in the 4Q. Despite the introduction of a massive stimulus package and interest rate cuts, we believe China will still have to go through a phase of significantly slower growth in 1H 2009.

China will still have to go through a phase of significantly slower growth in 1H 2009

Exports Falling Sharply

The global downturn, the worst since the World War II in 1945, will adversely impact Malaysia's exports. We expect the country's exports to contract by 20.4% in 2009 (-15.0% projected previously), compared with +9.6% in 2008. In real terms, **exports are likely to contract by 12.2% in 2009**, a downgrade from -7.5% projected previously.

The global downturn will adversely impact Malaysia's exports

Nevertheless, the rapid easing in inflation has enabled central banks around the globe to cut interest rates more aggressively and the global economy will likely be flooded with ample **cheap liquidity** in 2009. Similarly, countries have announced massive stimulus packages to cushion the economies from the downturn and to take up the slack of private spending. More importantly, the US is a step closer in addressing the toxic assets in the financial system. We believe all these moves will prevent the global economy from falling into a protracted downturn and we expect the effects of the stimulus packages to gradually kick in to restore consumer and business confidence. This in turn will **set the stage for the global economy to gradually stabilise in the 2H of 2009**, followed by a recovery in 2010, in our view.

Ample cheap liquidity, coupled with massive stimulus packages and the US move to address the toxic assets, will likely set a stage for the global economy to stabilise in 2H 2009, followed by a recovery in 2010

Unemployment On The Rise

The sharp drop in Malaysia's exports has resulted in manufacturing capacity utilisation rate dropping to a low of 67% in the 4Q of last year, which was even lower than the low of 76% recorded in 3Q 2001 during the bursting of the dotcom bubble. As a result, companies will likely be forced to cut staff and investment to cope with falling revenue. As a result, we expect the unemployment rate to rise to 4.5% of total labour force in 2009, from 3.7% in 2008.

Unemployment rate will likely rise to 4.5% of total labour force in 2009

Falling Private Sector Spending Cushioned By Higher Fiscal Spending

The increase in retrenchment will likely affect consumer confidence, leading to a cutback in consumer spending. Already, consumer spending slowed down to a low of 5.3% yoy in 4Q 2008, from 8.1% in the 3Q and a high of +13.0% in 3Q 2007. For the full year of 2009, we expect **consumer spending to slow down markedly** to 1.2%, from +8.4% in 2008 (see Table 1). Although the Government cut employee's contribution to the Employees Provident Fund (EPF) on a voluntary basis by three percentage points to 8% effective 1 January 2009 and introduced some new measures in the "mini budget" to encourage spending, we believe consumers will remain

Consumer spending to slow down markedly, on the back of rising retrenchment

cautious in spending. This will likely be made worse by the sharp fall in commodity prices, which would curtail rural households spending. Still, we do not expect consumer spending to fall off the cliff, given high savings, rising consumerism and favourable demographic structure of the population.

Table 1

GDP By Demand Aggregate (2000=100)

	2006	2007	2007	2008				2008	2009(f)	2010(f)
			4Q	1Q	2Q	3Q	4Q			
	% Growth in Real Terms									
GDP	**5.8**	**6.3**	**7.3**	**7.4**	**6.7**	**4.7**	**0.1**	**4.6**	**-3.5**	**3.8**
Consumption:										
Private	6.5	10.8	10.2	11.7	9.0	8.1	5.3	8.4	1.2	4.5
Public	4.9	6.6	4.2	14.7	10.9	6.9	13.8	11.6	7.1	3.5
Total investment	7.9	9.6	10.2	6.0	5.6	3.1	-10.2	1.1	-10.8	7.4
Private	7.0	11.7	n.a	n.a	n.a	n.a	n.a	1.6	-27.3	10.0
Public	8.9	7.4	n.a	n.a	n.a	n.a	n.a	0.6	7.0	5.5
Goods & services:										
Exports	7.0	4.2	7.8	6.0	9.7	5.1	-13.4	1.5	-12.2	5.1
Imports	8.5	5.4	11.0	3.4	8.4	8.2	-10.1	2.2	-8.2	6.7
Agg.domestic demand	6.6	9.8	9.1	10.5	8.3	6.5	3.1	6.9	-0.9	5.0

(f) : RHBRI's forecasts

Similarly, the drop in industrial capacity utilisation will lead to businesses slashing their spending to cope with falling sales. In this regard, real **private investment is projected to fall sharply**, as investors delay the implementation of projects on the back of economic uncertainties. Although the Government has announced some new measures in the "mini budget" to stimulate private investment, we believe companies are unlikely to increase investment given sharp contraction in demand and global economic uncertainties. While the increase in public spending in the "mini budget" will boost public expenditure, its impact will likely be felt towards the end of the year and it would merely provide some cushion to the economic downturn rather than spur growth. As a whole, we still expect the fixed capital formation to contract by 10.8% in 2009, compared with +1.1% in 2008. Meanwhile, public consumption will likely moderate during the year, given a slower increase in emoluments. As a whole, we envisage **domestic demand** to contract by 0.9% in 2009, after slowing down to +6.9% in 2008.

Private investment is projected to fall sharply, as investors delay the implementation of projects on the back of economic uncertainties

We envisage domestic demand to contract by 0.9% in 2009

Higher Fiscal Spending To Weather A Severe Global Recession

The Government, on 10 March, announced details of the second stimulus package -- termed as a "mini budget". The "mini budget", which totalled RM60bn or 9.0% of GDP, would be spent over two years from 2009 to 2010. The amount was significantly higher than the RM7.0bn or 1.0% of GDP announced in the first stimulus package in November 2008. Although the package is big, the **real expenditure by the Government will be smaller** at about RM18.0bn or 30% of the total stimulus spending (RM15.0bn in fiscal spending and RM3.0bn in tax incentives). For the rest of the spending, its impact on the economy will unlikely be immediate as it will take time to roll out and it depends on circumstances and responses from businesses and consumers, which are unlikely to be forthcoming amid global recession.

Although the "mini budget" package is big, the real expenditure by the Government will be smaller at about RM18.0bn or 30% of the total stimulus spending

The implementation of the "mini budget" will worsen the Government's budget deficit significantly. The Government projected its **budget deficit to balloon significantly to 7.6% of GDP** in 2009, from -4.8% projected previously and -4.8% recorded in 2008, on account of the increase in spending and a loss in revenue due to tax measures and lower oil revenue. The budget deficit projected by the Government

The Government projected its budget deficit to balloon significantly to 7.6% of GDP in 2009

is the highest level in 22 years and this could **impact Malaysia's sovereign credit rating**. However, we are not particularly concern over this issue at this juncture given that **the priority for the Government now is to cushion the economy from the severe global recession** and to spur economic growth. Furthermore, it is not an isolated case for Malaysia, as developed countries and other emerging economies have also suffered the same situation.

Nevertheless, there is **downside risk to the Government's budget deficit forecast**. If the Government failed to reduce its subsidy along with a drop in its oil revenue, the budget deficit could balloon to slightly more than 10% of GDP in 2009 and in 2010, in our view.

There is downside risk to the Government's budget deficit forecast

Manufacturing Sector To Contract, While Services Growth Will Weaken Sharply

On the supply side, **value-added in the manufacturing sector is envisaged to contract by 12.3% in 2009**, after decelerating to +1.3% in 2008 (see Table 2), on the back of a collapse in exports. This is on account of a drop in output of the export-oriented industries and a significant slowdown in the production of domestic-oriented industries, as exports and domestic demand slacken.

The manufacturing sector is envisaged to contract in 2009

A drop in trade activities and a sharp slowdown in consumer spending will likely hurt services providers. As a result, activities in the **services sector are projected to slow down dramatically to around 0.3% in 2009**, the slowest in 11 years and compared with +7.3% in 2008. Utilities and real estate & business sub-sectors will likely suffer badly due to a drop in demand, particularly from businesses. Activities in wholesale & retail trade and accommodation & restaurants sub-sectors will also weaken significantly due to a slowdown in consumer spending, as consumers turn cautious and tourist arrivals drop on the back of a gloomier economic outlook. Similarly, activities in transport & storage; communications; finance & insurance; are projected to ease in tandem with a decline in trade volume and business activities.

Services sector is projected to slow down dramatically, in tandem with a slowdown in consumer spending and a drop in trade volume

Similarly, output of the **agriculture sector is projected to slow down sharply to 1.0% in 2009**, after a rebound to +3.8% in 2008. This is on account of a slowdown in palm oil production due to tree stress, after a strong rebound in the previous year. This will, however, likely to be mitigated somewhat by smaller declines in the production of rubber and saw logs. Also, growth will be further supported by an increase in output of fisheries, livestock and crops, on the back of the Government's efforts to promote these industries.

Agriculture output will also weaken sharply, due mainly to a slowdown in palm oil production

In the same vein, **we expect construction activities to contract by 2.4% in 2009**, compared with +2.1% in 2008. This is due to a decline in residential and non-residential construction spending in tandem with a contraction in the economy. This, however, will likely be cushioned somewhat by stronger growth in civil engineering sub-sector, in line with the implementation of the two stimulus packages.

Construction activities are projected to contract during the year

Table 2

GDP By Industrial Origin At 2000 Prices

	2006	2007	2007	2008				2008	2009(f)	2010(f)
			4Q	1Q	2Q	3Q	4Q			
	% Growth in Real Terms									
GDP	**5.8**	**6.3**	**7.3**	**7.4**	**6.7**	**4.7**	**0.1**	**4.6**	**-3.5**	**3.8**
Agriculture	5.4	2.2	4.7	6.3	6.0	3.0	0.5	3.8	1.0	2.0
Mining	-2.7	3.3	3.5	3.7	-0.5	-0.3	-5.7	-0.8	0.2	1.0
Manufacturing	7.1	3.1	5.6	7.0	5.6	1.8	-8.8	1.3	-12.3	4.5
Construction	-0.6	4.6	4.7	5.3	3.9	1.2	-1.6	2.1	-2.4	3.5
Services	7.3	9.7	9.3	8.5	8.2	7.1	5.6	7.3	0.3	4.5

(f) : RHBRI's forecasts

Mining value added, however, **is envisaged to bounce back to increase modestly by 0.2% in 2009**, after contracting by 0.8% in 2008. Resumption in the production of liquefied natural gas (LNG) will likely lead the rebound, after plants were shut down for repair and maintenance in the previous year.

Mining output is projected to increase modestly

Slower Monetary And Loan Growth As Economic Activities Soften

Growth of the broad monetary aggregate, M3, slowed down to 9.0% yoy in January, from +11.9% in December and a peak of +14.1% in July, in line with a slowdown in Malaysia's economic activities. Going forward, we expect M3 growth to slow down to 5.0% in 2009, after rising by 11.9% in 2008, in line with a decline in economic activities. Similarly, loan growth moderated to 11.7% yoy in January, from +12.8% in December, but still higher than +10.6% recorded in September, indicating that demand for loans remained resilient, as companies switch to loans amid the difficulties in raising funds from the capital market. Going forward, in line with a contraction in economic activities, we expect the banking system's loan growth to ease to 3-4% in 2009, from +12.8% in 2008. Also, the banking system's NPL ratios will likely increase. However, we do not expect the NPL ratios to increase sharply, given that the bulk of the new loans were extended to households. As a whole, we expect the banking system's 3-month gross and net NPL ratios to edge up to around 6.1% and 4.2%, respectively, by end-2009, after easing to the corresponding rates of 4.13% and 2.24% at end-2008.

Money supply and loan growth will likely moderate, while NPL ratios will edge up, in line with a decline in economic activities

Current Account Surplus, Ringgit Under Short-term Selling Pressures

After hitting a record surplus in 2008, the current account surplus is projected to shrink in 2009, on the back of a drop in exports and lower commodity prices. We expect exports to contract at a faster pace than that of imports due to recessions in developed countries and a sharp slowdown in intra-regional trade as well as lower commodity prices. As a result, the merchandise trade account is projected to record a smaller surplus during the year. This will translate into a smaller current account surplus in the balance of payments, which is projected to **narrow to around RM64.7bn or 9.5% of GNI in 2009**, from a surplus of RM129.4bn or 18.1% of GNI in 2008 (see Table 3). Although smaller, the current account surplus will likely remain healthy in 2009 and it will continue to boost foreign exchange reserves of the country as well as fuel domestic liquidity.

The current account is projected to record a smaller surplus due mainly to a slump in exports

Table 3

Balance Of Payments

	2007	2007		2008			2008	2009(f)	2010(f)
		3Q	4Q	1Q	2Q	3Q			
	(RMbn)								
Current account	**100.4**	**29.4**	**26.3**	**23.8**	**37.1**	**38.7**	**129.4**	**64.7**	**62.6**
(% of GNI)	**(16.0)**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**(18.1)**	**(9.5)**	**(8.8)**
Goods	127.7	35.3	35.9	33.8	48.1	49.3	170.1	101.3	96.8
Services	2.4	1.5	-0.5	-0.2	1.4	-0.2	1.7	1.1	1.1
Income	-13.9	-3.2	-5.0	-5.6	-8.2	-5.8	-25.4	-20.9	-21.3
Current transfers	-15.7	-4.2	-4.1	-4.3	-4.3	-4.5	-17.0	-16.8	-14.0
Financial account	-37.8	-30.9	-17.3	25.7	-12.3	-61.4	-123.3	-39.5	-26.5
Basic balance	62.6	-1.5	9.0	50.2	24.7	-22.8	6.1	25.2	36.1
Errors & omissions*	-17.3	-2.8	-8.7	-1.3	1.5	-8.8	-24.3	-15.0	-20.0
Overall balance	45.3	-4.4	0.3	48.9	26.2	-31.5	-18.3	10.2	16.1
Outstanding reserves^	335.7	335.4	335.7	384.6	410.9	379.3	317.4	327.0	343.1
(US$)^	101.3	98.2	101.3	120.3	125.8	109.7	91.5	96.2	107.2

(f) : RHBRI's forecast *^ : As at end-period*
** : Reflect mainly revaluation gains/losses from Ringgit depreciation/appreciation and statistical discrepancies*

Outflow of capital is projected to narrow in 2009. This is on account of a small net inflow of direct investment in 2009, a reversal from an outflow in the previous year, as we expect outward direct investment to slow down significantly due to the global recession. Also, we expect outflow of portfolio investment to subside in 2009, after experiencing a significant outflow in 2008 where investors pulled out their funds from Malaysia due to worsening economic outlook. On the other hand, Malaysians' other investments abroad, including loans and trade credits, are likely to pick up in 2009 as businesses look for new opportunities abroad. As a whole, the outflow in the financial account is likely to narrow to RM39.5bn in 2009, from RM128.1bn estimated for 2008. After taking into account a smaller deficit in errors & omissions, the **overall balance of payments** is projected to bounce back to record a surplus of around RM10.2bn in 2009, from a deficit of RM18.9bn in 2008. This will contribute to the build-up in the country's foreign exchange reserves and we expect it to rise to US$96.2bn by end-2009, from US$91.4bn at end-2008.

Outflow of capital in the financial account is projected to narrow during the year

The overall balance of payments is projected to record a surplus in 2009

Although the build-up in foreign exchange reserves will continue to provide an underlying support to the ringgit, it fell by 6.2% against the US$ between 1 January and 18 March, as economic outlook deteriorated, the Central Bank cut interest rate and fears of rising fiscal deficit weighed down the currency. The depreciation of the ringgit year-to-date, however, was in tandem with the weakening of currencies in the region and the euro, due to flight to safety on account of global economic uncertainties. Consequently, we expect the ringgit to remain weak in the near term and could potentially test the RM3.80/US$ level, if regional currencies continue to weaken, before **gradually recovering towards RM3.40/US$ by end-2009**, on the back of a worsening US budget deficit. Still, if the Government failed to rein in its subsidy along with a drop in its oil revenue, the ballooning budget deficit to slightly above 10% of GDP in 2009 and 2010 will likely weigh down the ringgit.

The ringgit to gradually recover to RM3.40/US$ by end-2009

There is downside risk to the ringgit, if the Government failed to rein in its budget deficit

Inflation To Ease Sharply As Demand Slackens

Inflation is expected to ease sharply in 2009, on the back of a sharp drop in demand and commodity prices. Already, the headline inflation slowed down to 3.7% yoy in February, from +3.9% in January and a peak of +8.5% in August 2008. This was the sixth straight month of easing and the lowest level in nine months, mainly on account of a sharp deceleration in the core inflation rate and a slower increase in food & non-alcohol beverage prices. Going forward, the cumulative effect of a series of fuel price cuts since August 2008, coupled with low commodity prices, will contribute to slower increase in consumer prices. Also, a contraction in economic activities and weakening employment prospects will dampen consumer demand. It will also reduce pressure on employees' pay, making it difficult for traders to raise prices on consumer goods and services, as competition increases. These will be aided by the Government's efforts to control prices of essential goods, increase food production and food stockpile as well as selective reduction in import duties on consumer goods. As a whole, we expect **inflation to ease sharply to around 1.5% in 2009**, after hitting its peak in July and August and from +5.4% in 2008.

Inflation is expected to ease sharply in 2009, on the back of a sharp drop in demand and commodity prices

We expect inflation to ease sharply to around 1.5% in 2009, from +5.4% in 2008

The rapid easing in inflation rate will provide more room for Bank Negara Malaysia (BNM) to ease its policy, if needs be. Although BNM had cut its key policy rate by a total 150 basis points, we believe there is still **room for BNM to cut its OPR** and **by 50 basis points to 1.50%**, if the economic contraction turns out to be sharper than expected. Nevertheless, we do not expect the Central Bank to follow the foot steps of developed economies by cutting their policy rates to near zero or zero percent, given that it views too low interest rates as not constructive. Instead, BNM stressed the need to focus on improving access to financing and it is currently focusing on resolution and restructuring of bank clients' debts.

There is still room for BNM to cut its OPR, if the economic contraction turns out to be sharper than expected

Market Review

Global Recession And Uncertainties

The equity market staged a brief rebound at the beginning of the year as institutional funds did their fund allocation and rebalanced portfolios. Investors were hopeful that the US President-elect Barack Obama's push for a second stimulus package will kick-start the moribund US economy. The KLCI benchmark gained 5.8% or 50.87 points to close at a high of 927.62 on 7 January, led by plantation stocks, which rose on the back of higher crude palm oil (CPO) prices. This was in tandem with the higher crude oil prices, buoyed by escalating violence between Israel and Hamas militants in the Gaza Strip that threatened crude oil supply from the Middle East. However, the uptrend was not sustained and fizzled out quickly as global economic data releases started to surprise on the downside, including falling exports on the local front and by a larger magnitude of 4.9% yoy in November. Rising fears of an economic recession sent investors to the sideline with the KLCI benchmark falling back to below the 900-point level by mid-January (see Chart 3). This was generally consistent with the continuous fall in the Wall Street and regional markets as bleak economic data created fears of a more protracted global economic downturn.

Early rebound in the year was not sustained as grim economic data sent fears of a more protracted global economic downturn

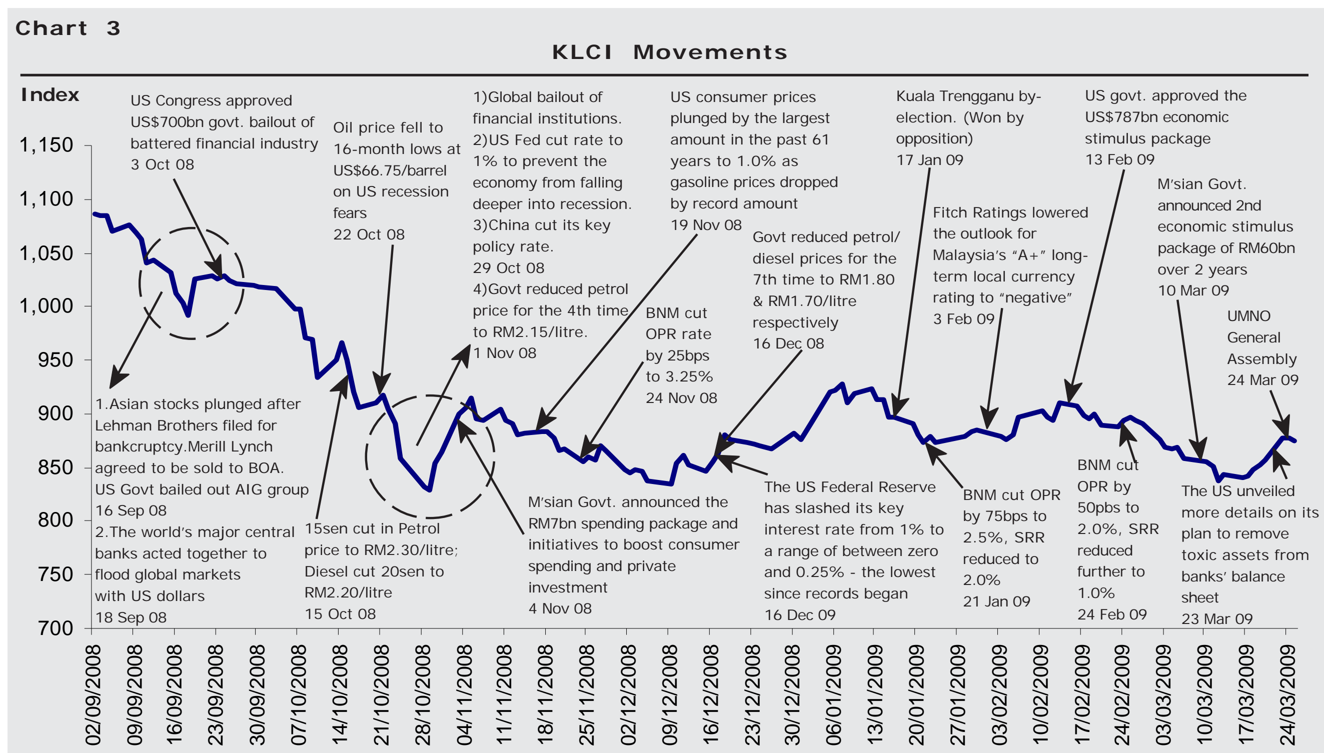


Chart 3

KLCI Movements

However, the market came back following the 75 basis point interest rate cut by the Central Bank on 22 January. Local sentiment improved and this was in tandem with the better performance in the regional markets. The KLCI benchmark climbed higher on news that the US House of Representatives had passed Obama's second stimulus package and that the President's administration is planning to set up a "bad bank" to carve out toxic assets from the balance sheets of banks and resolve the paralysis in its banking system. Concomitantly, the KLCI was generally on a mild uptrend despite negative news flow on the local front, including the political saga on the change of the state government in Perak and the downgrade of the country's local currency credit outlook to "negative" by Fitch Rating as it expects the country's fiscal deficit to rise to 5.7% of GDP this year and 7.4% next year. Subsequently, investors were accumulating shares ahead of the announcement of the second economic stimulus package and the KLCI benchmark surpassed the 900-level once again on 10 February.

After a brief sell-offs and consolidation, the market, however, came back on a mild uptrend in line with regional markets on positive external developments

The mild rally, however, fizzled out as external concerns returned to haunt investors. The earlier excitement over the upcoming second stimulus plan quickly gave way to a myriad of external issues and falling global stock markets. A slump on the Wall Street, continued concerns over the health of the US economy and financial sector, and poor export numbers from Asian exporting countries led investors to conclude that the global downturn will continue to deepen.

The mild uptrend, however, was not sustained as global concerns came back to haunt investors

Subsequently, the KLCI was trapped within a narrow trading range with relatively thin volume. Investors generally stayed away from the market in the absence of fresh leads to drive share price performance. The 4Q CY08 earnings reporting season gave investors little to cheer about as earnings continued to disappoint with companies making large provisions for impairment losses, paying less dividends and more companies came out with capital raising exercises. Meanwhile, the external environment continued to deteriorate and the closely watch Dow Jones Industrial Average witnessed a renewed burst of volatility. With exports of countries in the region plummeting and more and more economies falling into a contraction, sentiment took a turn for the worse. The Central Bank's unexpected reduction in its overnight policy rate by 50 basis points on 24 February was deemed to be a signal that the economy is deteriorating faster than expected.

Subsequently, the market was trapped within a narrow trading range

Thereafter, the market witnessed another bout of volatility in the global financial markets. Stock prices tumbled on news of more troubles brewing for major US corporations with reports of American International Group (AIG) needing a third round of government bailout and General Motors possibly heading for restructuring under bankruptcy laws. The sharp plunge in January's exports (-27.8% yoy) on the local front took its toll on sentiment and the announcement of a larger-than-expected RM60bn second stimulus plan failed to lift sentiment. The KLCI benchmark drifted down to a low of 838.39 on 12 March, before bargain hunting activities emerged on the back of positive news flow from the US as both Citigroup and Bank of America were reported to have made profits in the first two months of the year. Meanwhile, US retail sales contracted by a lower-than-expected 0.1% in February and housing starts picked up by 22.2% during the same month, raising hopes that consumer spending may be stabilising after dropping sharply in 4Q 2008. Nevertheless, the underlying economy remained weak and the KLCI, though trending up, was moving within a narrow range on very thin volume. The trading momentum, however, picked up on 23 March with the KLCI benchmark rising by 21.48 points or 2.5% to end at 878.30 amid optimism pending the announcement by the US Treasury on the plan for the removal of toxic assets from the balance sheets of banks to resolve its banking paralysis. The KLCI benchmark held firm thereafter and closed higher at 885.43 on 27 March, following a smooth transition of UMNO presidency from Datuk Seri Abdullah Ahmad Badawi to Datuk Seri Najib Abdul Razak who is expected to take over as the country's new Prime Minister in early April.

Thereafter, the market witnessed another bout of volatility

Trading momentum picked up from 23 March amid optimism of the resolution of the banking paralysis in the US

Year-to-date, the Malaysian market remained relatively firm. The KLCI benchmark was up marginally by 0.1%, outperforming the markets in Vietnam (-14.3%), Hong Kong (-3.3%), Singapore (-3.1%), Thailand (-2.6%%), and India (-1.8%) (see Table 4). It has, however, underperformed the markets in China (+28.4% to +39.9%), Taiwan (+14.2%), South Korea (+8.6%), Indonesia (+6.0%) and Philippines (+2.4%). The plantation sector turned up to be the best performing sector (+10.8%) for the Malaysian market, followed by the industrial (+2.1%) and construction (+1.2%) sectors (see Table 5). In contrast, the telecommunications & technology (-16.4%), and banking & finance (-3.7%) sectors were the worst performing sectors. A list of top performers and underperformers under our coverage is included in Table 6.

Year-to-date, the Malaysian market was relatively flat

Plantation turned up to be the best performing sector

Table 4

KLCI Performance Versus Other Regional Markets

Country	Indices	Index 24 Mar 09	2008 2Q	2008 3Q	2008 4Q	2009 1Q*	2008	2009 YTD
			% Change					
Malaysia	**Composite**	**877.9**	**-4.9**	**-14.1**	**-13.9**	**0.1**	**-39.3**	**+0.1**
Singapore	Straits Times	1,706.3	-2.0	-20.0	-25.3	-3.1	-49.2	-3.1
Thailand	Bangkok SET	438.2	-5.9	-22.4	-24.6	-2.6	-47.6	-2.6
Philippines	PSE Composite	1,917.7	-17.6	4.5	-27.1	2.4	-48.3	+2.4
Indonesia	Jakarta Composite	1,436.1	-4.0	-22.0	-26.0	6.0	-50.6	+6.0
Hong Kong	Hang Seng	13,910.3	-3.3	-18.5	-20.1	-3.3	-48.3	-3.3
Taiwan	Taiwan Weighted	5,242.2	-12.2	-24.0	-19.7	14.2	-46.0	+14.2
Korea	Korea Composite	1,221.7	-1.7	-13.5	-22.3	8.6	-40.7	+8.6
China	Shanghai Composite	2,338.4	-21.2	-16.2	-20.6	28.4	-65.4	+28.4
China	Shenzhen Composite	774.3	-27.8	-22.6	-9.9	39.9	-61.8	+39.9
India	Mumbai Sensex 30	9,471.0	-14.0	-4.5	-25.0	-1.8	-52.4	-1.8
Vietnam	Vietnam SE	270.6	-22.7	14.3	-30.9	-14.3	-66.0	-14.3
US	Dow Jones	7,660.0	-7.4	-4.4	-19.1	-12.7	-33.8	-12.7
US	S&P 500	806.3	-3.2	-8.9	-22.6	-10.7	-38.5	-10.7
US	Nasdaq	1,516.5	0.6	-8.8	-24.6	-3.8	-40.5	-3.8

** As at 24 Mar 2009*

Table 5

Bursa Malaysia Performance By Sector

Bursa M'sia by sector^	Index 24 Mar 09	2008 2Q	2008 3Q	2008 4Q	2009 1Q*	2008	2009 YTD
		% Change					
Construction	166.1	-14.2	-13.0	-9.2	1.2	-47.6	+1.2
Consumer	283.4	1.4	-9.4	-3.0	0.5	-18.0	+0.5
Finance	6,539.1	-9.6	-5.6	-17.7	-3.7	-37.7	-3.7
Industrial	2,106.7	-2.4	-12.9	-7.4	2.1	-31.5	+2.1
Plantation	4,590.4	5.8	-38.8	-14.6	10.8	-48.8	+10.8
Property	509.6	-10.7	-11.2	-16.9	-1.2	-50.2	-1.2
Services & Trading	116.8	-7.2	-11.5	-13.7	-1.0	-39.9	-1.0
Telecom & Technology	11.4	-14.3	-5.5	-19.9	-16.4	-43.9	-16.4
KL Composite Index	**877.9**	**-4.9**	**-14.1**	**-13.9**	**0.1**	**-39.3**	**+0.1**
FTSE BM Second Board#	3,900.5	-5.9	-10.1	-19.5	-2.7	-40.5	-2.7
FTSE BM Mesdaq#	2,958.5	-10.5	-9.9	-16.0	-11.3	-45.4	-11.3

^ According to Bursa Malaysia's classifications.
 # Effective from 10 September 2007, Second board & Mesdaq have been rebased, recalculated and launched as FTSE Bursa M'sia Secong Board and FTSE Bursa M'sia Mesdaq indices respectively.
** As at 24 Mar 2009*

Table 6
Top Performers & Underperformers Of Stocks Under RHBRI's Coverage (Year-To-Date)

Top performers	24/03/09 (RM/share)	31/12/08 (RM/share)	% chg.	Underperformers	24/03/09 (RM/share)	31/12/08 (RM/share)	% chg.
IJM Corp.	4.02	2.80	+43.6	Axis Incorp.	0.05	0.105	-52.4
Top Glove	4.80	3.50	+37.1	Sunrise	0.905	1.43	-36.7
EPIC	1.22	0.90	+35.6	Toyo Ink	1.19	1.80	-33.9
IOI Properties	2.60	2.00	+30.0	Zelan	0.59	0.88	-33.0
Wah Seong	1.27	0.995	+27.6	Dreamgate	0.105	0.155	-32.3
CBIP	2.12	1.70	+24.7	WCT	1.06	1.52	-30.3
Asiatic	4.26	3.54	+20.3	TM International	2.61	3.62	-27.9
KLK	10.70	8.90	+20.2	Sarawak Energy	1.70	2.32	-26.7
MRCB	0.845	0.705	+19.9	Bonia	0.85	1.14	-25.4
Adventa	0.80	0.685	+16.8	VS Industry	0.92	1.21	-24.0
BCHB	6.80	5.85	+16.2	MPI	4.58	5.85	-21.7
Axis REIT	1.29	1.12	+15.2	Unisem	0.555	0.70	-20.7
Telekom	3.50	3.08	+13.6	Texchem	1.00	1.20	-16.7
ILB	0.61	0.54	+13.0	Ta Ann	3.00	3.60	-16.7
Petra Perdana	1.41	1.25	+12.8	Wellcall	0.80	0.95	-15.8
AirAsia	0.97	0.865	+12.1	Sunway City	1.48	1.75	-15.4
IOI Corp.	4.00	3.56	+12.4	Public Bank (F)	7.50	8.75	-14.3
Sime Darby	5.80	5.20	+11.5	Maybank	4.40	5.10	-13.7
KPJ Health	2.79	2.55	+9.4	Seacera Tiles	0.26	0.30	-13.3
IJM Plantation	2.12	1.94	+9.3	Quill Capital	0.805	0.92	-12.5

Market Outlook

Positive Glimmers Amid The Gloom

Smaller contractions in US manufacturing and services activities, durable goods orders picked up and housing market turned more upbeat in February

Whilst the global economy is mired in a severe recession, there are **glimmers of hope that the US economic contraction might have hit the bottom in 4Q 2008**. The latest economic data releases suggest that both the pace of contractions in its manufacturing and services sectors have narrowed in January-February 2009. The US durable goods orders also bounced back to increase by 3.4% mom in February (-7.3% in January), breaking six months of steep decline (see Chart 4). This could be an indication that inventories in the pipeline are getting too lean to meet current needs, suggesting that manufacturing activities are likely to improve gradually in the months ahead. Indicators from the US housing market are also turning more upbeat, with existing and new home sales bouncing up to increase by 5.1% and 4.7% mom respectively in February, from -5.3% and -13.2% in January (see Chart 5). Sales of both single family houses and condominiums are picking up as record foreclosures pushed down prices and lured first-time buyers into the market. Similarly, its housing starts and building permits (an indicator of future construction activity) also rebounded and increased by 22.2% and 3.0% mom respectively during the same period, from -14.5% and -2.9% in January, suggesting that the housing slump in the US may be nearing the bottom even though demand for houses will likely be limited by an increase in jobless rate and shrinking household wealth.

US consumers are not cutting back as steeply as they were previously

While US consumers are still cutting back on purchases, there are tentative signs that they are not cutting back as steeply as they were previously and many retailers have reduced inventories on their shelves to the point that any pick-up in demand will force them to restock. Indeed, US personal consumption expenditure has bounced back to increase by 0.6% mom in January, from -1.0% in December. This

Chart 4
US Economic Contraction Might Have Hit Bottom In 4Q2008

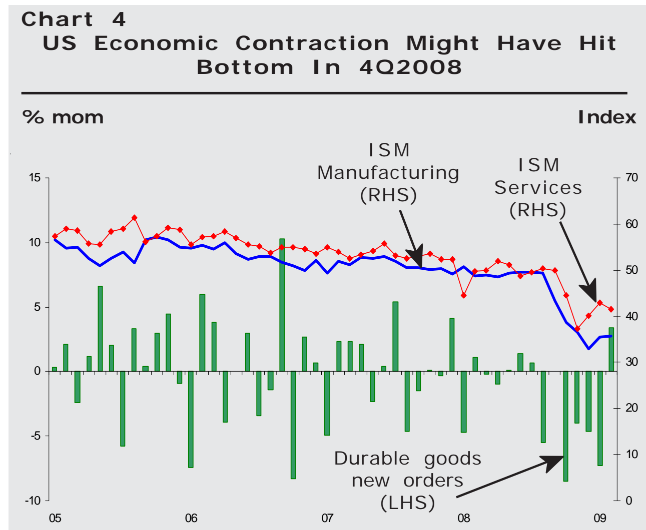
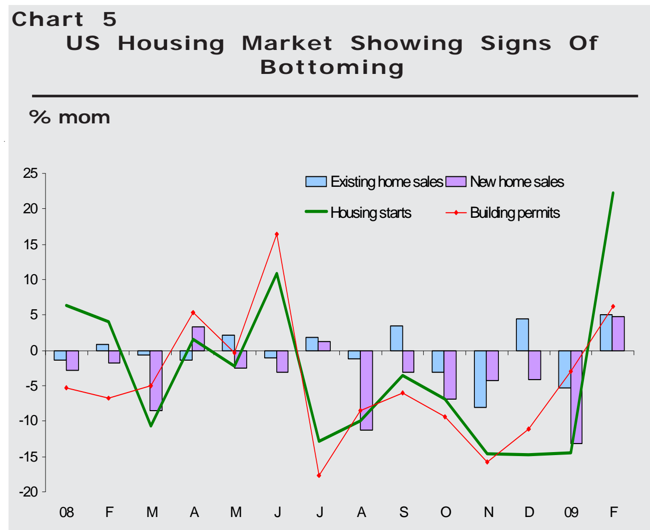


Chart 5
US Housing Market Showing Signs Of Bottoming

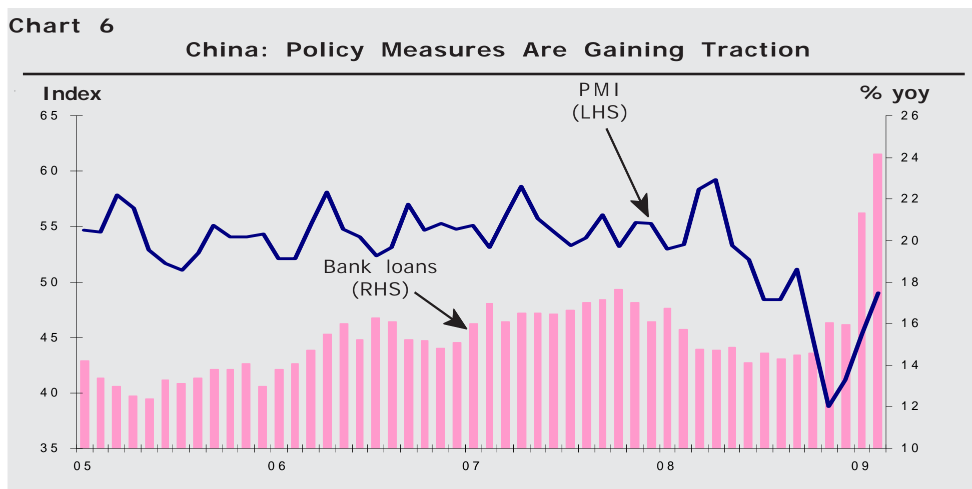


was the first increase in seven months, as consumers took advantage of discounts offered by shop owners and bought the necessity items. In real terms, personal consumption expenditure also fell less significantly and by an annualised rate of 2.3% in January compared with -4.3% in December. **While we do not believe that these rebounds will be sustained in the months ahead given the current global economic conditions, it is quite likely that the US economy might have reached a trough in 4Q 2008** even though it will continue to contract badly in 1H 2009.

Policy measures are gaining traction in China and economic activities will likely pick up in the months ahead

In China, the implementation of the RMB4.0trn yuan stimulus package is gaining momentum with bank lending picking up sharply from RMB477bn in November to RMB772bn in December and accelerating to RMB1.6trn by January 2009. The construction of some of the public housing projects and railway lines commenced in December and the purchasing managers' index (PMI) has been rising steadily since November 2008 (see Chart 6). These are clear signals that the policy measures are gaining traction and economic activities will likely pick up gradually in the months ahead. The sustainability of the recovery, however, remains a concern as private sector activities continue to be impacted by the sharp fall in exports.

Chart 6
China: Policy Measures Are Gaining Traction



The same, however, cannot be said for the European and the Japanese economies which are still deteriorating

However, the same cannot be said for the European and the Japanese economies. Apart from sharper contractions in exports and industrial production, a new risk emerging from the troubled Central and Eastern European countries threatens to spill over and drag the bigger European nations into a deeper recession. With the collapse in asset prices and sharp fall in currencies, these countries that had relied on borrowed funds from the bigger Euroland countries for expansion, suddenly found themselves unable to cope with the crisis. Of late, the European Union (EU) has agreed to double an emergency credit line to 50bn euros (US$68bn) to help non-

euro countries stricken by the global credit crisis. Elsewhere, the Japanese economic conditions are also deteriorating with plummeting exports and falling industrial activities.

On balance, the global economy will continue to contract badly in 1H 2009, but odds are improving

On balance, both the global manufacturing and services activities are mired in contraction, and the Organisation for Economic Cooperation and Development (OECD) composite leading indicator is still pointing downwards, indicating that the world economy will continue to contract badly in 1H 2009. These developments had led to the International Monetary Fund (IMF) cutting its real GDP forecast for the global economy to between -0.5% and -1.0% for 2009, from +0.5% projected previously. In the same vein, the World Bank has warned that the global economy will likely fall into a contraction of between 1% and 2% in 2009, the worst since the World War II. This underscores the depth of the global recession and the downside risks to economic growth forecasts for Asia, including Malaysia.

Odds Are Improving As US implements Measures To Get Credit Flowing To The Private Sector

Urgent need to resolve the paralysis in the banking system to get credit flowing again

The history of successfully handled banking crises in advanced and emerging economies alike suggests that governments also need to remove bad assets from banks' balance sheets, resolve the uncertainty over the long-term solvency of financial institutions and recapitalise the viable ones in order for credit to flow back to the economy and for growth to recover. Otherwise, with sinking asset prices, insolvent banks, moribund growth and the risk of deflation, confidence may continue to fall, culminating in a more protracted global economic downturn.

Both UK and US have implemented programmes to resolve the impasse in their banking systems

The good news is that both UK and US are working towards resolving the impasse in their banking systems, although these processes will face with initial teething problems and will take time to be resolved. The UK, for instance, had launched an insurance scheme for assets turning toxic to encourage new bank lending and get the credit to flow back to the private sector to jump-start the economy. Similarly, the US had, on 10 February, announced a US$2.0trn financial rescue package, with US$1.0trn to jump-start consumer lending under the Term Asset-backed Securities Loan Facility (TALF) and another US$1.0trn to fund the acquisition of illiquid assets from the banks. Since then, it has kicked off with US$4.7bn of TALF loans requests, out of the US$8.3bn of loans that investors could have purchased. In addition, the US government had, on 23 March, also unveiled details of its plan to remove toxic assets from banks' balance sheets and help thaw frozen credit markets. Under the Public-Private investment Programme, the Federal Deposit Insurance Corporation (FDIC) and the US Treasury will coordinate the implementation of public-private investment funds (PPIFs) to purchase troubled and illiquid assets in substantially sized pools from banks and thrifts. The plan is aimed at financing as much as US$1.0trn in purchases of toxic and illiquid assets, using US$75bn to US$100bn of the Treasury's remaining bank-rescue funds with private capital putting up another half of the targeted amount. The US Treasury hopes that the partnership could generate some US$500bn in purchasing power to buy those toxic assets and the plan could eventually reach US$1.0trn.

We envisage that credit market conditions will stabilise in 2H 2009 with a more meaningful economic recovery emerging from 1Q 2010

Whilst the US authorities would still need to overcome the initial teething problems, we believe once these schemes start to function, credit will begin to flow back to the economy and credit market conditions will begin to stabilise in 2H 2009. In other words, **we are holding to the view that the US and the global economy will gradually stabilise towards end-2009, with a more meaningful recovery emerging from 1Q 2010**. Nevertheless, as the deleveraging process is still ongoing and corporates and households would still need to repair their balance sheets, we envisage that economic growth will be sub-par for the major developed economies, such as the US, Euroland, UK and Japan in 2010. We only expect global growth to gain momentum in 2011 and it may take three to four years for the full crisis to run its course, in our view.

Sharper-than-expected Economic Contraction On The Local Front May Have Largely Been Priced In

Malaysia will not be able to avoid a recession ...

We believe that the Malaysian economy has started to contract since December 2008 and the pace of contraction is likely to accelerate in the months ahead. Already exports had plummeted by 27.8% yoy by January 2009, the worst on record. This has dragged industrial production down into a sharp contraction of 20.2% yoy during the same period, culminating in falling investment, employment and consumer spending. Under these circumstances, the two stimulus packages totalling RM67bn or 10% of GDP will unlikely be able to stimulate growth and turn around the economy, given the time-lag in implementation. It will, however, help to speed up the pace of recovery when the cycle begins to turn up, in our view. We envisage the sharpest contraction of the economy to be in the 2Q with growth turning up from 4Q 2009, albeit from a low base. Overall, **we expect the Malaysian economy to contract more significantly by 3.5% in 2009**, compared with the official forecast of between -1.0% and +1.0%.

... issue is when will the recovery come about, which we envisage to emerge in a more meaningful way from 1Q 2010

The sharper contraction in the economy, however, may have largely been priced in by the market. **What is more critical is the timing of recovery, which we envisage to emerge in a more meaningful way from 1Q 2010**. With the US and European countries taking steps to resolve the impasse in the financial system, coupled with huge stimulus packages and financial rescue plans implemented by governments all over the globe, we are hopeful that the global economy will gradually stabilise towards end-2009 and recover in 2010. This will lead to a recovery in external demand for the country's exports culminating in a pick-up in domestic demand following the implementation of the two economic stimulus packages in the country. Hence, we expect the Malaysian economy to bounce back and register a positive growth of around 3.8% in 2010.

Position Beyond The Sharp Drop In Earnings

Double-digit earnings contraction in 2009 is to be expected ...

As it stands, the normalised corporate earnings for the KLCI stocks under our coverage had already fallen off the cliff from +21.8% in 2007 to -2.7% estimated for 2008. We expect the situation to worsen as the Malaysian companies have yet to feel the full-blown effect of the global economic downturn. Based on our projection, net EPS for the KLCI stocks under our coverage will likely contract by a double-digit rate of 16.0% in 2009, before recovering to register a positive growth of 9.2% in 2010 (see Table 7), albeit from a low base. The issue is whether the market has priced in the gloomier outlook for the economy as well as corporate earnings. While the outlook remains unclear, valuation of the market is already at post-Asian crisis low, indicating that **the market may have discounted much of the bad news** and the uncertainties would no longer concern investors as much as they had previously.

... investors should position for earnings recovery in 2010

Under such circumstances, it pays for investors to take a longer-term view and look beyond the sharp drop in earnings. In our view, investors should accumulate liquid fundamental stocks with decent valuations on market weakness and position for the recovery in earnings in 2010. Although valuation of the Malaysian market (based on the latest FactSet Asian Consensus and IBES consensus numbers) is still a tad less attractive compared with its more liquid peers, such as the Singapore and Hong Kong markets (see Table 8), global equities tend to move up in tandem in a globalised world where financial markets are increasingly becoming more integrated. Whilst the pace of recovery in the local market may lag that of its regional peers, this could be overcome by picking the right stocks, in our view.

Foreign holdings of the Malaysian stocks have dropped significantly and the political situation is improving

We estimate that foreign holdings of the Malaysian stocks have dropped from a recent peak of 27.5% of the KLCI stocks' market capitalisation (including strategic holdings such as DiGi, BAT, AMMB, AEON, etc.) in April 2008 to around 20% currently. The political factor, that caused foreign investors to sell down the Malaysian market after the general election on 8 March 2008, would likely improve with Datuk Seri

Table 7

Earnings Outlook And Valuations

COMPOSITE INDEX @ 877.92 24 March 2009	KLCI 2007a	KLCI 2008a	KLCI 2009f	KLCI 2010f	RHBRI's Basket 2007a	RHBRI's Basket 2008a	RHBRI's Basket 2009f	RHBRI's Basket 2010f
EBITDA Growth (%)	19.4	2.1	-9.6	10.0	18.7	3.7	-8.7	10.4
Pre-Tax Earnings Growth (%)	23.5	-6.0	-13.2	12.8	23.5	-6.7	-11.9	14.0
Normalised Earnings Growth (%)*	**26.4**	**-0.3**	**-15.2**	**9.5**	**25.1**	**0.5**	**-16.1**	**11.4**
Normalised EPS Growth (%)*	**21.8**	**-2.7**	**-16.0**	**9.2**	**20.1**	**-2.0**	**-18.8**	**10.5**
Prospective PER (x)*	**18.1**	**11.0**	**12.9**	**11.8**	**17.6**	**10.6**	**12.6**	**11.3**
Price/EBITDA (x)	9.5	5.5	6.2	5.5	9.3	5.3	5.8	5.3
Price/NTA (x)	2.5	1.6	1.6	1.5	2.4	1.5	1.5	1.4
Net Interest Cover (x)	7.7	6.4	5.7	5.9	7.1	7.6	6.3	6.8
Net Gearing(%)	52.1	64.5	56.0	55.0	54.6	65.5	53.0	52.0
EV/EBITDA (x)	5.3	5.5	6.3	5.8	5.3	5.3	6.1	5.7
ROE(%)	14.1	13.1	10.6	11.1	14.1	13.2	10.6	11.1
Ex-Tenaga								
EBITDA Growth (%)	19.3	4.7	-10.9	9.2	18.5	6.2	-9.7	9.8
Pre-Tax Earnings Growth (%)	19.5	-2.6	-13.6	10.6	20.2	-3.9	-12.2	12.7
Normalised Earnings Growth (%)*	**21.2**	**3.7**	**-16.3**	**7.7**	**20.6**	**4.0**	**-17.0**	**10.0**
Normalised EPS Growth (%)*	**16.8**	**1.1**	**-16.9**	**7.3**	**15.8**	**1.3**	**-19.7**	**9.0**
Prospective PER (x)*	**18.8**	**10.9**	**13.1**	**12.1**	**18.3**	**10.5**	**12.7**	**11.3**
Price/EBITDA (x)	10.1	5.7	6.5	5.8	9.8	5.5	6.1	5.5
Price/NTA (x)	2.6	1.7	1.7	1.5	2.5	1.6	1.5	1.4
EV/EBITDA (x)	5.3	5.3	6.2	5.8	5.3	5.2	6.0	5.6
ROE(%)	14.1	13.6	10.9	11.1	14.1	13.6	10.7	11.2

** Adjusted to exclude Proton, MAS and AMMB for 2007, and MRCB, Astro , AirAsia and Kurnia from 08-09*

Table 8

Regional Comparisons

	Malaysia	Singapore	Thailand	Philippines	Indonesia	Hong Kong	Taiwan	Korea
FactSet Asian Consensus Trends report dated 2 March 2009								
EPS growth(%)								
2007	18.5	14.9	-5.5	0.0	31.8	21.8	28.4	3.6
2008	-7.4	-11.0	-25.1	-7.5	11.9	-15.8	-50.5	-33.3
2009	-2.1	-19.3	11.8	8.0	-16.0	-7.1	-35.2	0.3
PER (x)								
2007	16.0	14.5	13.6	14.3	18.6	16.9	13.4	12.4
2008	11.4	7.8	8.8	10.1	7.3	9.6	14.7	11.8
2009	11.6	9.7	7.9	9.4	8.7	10.3	22.7	11.8
IBES Consensus dated 19 March 2009								
EPS growth(%)								
2008	-18.2	-15.9	19.9	-14.6	16.7	-23.3	-51.9	-35.2
2009	-11.6	-20.2	10.5	4.5	-6.0	-1.0	-47.7	10.0
2010	11.6	14.8	17.0	9.6	10.2	12.8	151.2	41.4
PER (x)								
2008	9.9	8.1	9.7	9.5	7.9	10.4	16.9	13.7
2009	11.1	9.9	8.2	9.1	8.3	10.6	33.5	12.3
2010	10.0	8.7	7.1	8.3	7.6	9.5	14.6	8.7
Performance (%)								
2008 (yoy)	-39.3	-49.2	-47.6	-48.3	-50.6	-48.3	-46.0	-40.7
2009(ytd)*	+0.1	-3.1	-2.6	+2.4	+6.0	-3.3	+14.2	+8.6

** as at 24 March 2009 closing*

Najib Abdul Razak taking over as the new Prime Minister of the country in early April 2009, following the smooth transition in the UMNO leadership.

Market May Not Have Rock-Bottom, But Risk-reward Improving

It's always darkest before dawn

Whilst there is an awful amount of bearishness out there in the market and the fallout in global business activity seems to be at its maximum strength, this is usually the case when global equities are near a bottom. Under such circumstances, risk-reward ratio will begin to shift and it pays for investors to take a contrarian view and begin to position for the eventual recovery of the global economy, in our view. It is generally difficult to gauge where the bottom lies as the market will likely bottom out when the economy is still gloomy.

Global economic conditions will likely stabilise in 2H 2009 with recovery emerging from 1Q 2010

We believe with aggressive policy responses all over the world, at some point in 2009, the global economy will likely reach a favourable inflection point and begin to improve when global credit conditions stabilise and downside risk to economic growth dissipate. We expect this to materialise in the 2H of 2009, with global economic recovery emerging from 1Q 2010. This implies that investors will likely begin to position their portfolios for the recovery, latest by the 4Q of 2009. This could even happen earlier if risk appetite of investors begins to pick up earlier than expected, which can be tracked by using indicators such as the narrowing of : (i) the TED spread (3-month LIBOR less 3-month Treasury bill rate); (ii) US corporate credit spread (corporate bond yield versus government bond yield); and (iii) high quality versus low quality bonds spread (AAA to BBB bond yield). In addition, the gradual stabilisation of the VIX index (Chicago Board Options Exchange S&P 500 Volatility Index) is also used as an indicator of changes in risk appetite amongst investors (see Charts 7-10).

Chart 7
TED Spread (3-mth LIBOR-3-mth T-Bill)

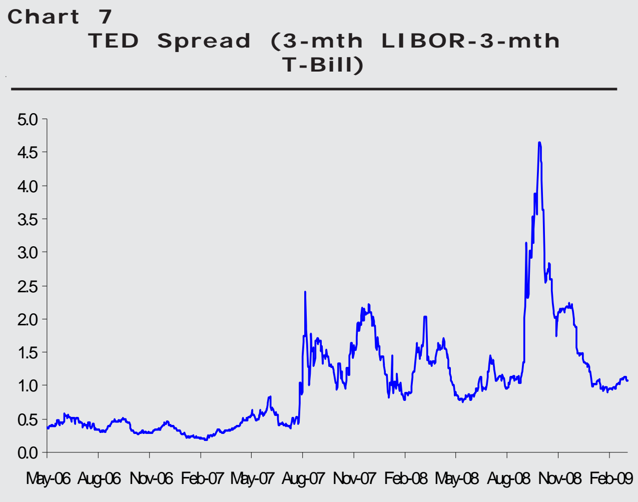


Chart 8
US Corporate Credit Spread (Corporate Bond Yield vs Government Bond Yield)

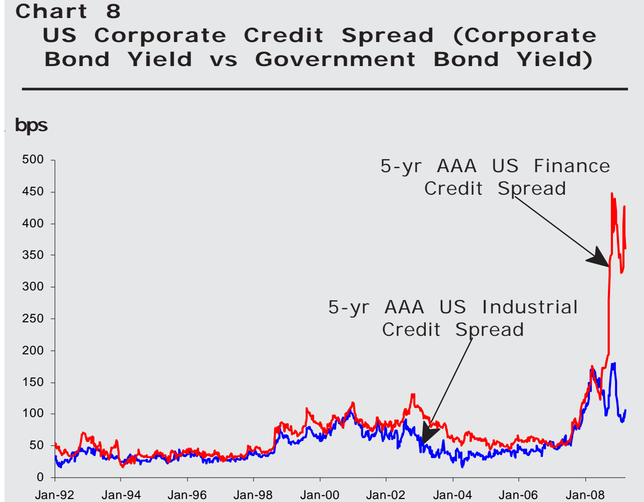


Chart 9
High Quality vs Low Quality Bonds Spread (AAA-to-BBB Bond Yield Spread)

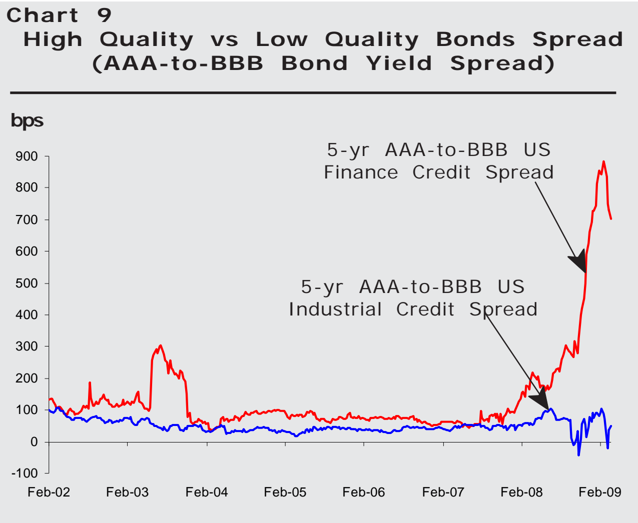
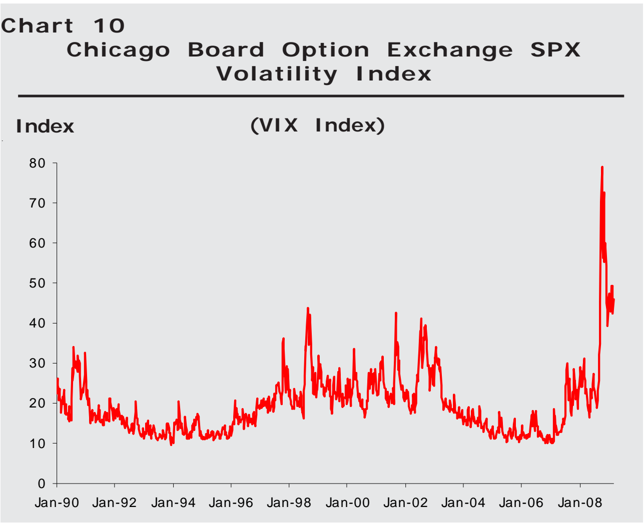


Chart 10
Chicago Board Option Exchange SPX Volatility Index



On balance, we believe that the odds are improving for global equities. Consequently, we are **maintaining our end-2009 KLCI target at between 940 and 1,050**, despite expectation of a sharper contraction in the Malaysian economy in 2009. This target is derived at after ascribing a target PER of 13.0-14.5x to the average EPS for 2009 and 2010, at 5-15% discount to the last seven years' PER average of 15.5x. Given the volatility in earnings, we have used the average EPS figure as we believe this is a better indicator of "normalised earnings".

Maintaining KLCI target of 940-1,050 despite expectation of a sharper contraction in the economy in 2009

Key Risk Is A Protracted Global Economic Downturn

Although the panic in the credit markets has abated and there are glimmers of hope that the US economy might have hit a bottom in 4Q 2008, global demand is still contracting. The economic conditions in the European countries and Japan are still worsening and a new risk is emerging from the troubled Central and Eastern European countries that threatens to spill over and drag the bigger European nations into a deeper recession. If this materialises, the whole world could be trapped in another vicious cycle of falling asset prices and more unorthodox measures may still be needed to ease the flow of credit and restore confidence to help jump-start the recovery in private sector demand and the global economy. Pernicious deflation, though still unlikely, also cannot be totally ruled out at this stage, given sharp contraction in demand, massive excess capacity in industries, and indebted businesses and households are increasingly anxious to pay off debts, reduce spending and increase savings, particularly in the US.

Key risks to our market outlook include a more prolonged global economic downturn ...

Whilst global policymakers have responded very aggressively to the crisis/economic downturn and had injected massive amounts of liquidity, and coming up with rescue plans and massive economic stimulus packages as well as cutting interest rates rapidly and by large magnitudes, these strategies do carry risks. The US Federal Reserve, for instance, has expanded its balance sheet tremendously since early September and substituted it for the contraction of private liquidity in the financial system to counter the deepening credit crunch. It has also cut the Fed funds rate to a record low of between zero and 0.25%, and shifted its focus even further to grow its balance sheet through the acquisition of debts from the markets as the main tool of monetary policy to bring back credit creation in the economy. Investors are fearful that the US authorities may have taken on more commitments than they can credibly keep. With budget deficits ballooning, fears of diminution in the dollar value may lead to a massive sell-down of the currency at some stage, resulting in a sharp depreciation of the US dollar and precipitate a meltdown of financial markets. This could drag the global economy down again even before the recovery cycle begins to take sharp.

... risk of a significant selldown of the US dollar at some stage, precipitating a meltdown of financial markets and the global economy turning down again

The other concern relates to inflation, which may rear its ugly head relatively quickly once the crisis comes to pass and the global economy starts to recover, given the extremely low interest rates and massive amounts of liquidity that have been infused into the global economy. What the authorities of the developed nations need to do is to be disciplined, tighten policies and mop up the excess liquidity quickly once the crisis passes, to prevent building a bigger asset bubble, in our view. This, however, will imply greater volatility in financial markets.

Inflation could also rear its ugly head relatively quickly once the crisis comes to pass

Market Strategy

Accumulate On Weakness And Ride The Volatility

Continue to prefer liquid fundamental stocks on weakness relative to defensive stocks that are still expensive

Overall, we continue to see values in the equity market amid the difficult market conditions and would advise investors to **accumulate liquid fundamental stocks on weakness** for longer-term performance. It is generally difficult to gauge where the bottom lies as the market will likely bottom out when the economy is still gloomy. As we see less value proposition for the defensive stocks that have outperformed and are still expensive, we continue to advocate investors switching out of the defensives into liquid fundamental stocks that had suffered from significant price depreciation. This is because defensive stocks tend to be the last to be sold out when investors begin to position their portfolios for recovery, which is a question of timing, in our view. Our top picks are reflected in Table 9. We believe that risk aversion for small cap and illiquid stocks will persist in the foreseeable future. In other words, **stock picking is still a preferred investment strategy**, even though we have overweight recommendation on the banking, power and gaming sectors (see Table 10). These sector recommendations broadly match the sector weightings under the new FBM KLCI benchmark to be launched on 6 July 2009.

Table 9

Top Picks

Stocks 24 March 2009	Price (RM)	Fair Value (RM)	Market Cap (RMm)	EPS (sen) 09f	EPS (sen) 10f	EPS Growth 09f	EPS Growth 10f	PER 09f	PER 10f	EV/ EBITDA 09f	P/ CFPS 09f	P/ NTA 09f	GDY 09f	ROE 09f
Tenaga	6.20	8.60	26,868	53.0	69.2	-1.4	30.6	11.7	9.0	6.9	4.4	1.0	4.0	8.7
BCHB	6.80	10.10	24,331	43.2	64.3	-25.3	48.9	15.7	10.6	n.a.	n.a.	2.4	2.7	9.0
Resorts	1.99	2.60	12,271	20.3	21.7	-10.3	6.9	9.8	9.2	4.2	8.5	1.2	3.2	13.5
AMMB	2.62	3.87	7,134	18.5	25.1	-41.7	36.2	14.2	10.4	n.a.	n.a.	1.1	3.1	6.2
Tanjong^	14.00	19.60	5,646	174.9	182.6	29.5	4.4	8.0	7.7	6.3	7.8	1.4	7.5	17.6
Top Glove	4.80	5.50	1,445	41.3	45.4	11.1	10.0	11.6	10.6	7.0	7.7	2.0	3.2	17.4

^ FY 09-10 refer to those of FY10-11

Table 10

Sector Weightings & Valuations

Covered Stocks	Mkt Cap RMbn	Weight %	EPS Gwth (%) FY08	EPS Gwth (%) FY09	EPS Gwth (%) FY10	PER(x) FY08	PER(x) FY09	PER(x) FY10	Recommendation
Banks & Finance	91.4	21.5	-2.7	-21.7	3.2	7.9	10.0	9.7	Overweight
Power	43.0	10.1	-27.2	-2.7	14.1	11.0	11.0	9.1	Overweight
Gaming	32.1	7.6	5.4	-26.9	23.4	9.1	12.5	10.1	Overweight
Plantation	74.9	17.6	67.2	-40.9	6.5	10.4	17.5	16.2	Neutral
Telecommunications	38.6	9.1	-19.7	7.6	3.8	14.3	13.0	12.5	Neutral
Oil & Gas	23.0	5.4	-10.2	-0.03	17.2	15.0	14.6	12.5	Neutral
Consumer	22.9	5.4	10.0	-3.0	10.0	13.5	14.4	13.6	Neutral
Infrastructure	15.9	3.7	-18.0	15.5	1.5	14.4	12.4	12.3	Neutral
Manufacturing	3.2	0.7	2.2	12.0	17.6	8.9	7.8	6.6	Neutral
Insurance^	1.0	0.2	-54.2	93.2	38.9	13.6	7.0	6.5	Neutral
Transportation *	33.8	8.0	-30.1	-25.7	5.8	19.0	18.0	16.6	Underweight
Construction	10.3	2.4	17.9	-23.6	35.9	9.8	12.6	8.7	Underweight
Media#	8.3	2.0	4.8	-17.5	23.8	10.7	12.9	10.4	Underweight
Motor	8.1	1.9	10.2	-21.8	11.7	8.5	10.8	9.7	Underweight
Property	7.5	1.8	-1.3	-6.7	-6.4	8.4	8.5	9.1	Underweight
Building Materials	6.5	1.5	-17.7	-14.7	33.0	6.6	7.8	5.9	Underweight
Semiconductors & IT	2.2	0.5	-16.2	->100	+>100	8.7	n.m	8.0	Underweight
Timber	1.7	0.4	-36.8	-51.1	50.6	7.9	16.2	10.7	Underweight
	424.4	**100**							

 # Exclude Astro
^ Exclude Kurnia Asia
** Exclude AirAsia earnings in 08-09*
Note : RHBRI's basket

Table 11

High Dividend Yielding Stocks

	Share Price (RM/shr)	Div. Yield (%) FY09	Div. Yield (%) FY10	P/NTA (x) FY09	ROE (%) FY09	Recommendation
Zelan^	0.59	11.9	11.9	0.4	n.m	Outperform
AXIS Reit	1.29	12.0	12.1	0.4	9.2	Outperform
Hai-O-Ent^	3.26	9.2	10.7	1.4	25.7	Outperform
Freight	0.60	8.3	8.3	0.6	18.3	Outperform
CBIP	2.12	7.1	9.9	1.1	25.1	Outperform
B-Toto^	4.68	7.5	8.1	n.m	88.9	Outperform
Tanjong^	14.00	7.5	7.6	1.4	17.6	Outperform
TM	3.50	7.5	7.5	1.2	5.9	Outperform
Hartalega	2.34	6.8	8.3	1.9	34.4	Outperform
VS Industry	0.92	11.6	13.0	0.5	12.5	Market Perform
Public Bank (F/L)	7.50/7.50	10.0/10.0	10.7/10.7	3.4/3.4	22.8/22.8	Market Perform
Glomac^	0.50	10.1	10.1	0.3	11.0	Market Perform
KPJ Health	2.79	10.0	10.8	1.3	13.3	Market Perform
Ann Joo	1.10	8.2	10.9	0.5	8.4	Market Perform
YTL Power	1.89	7.9	7.9	1.5	12.7	Market Perform
Astro	2.02	7.3	7.9	12.2	14.9	Market Perform
MNRB^	2.76	7.2	7.2	0.6	8.6	Market Perform
MCIL^	0.55	7.0	8.1	1.1	8.7	Market Perform
Amway	6.95	7.2	7.8	4.4	34.5	Market Perform
Digi	21.20	6.9	7.1	13.1	55.8	Market Perform
PLUS	2.94	6.1	6.8	2.5	28.2	Market Perform
Maybank	4.40	5.7	8.0	1.0	13.3	Market Perform

^ FY09-10 valuations refer to those of FY10-FY11

Banks are the linchpin of the economy and is still the best sector for investors to position for the recovery

Despite expectations of earnings contraction for 2009, **banks would still be the best sector in the equity market for investors to position for the eventual recovery in the economy and the market**. In our view, fears of rising NPLs and the contraction in bank earnings are likely to have been priced in by the market. As Malaysian banks are well capitalised, with good asset quality and have minimal exposure to the subprime derivatives in the West, they are in a significantly healthier position to weather this downturn. We do not foresee banks to record losses and are projecting that earnings will rebound in 2010 once the economic cycle begins to turn up. Valuations (price/book) are at post-Asian financial crisis lows and at least one standard deviation below post-crisis means, except for Public Bank. Investors should position beyond the sharp drop in earnings as banks finance the various sectors in the economy and would enjoy a broad-based recovery in earnings once the economic cycle turns up. In addition, banks would be the biggest gainer from the new FBM KLCI benchmark index. Thus, we expect the sector to take the lead in market share price recovery.

Look beyond the near-term demand issue, we still see good values in the power sector

We also recommend investors overweight the **power sector**, as it **still offers the best of both worlds to investors**, i.e. stable IPP earnings with attractive yields to help investors through the current volatility (i.e. Tanjong) and liquid, fundamental stocks such as TNB to help investors position for recovery. Looking beyond the short-term demand issue, we see TNB as an excellent proxy to a recovering economy and expect the National Energy Plan (NEP), to be unveiled in 2H 2009, to redress the imbalance towards the national power utility. Despite past policy changes and disappointments, expectations are low and we believe there is reason to be more optimistic this time round as the Government needs to turn more investor friendly to rebuild confidence in the sector, and to ensure that new power projects can be financed via the capital markets. A clear direction for the industry from the NEP would be a positive for the sector. Meanwhile, we expect the domestic scene to be relatively stable for the IPPs, and do not expect issues on the renegotiation on Power Purchase Agreements. In any case, both Tanjong and YTL Power have diversified

and/or overseas businesses to help cushion the impact of domestic power policy changes. Both remain on the lookout for growth opportunities in overseas markets given huge energy demand in regions such as Middle East-North Africa, India sub-continent, South Africa and Southeast Asia.

Casino-related stocks have been bashed down unjustifiably and are at trough valuations

Though global economic downturn is still a major concern and global gaming stocks continue to be hurt by lower casino patronage and contraction in earnings, **valuations of the two Malaysian casino-related stocks have been unjustifiably bashed down** for a few market rumours which have so far, not materialised and are unlikely to materialise, in our view. Unlike most of the global casino players, the global slowdown in casino patronage should not affect Malaysia's casino significantly given that about 85% of casino patrons are locals. As the amount spent on gaming activities as a percentage of total average household income is relatively small, any cutback in domestic consumer spending on gambling activities is not likely to be significant, especially for the NFOs. Consequently, earnings for the gaming companies are likely to remain relatively resilient despite the economic downturn. Share prices of both Genting and Resorts World are now trading at trough valuations with good values for investors who are patient and can take a longer-term view.

Trading opportunities in the plantation sector as CPO prices have bottomed at end-2008

Whilst there are no real demand catalysts to drive the next CPO price up-cycle yet and we have a neutral stance on the plantation sector, our view is that CPO prices have bottomed at end-2008, with downside risk limited at RM1,500/tonne. Under such circumstance, any fluctuations of CPO prices in the months ahead due to seasonalities and major news developments would provide good **trading opportunities** for investors **in the plantation sector**. Under the new FBM KLCI benchmark to be launched on 6 July, the plantation sector will also carry a heavier weight of around 22.0%, compared with 19.1% in the current KLCI benchmark. It is a unique sector in the Malaysian market that tends to attract more foreign interests when the CPO price starts to rise above expectations. This could well happen when investors' risk appetite improves, US dollar weakens and financial demand for commodities rises.

Gloves manufacturing sub-sector also provides good values for investors

In addition to the above, we would also recommend investors to **overweight the glove manufacturing sub-sector**. Valuations of the Malaysian glove manufacturing sub-sector are compelling as demand for gloves has been resilient as gloves have evolved into a necessity and an essential medical product in the global environment on the back of rising health care and hygiene awareness.

FBM KLCI – Semi-Annual Review In June

- **New benchmark index on 6 July.** As we highlighted in our Market Update on 18 Feb, Bursa Malaysia will switch its benchmark index from the current 100-stock KLCI to the new FTSE Bursa Malaysia KLCI (or FBM KLCI) with effect from 6 July. The transition will be seamless, i.e. the new FBM KLCI will start off with an index value equal to the closing value of the current KLCI on 3 July 2009.

Count down to 6 July

Semi-annual review in June

- **No reset to the FBM30 constituents' list.** We confirmed with both FTSE and Bursa Malaysia that the current FTSE Bursa Malaysia Large 30 Index (FBM30) will be the basis for the FBM KLCI. The next semi-annual review in Jun (using data as at 31 May) for the FBM30 constituents will effectively also decide the list for the FBM KLCI, i.e. the constituents' list will not be reset to the latest top 30 ranked stocks by full market cap unless there are major changes to stocks' rankings past the buffer zones. This would also apply to the reserve list of five stocks (see Table 12).

No reset in FBM30 constituents unless stock rankings by market cap move outside of buffer zones

- **Buffer zones.** Changes to the constituents list are subject to the buffer zones fixed by FTSE Bursa Malaysia in its Ground Rules. These changes can only occur if:

FTSE Ground Rules ...

  - o A stock's ranking by market cap falls below the 35th level i.e. there is a change in the top 35 market cap-ranked stocks (FBM30 stocks + reserve list of 5 stocks);

... Top 30 by full market cap plus 5 reserve

  - o A stock fails the liquidity test (i.e. less than 10% of its free float is traded over a 6-month period) – currently Nestle is the only stock in this category). This rule is only reviewed annually in Dec;

... Annual liquidity test

  - o A constituent stock's free float falls to 15% or below;

... Free float test

  - o A constituent stock is delisted or taken over. The stock will be deleted from the index and this can occur outside of the semi-annual review. The highest-ranking stock by full market cap (based on closing prices two days before the deletion) in the reserve list will then be inserted;

... Delisting or takeover

  - o A new listing which places the stock within the top 30 list. The stock can be inserted into the index outside of the semi-annual review.

... New listing

Anticipated Changes – Potentially At the Margin

Table 12

Constituent Changes From KLCI to FBM KLCI

Stocks in KLCI & FBM KLCI		KLCI Stocks To Be Excluded From FBM KLCI			
Public Bank	YTLCorp	SP Setia	KFC	Media Prima	Zelan
Sime Darby	PLUS	Lafarge	Hap Seng	Tan Chong	YNH Property
BCHB	PPB Group	IJM Corp	Top Glove	Tradewinds Plant	Petra Perdana
Maybank	AMMB	AFG	Puncak Niaga	MRCB	Lingui
TNB	BST	M Bulk Carriers	Dialog Group	DRB-Hicom	Muhibbah Eng
IOI	UMW	KLCC Prop	MPI Kencana	Sunway City	Scomi Group
MISC	HL Bank	Bursa Malaysia	Carlsberg	KPS	WTK Holdings
Genting	Tanjong	Shell Refining	Titan Chemicals	Wah Seong	Landmarks
TMI	Pet Dagangan	Oriental Hldgs	Pos Malaysia	OSK Holdings	Uchi
TM	MMC	M'sia Airports	MPHB	Ann Joo	Pelikan
Digi	RHB Cap	Star Pub	Sel Prop	Bernas TSH	Unisem
BAT	Astro	EON Capital	Mah Sing	Kurnia Asia	Lion Div
KLK	MAS	AirAsia	Litrak	Ta Ann	Suria Capital
Petronas Gas		IGB Corp	Proton	Sunrise	MK Land
Additions	**Reserve List**	Boustead Hldgs	TA Enterprise	GuocoLand	Kinsteel
Resorts World*	HLFG*	Affin Holdings	SapuraCrest	Mulpha	
YTL Power*	Gamuda	KNM Group	WCT	Bandar Raya	
Parkson*	Sarawak Energy	Kulim	MCIL	Lion Industries	
	Batu Kawan*				
	F&N Holdings*				

Source: Bloomberg, FTSE Bursa Malaysia   ** Not constituents of the KLCI*

- **Anticipated changes to FBM30 constituents.** Changes to the constituents list would most likely occur at the margin. Based on 24 March share prices, Hong Leong Financial Group has risen to 27th position by full market cap, and Astro has fallen to 32nd position. However, these changes still fall within the buffer zones and therefore would not require any change in the FBM30 (soon-to-be FBM KLCI) list of constituents. However, we reiterate that the list could still change if there are major movements in share prices during the June review. We note that two construction stocks, Gamuda and IJM Corp continue to hover at the margin, in 31st and 33rd positions respectively although we highlight that Gamuda has better chance compared to IJM Corp of getting into the index as it is a reserve list stock.

Changes most likely at the margin

- **Gainers and losers.** Based on current FBM30 data, 13 stocks will see an increase in their weighting (vs. the KLCI), 14 stock weightings will fall, and three stocks will be added. The biggest gainers in weighting are Public Bank, BCHB and Sime Darby (see Table 13). The biggest losers in terms of weighting include Petronas Gas, RHB Capital, Digi, PLUS and Petronas Dagangan. Newcomers would include Resorts World (with 2.3% weighting), YTL Power (1.7%) and Parkson (0.8%).

Switch from KLCI to FBM KLCI will raise weightings on 13 stocks and reduce weightings on 14 stocks

Table 13

Index Constituent Weightings (as at 24 March)

	Constituents	KLCI Weights (%)	FBM KLCI Implied Weights (%)	Variance (%-pts)	FBM30 Weights (18 Feb report) (%)	RHBRI Recommendation
1	Public Bank	3.92	10.43	6.51	12.09	MP
2	Sime Darby	7.36	10.27	2.91	9.67	MP
3	BCHB	5.14	9.58	4.44	8.90	OP
4	TNB	5.68	7.91	2.23	7.66	OP
5	IOI Corp	5.20	7.23	2.03	6.68	UP (Trading view)
6	Maybank	4.54	6.34	1.80	7.76	MP
7	MISC	4.62	4.92	0.30	4.80	UP
8	Genting	2.86	3.99	1.13	3.78	OP (prefer Resorts)
9	TM	2.64	3.70	1.05	3.28	OP (Dividend play)
10	TMI	2.07	2.89	0.82	3.59	MP
11	Digi	3.48	2.59	(0.89)	2.49	MP
12	BAT	2.71	2.53	(0.19)	2.42	UP (Dividend play)
13	PLUS	3.11	2.31	(0.79)	2.19	MP (Dividend play)
14	Resorts World	-	2.30	2.30	2.55	OP
15	Petronas Gas	4.08	2.28	(1.80)	2.22	UP
16	YTL Corp	2.42	2.25	(0.17)	2.20	Not rated
17	PPB Group	2.42	2.25	(0.17)	2.18	Not rated
18	KLK	2.41	2.25	(0.16)	2.22	UP (Trading view)
19	AMMB	1.51	2.11	0.60	1.87	OP
20	B-Toto	1.34	1.87	0.53	1.77	OP (Dividend play)
21	YTL Power	-	1.74	1.74	1.63	MP
22	UMW	1.25	1.74	0.49	1.71	UP
23	HL Bank	1.77	1.32	(0.45)	1.33	MP
24	Tanjong	1.19	1.11	(0.08)	1.05	OP
25	Pet Dagangan	1.57	0.88	(0.69)	0.84	Not rated
26	Parkson	-	0.79	0.79	0.69	UP
27	MMC	0.90	0.67	(0.23)	0.65	Not rated
28	Astro	0.83	0.61	(0.21)	0.60	UP
29	RHB Capital	1.63	0.61	(1.02)	0.64	Not rated
30	MAS	0.95	0.53	(0.42)	0.54	UP

Note: Shaded rows indicate reduction in index weighting

Source: Bloomberg, FTSE Bursa Malaysia

Table 14

Comparison Of FBM100 And KLCI Constituents (As At 24 March)

	Company	FBM100 Wt (%)	KLCI Wt (%)		Company	FBM100 Wt (%)	KLCI Wt (%)
1	Public Bank	8.5	5.6	63	MRCB	0.2	0.2
2	Sime Darby	8.2	7.4	64	Berjaya Corp	0.2	-
3	BCHB	7.6	5.1	65	Kulim Malaysia	0.2	0.3
4	Tenaga Nasional	6.3	5.7	66	Mah Sing Group	0.2	0.2
5	IOI Corporation	5.7	5.2	67	Litrak	0.2	0.2
6	Malayan Banking	5.0	4.5	68	DRB-Hicom	0.2	0.3
7	MISC	3.9	6.6	69	Bintulu Port Holdings	0.2	-
8	Genting	3.2	2.9	70	Aeon Co (M)	0.2	-
9	Telekom Malaysia	2.9	2.6	71	IOI Properties	0.2	-
10	TM International	2.3	2.1	72	Wah Seong Corp	0.2	0.2
11	Digi.Com	2.1	3.5	73	WCT	0.2	0.2
12	BAT	2.0	2.7	74	Hap Seng Plantations Hldgs	0.2	-
13	Plus Expressways	1.8	3.1	75	Carlsberg Brewery-Malay	0.2	0.2
14	Resorts World	1.8	-	76	Selangor Properties	0.2	0.2
15	Petronas Gas	1.8	4.1	77	Ta Ann Holdings	0.2	0.1
16	PPB Group	1.8	2.4	78	Hap Seng Consolidated	0.1	0.3
17	Kuala Lumpur Kepong	1.8	2.4	79	MCIL	0.1	0.2
18	YTL Corporation	1.8	2.4	80	SapuraCrest Petroleum	0.1	0.2
19	AMMB Holdings	1.7	1.5	81	TA Enterprise	0.1	0.2
20	Berjaya Sports Toto	1.5	1.3	82	Titan Chemicals	0.1	0.2
21	UMW Holdings	1.4	-	83	Proton Holdings	0.1	0.2
22	YTL Power	1.4	-	84	Kencana Petroleum	0.1	0.2
23	Gamuda	1.2	0.8	85	Starhill REIT	0.1	-
24	IJM Corp	1.2	0.8	86	Tan Chong Motor	0.1	0.2
25	Hong Leong Bank	1.0	1.8	87	IJM Plantations	0.1	-
26	SP Setia	0.9	0.6	88	NCB Holdings	0.1	-
27	Tanjong Plc	0.9	1.2	89	Malaysian Pacific Industries	0.1	0.2
28	Petronas Dagangan	0.7	1.6	90	YTL Cement	0.1	-
29	Oriental Holdings	0.7	0.6	91	Sarawak Oil Palms	0.1	-
30	Parkson Holdings	0.6	-	92	Amway	0.1	-
31	Alliance Financial Group	0.6	0.6	93	JT International	0.1	-
32	Bursa Malaysia	0.6	0.6	94	Sunway City	0.1	0.1
33	Batu Kawan	0.6	-	95	BHIC	0.1	-
34	Star Publications	0.5	0.5	96	UBG	0.1	1.2
35	AirAsia	0.5	0.5	97	Tradewinds (Malaysia)	0.1	-
36	MMC Corp	0.5	0.9	98	Ann Joo Resources	0.1	0.1
37	Lafarge Malayan Cement	0.5	0.7	99	O.S.K. Holdings	0.1	0.1
38	Asiatic Development	0.5	-	100	Tradewinds Plantation	0.0	0.2
39	IGB Corporation	0.5	0.4	101	KPS	-	0.1
40	Astro	0.5	0.8	102	Padiberas Nasional	-	0.1
41	RHB Capital	0.5	1.6	103	TSH Resources	-	0.1
42	Hong Leong Financial	0.5	-	104	Guocoland Malaysia	-	0.1
43	Shell Refining Co	0.4	0.6	105	Bandar Raya	-	0.1
44	KLCC Property	0.4	0.6	106	Lion Industries Corp	-	0.1
45	MAS	0.4	1.0	107	Kurnia Asia	-	0.1
46	KNM Group	0.4	0.3	108	Sunrise	-	0.1
47	United Plantations	0.3	-	109	Petra Perdana	-	0.1
48	Top Glove Corp	0.3	0.3	110	YNH Property	-	0.1
49	KFC Holdings	0.3	0.3	111	Mulpha International	-	0.1
50	Sarawak Energy	0.3	0.5	112	Kinsteel	-	0.1
51	Affin Holdings	0.3	0.4	113	Landmarks	-	0.1
52	Dialog Group	0.3	0.3	114	Lingui Developments	-	0.1
53	Malaysian Bulk Carriers	0.3	0.6	115	Uchi Technologies	-	0.1
54	Puncak Niaga Holdings	0.3	0.2	116	Scomi Group	-	0.1
55	Media Prima	0.3	0.2	117	WTK Holdings	-	0.1
56	Fraser & Neave Holdings	0.3	-	118	Zelan	-	0.1
57	Pos Malaysia	0.3	0.2	119	Muhibbah Engineering	-	0.1
58	Boustead Holdings	0.3	0.4	120	Unisem (M)	-	0.1
59	Guinness Anchor	0.3	-	121	Pelikan International Corp	-	0.1
60	Malaysia Airports Hldgs	0.3	0.6	122	Mk Land Holdings	-	0.0
61	Eon Capital	0.2	0.4	123	Suria Capital Holdings	-	0.0
62	Multi-Purpose Holdings	0.2	0.2	124	Lion Diversified Holdings	-	0.0

Source: Bloomberg

- **Anticipated changes to weights.** More interestingly, since our Market Update on 18 Feb, some of the constituents' index weights have changed, and most significantly at the top end of the list. For the year to-date, Public Bank's share price has fallen by 12.3%, mostly in the last two weeks. As a result, based on 24 Mar closing prices, Public Bank's weight has dropped to 10.4% (-1.7%-pts) whereas Sime Darby has risen slightly to 10.3% (+0.6%-pts). Two other stocks experienced significant changes following announcements of rights issues – Maybank (-1.4%-pts) and TMI (-0.7%-pts). On the positive side, the bigger gainers include BCHB (+0.7%-pts), IOI Corp (+0.6%-pts) and TM (+0.4%-pts).

Market's decline in March has also reduced some constituent weights

An Alternative To FBM30?

- **FBM100 as an alternative.** We believe the FTSE Bursa Malaysia 100 Index (FBM100) may be an alternative benchmark to the FBM KLCI. We believe the FBM100 would address a number of key issues for institutional investors, including: 1) the heavily-skewed weighting towards 15 stocks on FBM30 which command 79.3% of the total index weight; 2) individual stock weightings that potentially exceed portfolio mandates; and 3) perhaps less importantly, the lack of representation by some sectors such as building materials, media and property.

FBM100 looks more like KLCI ...

Table 15
Comparison of Aggregate Weightings For KLCI, FBM100 And FBM KLCI

	KLCI (%)	FBM100 (%)	FBM30 (%)
Top 10	48.8	53.5	67.3
Top 15	62.4	63.1	79.3
Top 30	82.9	81.8	100.0
Top 50	92.8	91.1	-

Source: Bloomberg, RHBRI

Table 16
Comparison of Sector Weightings For FBM30, FBM100 And KLCI

Sector	KLCI (%)	FBM100 (%)	FBM30 (%)	RHBRI Rec
Banks & Finance	20.9	26.2	30.3	Overweight
Plantations	19.1	19.9	22.0	Neutral
Power	8.6	9.4	11.4	Overweight
Telecom	8.5	7.3	9.2	Neutral
Oil & Gas	8.1	4.3	3.2	Neutral
Transport	7.8	6.0	5.4	Underweight
Construction	4.8	4.6	2.3	Underweight
Gaming	4.4	6.5	8.2	Overweight
Infra	3.8	2.3	2.3	Neutral
Consumer	3.4	4.1	3.3	Neutral
Motor	3.0	2.8	1.7	Underweight
Property	3.0	2.8	-	Underweight
Media	1.8	1.5	0.6	Underweight
Building Materials	1.0	0.7	-	Underweight
Others	0.7	0.8	-	-
Tech	0.3	0.1	-	Underweight
Gloves sub-sector	0.3	0.3	-	Overweight
Timber	0.3	0.2	-	Underweight
Insurance	0.1	-	-	Neutral

Source: Bloomberg, RHBRI

- **Weight distribution.** Unlike FBM30, the FBM100 follows the KLCI more closely in terms of weight distribution, with the top 15 stocks accounting for 63.1% and 62.4% of total respectively vs. the FBM30 which is 16-17%-pts higher (see Table 15). As for sector weights, the FBM100 appears to place slightly higher emphasis on finance, power, gaming, and consumer, and less on telecom, oil & gas and infrastructure compared with the KLCI (see Table 16). The shift to the FBM30 further concentrates the weightings in finance, plantation, power, telecom, and gaming, while further reducing the emphasis on oil & gas, construction, consumer, motor and media. And as we highlighted previously, the property, building materials, technology, gloves, timber and insurance sectors will fall out of the index altogether.

... compared to FBM30 (or soon-to-be FBM KLCI)

FBM30 is heavily skewed towards finance, plantation, power, telecom and gaming

KLCI From The Technical Perspective

Critical Confirmation Of A Potential Recovery Leg Within Weeks

After hitting a low of 801.27 in October 2008, near the Head-and-Shoulders formation's target of slightly below 800, the KLCI has slowly built up its base and crawled towards the 880 region within the past few months. It pierced through the level in early January and attempted to stay above 880. However, in early March, the index retreated and fell below a Triangle formation, formed since the past four months of consolidation. It gave up the critical level of 880 and triggered a sharp pullback on the KLCI. The fall has painted a bearish scenario on the index and signaled more losses ahead for the next few months. Based on a one-to-one target projection of the Triangle Breakout, the KLCI could reach a lower target near the 550 – 630 support range in a worst case scenario (see Chart 11).

The KLCI broke out from a Triangle formation, which carries a target as low as 550 – 630 region in a worst case scenario

However, since touching a low of 836.51 in mid-March 2009, the KLCI has launched an unexpected recovery move, crossing above the 10-day SMA in the daily chart and tested the 880 high level in the final week of March. The recovery has basically prompted calls for a further rebound on the KLCI, hence charting a meaningful recovery move for the index since the beginning of the dramatic downturn from the all-time high of 1,524.69 back in January 2008. This rebound from the low of 836.51 was partly in line with our earlier expectation that the KLCI should find a good support region near the 800 – 820 region, though it has yet to reach that support zone.

The KLCI launched a technical rebound towards 880, after falling nearer to our 800 - 820 strong support region

To recall, we had earlier expected the KLCI to face greater selling pressure, possibly in March to drag the index closer to the last October's low of 801.27 and called for firmer bargain-hunting support from 750 to 800 region, once the index dips below the 800 psychological level. The index actually plunged in late February and early March, but only reached 836.51, near to our first support region of 800 – 820. This shows a firmer underlying strength on the KLCI and that also partly explains why the index managed to launch a technical rebound earlier than what we had thought.

The KLCI rebounded earlier than what we had anticipated, pointing to a firmer underlying strength on the index

However, the current recovery has yet to attain a confirmation. As shown in Chart 4, the KLCI must recover to above the tip of the Triangle formation nearer to 900, before it could write-off the previous bearish triangle breakout pattern. As such, it wouldn not be a surprise to us if sellers return nearer to the higher end of the 880 – 890 resistance region or even closer to 900 level this could fracture the current recovery. Meanwhile, the index must also be accompanied by stronger trading volume for a firmer breakout of the technical momentum and reach the ultimate trigger near 900.

It must remove the 880 – 890 region and 900 with strong momentum to confirm a meaningful technical rebound

Chart 12

KLCI Weekly

From another angle, as shown in Chart 12 based on the Fibonacci Retracement analysis (FR), the KLCI has retraced to below the 50%FR level of 893 again in early March, but has since recovered steeply towards the 50%FR region in recent weeks. This suggests a fresh chance for the index to recapture the 50%FR level, and to post another attempt to swing the index's medium-term outlook back into the positive zone. Technically, a fall below the 50%FR level will indicate a fall of the index into the technical bear zone. If it manages to secure the 893 level in the next couple of weeks, the level might transform into a solid resistance-turn-support level for the index. Otherwise, a foreseeable support level for the index medium-term outlook remains near 743 (61.8%FR).

893 could turn into a Resistance-turn-support level, if it manages to secure this level in the next few weeks

Chart 13

KLCI Monthly

If we examine the monthly chart (see Chart 13), the KLCI has been struggling to build its base above the 850 level since it reached the bottom of 801.27 in last October. Though the index plunged steeply in early March, it does not appeared weak on the monthly chart, as the late recovery in March has recouped its early losses. In fact, the chart is showing a possible "hammer-like" candle on the board. This pattern usually indicates more upside potentials ahead. Therefore, a possible upside upon confirmation of this breakout will be aimed at the 980 higher resistance level. On the flip side, however, a failure to sustain above 850 will lead a downfall towards the 750 immediate support level.

The KLCI is building a firmer base to launch a rechallenge to 980

The similar chart also shows that the monthly stochastic oscillators have turned slightly upward and that the 14-month RSI has been flattening near the "oversold" region. These signal a potential recovery in momentum should the index gather pace in the coming weeks. Nonetheless, we are seeing a tougher resistance level near 1,150, near the Long-term Uptrend Line, and it seems like a solid cap for the KLCI's upside, potentially for the rest of this year.

1,150 is likely to cap the upside for KLCI for the rest of the year

In a nutshell, the KLCI is trading in a critical zone, where a breakout of the 880 – 890 region will ignite a bullish reversal rally, while a failure will mean a retreat towards the 800 – 820 support region, or even to a lower support zone of 750 – 800. Most of the analyses are pointing to the next few weeks for an imminent confirmation signal. As such, we feel the trading pattern for the coming weeks, particularly the first two weeks of April, will be crucial to determine the on-going trend of the KLCI.

The index is trading in a critical juncture, next few weeks' action will determine the future direction

We are, nonetheless, more optimistic compared to the previous months, as the market has shown more signs of stabilisation during the last quarter. However, it is still too early to turn entirely bullish, as the current performance needs more confirmation before it can excel in the coming quarters. As a result, we are pegging a strong support zone for the KLCI for 2Q 2009 at the 750 – 820 region (see Chart 14), considering that further shocks and volatilities are still possible in the months ahead. A solid resistance zone of 920 - 980 could be challenged over the next couple of months should it gather enough strength in the next few weeks. For the rest of the year, we do not expect the KLCI to breach the 1,150 resistance level, as we reckon more time is needed to challenge that level.

We are now more optimistic as compared to the previous quarters

Chart 14

KLCI Weekly

Banking : Best Sector To Position For Recovery Despite Short-term Contraction In Earnings

Overweight

Cut GDP forecasts twice since last strategy report but general trend of economic and equity market rebounds intact

Given the rapid deceleration in exports and domestic industrial production as well as continued deteriorating global economic conditions, we have cut our real GDP forecasts for 2009 twice (from +1.5% to -1.5% in Feb 09 and subsequently to a contraction of 3.5% in Mar 09) since our last strategy report dated 18 Dec 08. Although real GDP growth in 2010 will continue to be sub-par at +3.8% (from +4.5% previously), the general trend of economic recovery in 2010 remains intact. Consequently, our expectations of a better equity market in 2H09 are also intact.

Already factored higher increase in gross NPL ratio into our forecasts

After the first round of cut in GDP forecasts (in Feb 09 from +1.5% to -1.5%), we raised our gross NPL ratio projection by 1%-point (i.e. gross NPL ratio to increase by 2%-points rather than 1%-point) but kept the timeline (i.e. gross NPL ratio will rise over a period of 12 months before reversing). We had also kept our loan growth projection of 3-4% for 2009 and 7-8% for 2010. As a result, earnings forecasts of banks in our universe were cut by 8-62% for FY09 and 3-19% for FY10. The new forecasts reflect earnings drop of 15-65% yoy in 2009 but 2010 earnings are still expected to rebound, albeit at a slower pace (versus our previous projections, see our sector report dated 20 Feb 09).

No further changes in assumptions despite another cut in GDP forecasts

Despite a further cut in our real GDP forecast to -3.5%, we are keeping our above mentioned assumptions given that we believe they have already adequately factored in the risks to earnings. Moreover, the recent incentives announced during the "Mini Budget" as well as BNM's aggressive preemptive moves will help sustain loan growth as well as help contain the rise in NPLs.

Loan growth to remain in the positive territory

Recall that we kept our loan growth projection of 3-4% and 7-8% for 2009 and 2010 for three reasons. Firstly, post-Asian crisis loan growth has consistently been in the positive territory. Second, the dismal capital markets would prompt companies to switch their funding source from the capital markets to the traditional bank borrowing. Lastly, despite recent drops in loan applications and approvals, the high amount applied and approved from 2H07 to 3Q08 suggests continued drawdown to help sustain loan growth. According to BNM, the system still has circa RM265.6bn of undrawn facilities. Moreover, the recently announced Working Capital Guarantee Scheme (WCGS) and Industry Restructuring Guarantee Fund Scheme (IRGFS) would also help to sustain loan growth. Given that a large part of the loan under these schemes will be guaranteed by the Government, we expect banks to be more lenient in their credit scoring process (but not sacrificing asset quality) for companies with a viable business. Note that the full drawdown of both the schemes (RM5bn each) would add circa 1.4% to the total industry's loan base.

NPLs to rise but will not be as severe as 2001 and more manageable

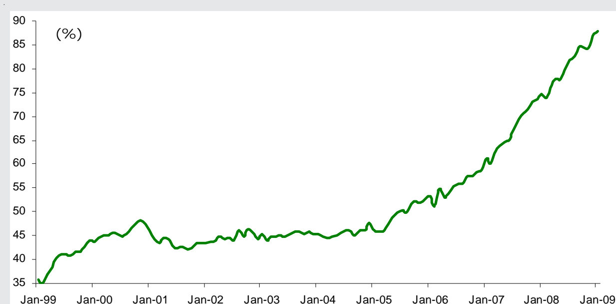
Although NPLs are expected to rise, we maintain that the situation would not be worse than 2001 (where gross NPL ratio rose by 2.51%-points) and would be more manageable. This is due to better asset quality (gross and net NPL ratios as well as LLC never been better) and the much improved risk management and credit scoring processes. We believe asset quality would deteriorate at a slower pace given: 1) BNM's relaxation on treatment of rescheduled and restructured loans as well as banks' aggressive monitoring and preemptive measures to reschedule and restructure loans; 2) EPF monthly withdrawal and 3%-points reduction in employees' contributions; and 3) lower interest rate where banks have cut their BLR by circa 120bps. Moreover, the recent one-year amnesty on housing loan repayment for retrenched workers, the two guarantee loan schemes (WCGS and IRGFS), reactivation of an enhanced Corporate Debt Restructuring Committee (to include debt instruments), an enhanced Small Debt Resolution Scheme as well as BNM's proactive moves would also help in mitigating the rise in NPLs.

Small and temporary erosion in NIM from cut in OPR. MTM losses not likely to be significant

With banks cutting their BLRs at a smaller magnitude versus the reduction in OPR or more in line with the reduction in fixed deposit floor rates, the erosion in NIM would be small and temporary. Meanwhile, income from capital markets may have seen the worst given that it is not expected to experience significant MTM losses

Chart 15

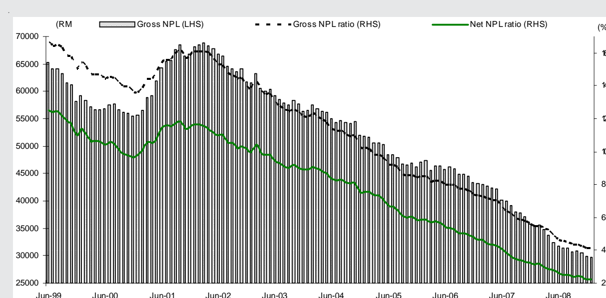
Loan Loss Coverage



Source : BNM

Chart 16

NPLs



Source : BNM

under the current environment of lower interest rate. The establishment of the new Financial Guarantee Institution may also help revive the private debt securities market and provide additional related income to banks.

No repeat of Asian crisis – banks are stronger to face the woes ahead

Overall, a repeat of the Asian financial crisis is not likely given ample liquidity, historically low interest rate, significantly stronger asset quality (both quantitatively and qualitatively), strong financial health of banks' customers, no housing bubble, smaller exposure to lumpy loans and no drastic currency depreciation. Moreover, banks are also in a significantly healthier position to withstand the storm ahead. BNM has reiterated that banks in the country are well equipped to face the woes ahead and its vigorous stress testing have shown that the system is in a position of strength to weather the storm.

Risk-reward profile still tilting towards the positive

Despite expectations of economic and earnings dips in 2009, a repeat of the Asian crisis is highly unlikely while the trends of recovery (for the economy, earnings and equity market) are still intact. Thus, with banks trailing P/B valuations still near their post-crisis lows and at least one standard deviation below the post-crisis means (although some share prices have rebounded from their recent lows), the risk-reward profile is still tilting to the positive although there may be short-term volatility in share prices.

Maintain Overweight

Top picks are BCHB and AMMB

Public Bank upgraded to Market Perform

Moreover, the banking sector would be the biggest gainer from the new FBM KLCI benchmark index (to be implemented in Jul 09). Thus, we expect the sector to take the lead in market share price recovery and advise investors to continue switching out from defensive to bomb out stocks which have strong fundamentals, large market capitalisation and high liquidity. Our **top picks** remain **BCHB** and **AMMB**. Note that since we downgraded Public Bank to Underperform in early Dec 08 (in a sector report), the stock has underperformed the market by 13%. With trailing P/B valuation now closer to its post-crisis mean (rather than two standard deviations above its post-crisis mean in early Dec 08) and potential upside to its current price is in line with the market, we have upgraded our rating on Public Bank from Underperform to Market Perform.

Table 17

Valuations Of Banking Stocks

	FYE	Price	EPS (sen)		EPS Growth (%)		PER (x)		P/NTA (x)		GDY (%)		ROE (%)		Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10	
BCHB	Dec	6.80	43.2	64.3	-25.3	48.9	15.7	10.6	2.4	2.2	2.7	2.7	9.0	13.0	OP
AMMB^	Mar	2.62	18.5	25.1	-41.7	36.2	14.2	10.4	1.1	1.0	3.1	3.4	6.2	8.1	OP
EON Cap	Dec	2.82	11.6	29.7	-39.7	+>100	24.3	9.5	0.6	0.6	2.7	2.7	2.5	6.2	OP
RCE^	Mar	0.38	10.1	10.6	8.7	5.0	3.7	3.6	0.8	0.7	2.6	2.6	23.9	20.4	OP
PBB-F	Dec	7.50	63.8	72.1	-17.1	13.0	11.8	10.4	3.4	3.2	10.0	10.7	22.8	24.8	MP
PBB-L	Dec	7.50	63.8	72.1	-17.1	13.0	11.8	10.4	3.4	3.2	10.0	10.7	22.8	24.8	MP
Maybank	Jun	4.40	55.2	33.7	-21.0	-38.9	8.0	13.1	1.0	1.0	5.7	8.0	13.3	7.7	MP
HL Bank	Jun	5.30	52.2	40.8	11.2	-21.7	10.2	13.0	1.5	1.4	4.5	4.5	15.4	11.1	MP
Affin	Dec	1.33	6.9	15.0	-65.0	+>100	19.4	8.9	0.6	0.6	3.0	3.8	2.3	5.0	UP
RHB Cap*	Dec	3.58	40.5	43.1	-16.8	6.4	8.8	8.3	1.0	0.9	3.9	4.3	10.4	10.6	NC
Sector Avg #					**-21.7**	**3.2**	**10.0**	**9.7**							

** Not under our coverage. I/B/E/S Estimates forecasts are used for companies not covered by RHB Research Institute.*
^ FY09-10 valuations refer to those of FY10-FY11

Steel: Longer recovery path

Dumping risk has heightened

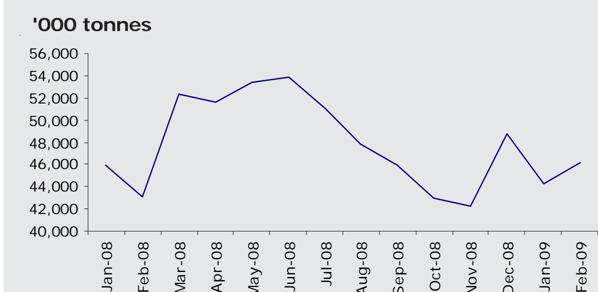
We believe the steel sector will have to brace for a longer recovery path, as China (the world's largest steel consumer and producer) may step up on its steel dumping activities in the international market that will in turn weigh down on international steel prices. This is on the back of:

1. Higher steel output in China since Jan 09 that has led to a significantly higher steel inventory; and
2. The Chinese government's recent move to lower its allocation for construction-related spending under its RMB4 trillion stimulus plan.

Rising steel production and inventory in China indicate higher exports

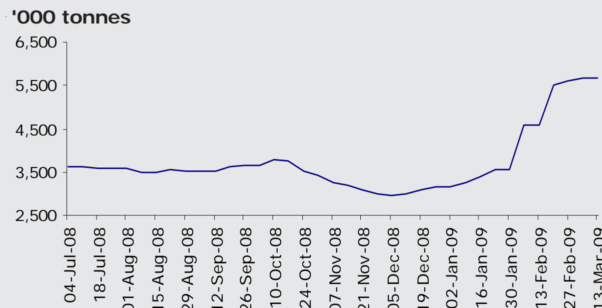
Most small-scale steel producers in China (which account for more than 60% of the country's total steel output) have raised steel production since Jan 09 (see Chart 17) in anticipation of a surge in steel consumption arising from the RMB4 trillion stimulus plan in China. In the absence of a significant improvement in steel consumption, the rise in production volume has resulted in a surge in China's weekly steel inventory to 5.7m tonnes in mid-Mar 09 from 3.0m tonnes in early-Dec 08 (see Chart 18). This does not augur well for international steel prices as rising production volume and inventory may induce higher steel exports from China, weighing down on international steel prices.

Chart 17
China Monthly Finished Steel Production



Source : Antaike Information Development

Chart 18
China Weekly Steel Inventory in 5 Major Cities



Source : Antaike Information Development

Lower allocation for construction-related spending means greater dumping risk

The Chinese government has recently lowered its allocation on construction-related spending under its RMB4 trillion stimulus spending by 5.2% (see Table 18). This will further weigh down on consumption and prices for steel products in China as property development activities (that is another major steel consumer in the economy) are expected to remain weak in the near term, driven by weak investment in real estate development (see Chart 19). Weak consumption and prices in China do not augur well for international steel prices as these will induce steel exports from China, weighing down on international steel prices further.

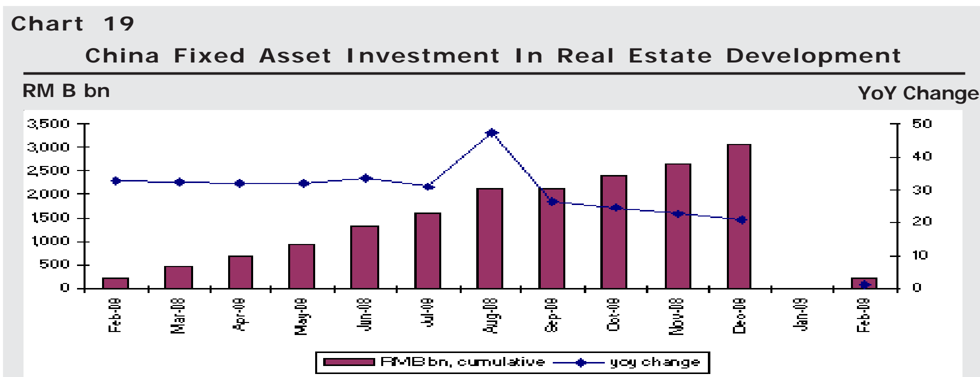
Table 18
Components of China's RMB 4,000 bn Stimulus Plan

	Nov 08 (RMB bn)	Mar 09 (RMB bn)	Change (RMB bn)	Change (%)
Non construction-related	**550**	**730**	**+180**	**+32.7**
-Healthcare and education	40	150	+110	+275.0
-Technical upgrading and R&D	160	370	+210	+131.3
-Energy conservation and environment	350	210	-140	-40.0
Construction-related	**3,450**	**3,270**	**-180**	**-5.2**
-Public housing	280	400	+120	+42.9
-Rural Infrastructure	370	370	-	-
-Post-earthquake reconstruction	1,000	1,000	-	-
-Transport and power infrastructure	1,800	1,500	-300	-16.7
Total	**4,000**	**4,000**	**-**	**-**

Source: National Development and Reform Commission, China

Chart 19

China Fixed Asset Investment In Real Estate Development



Demand and price outlook for flat steel product sector to remain weak

As compared to long steel product sector, we believe that the international flat steel product sector (ex-China) will have to suffer even longer as demand for flat steel products is tied largely to manufacturing and consumer sectors, which are in turn linked to global economic activities that are still weakening. Also, it was reported that China Iron and Steel Association (CISA) is lobbying for a hike in export rebates for Chinese steel products (in particular, flat steel products, we believe) from 0-5% currently to as much as 17%. Should higher export rebates are given, Chinese flat steel producers will be even more inclined to increase their export volumes in the international market at cheap prices as export rebates effectively lower their cost structure vis-à-vis their international peers. We believe CISA's wish is likely to be granted, given the weak flat steel consumption in China.

Cement: Mini budget will only cushion demand, not drive demand growth

Too little to drive demand growth

We estimate that the recently announced mini budget will only boost the country's cement consumption in 2009 and 2010 by 2m tonnes and 1m tonnes (or 6.8-13.6% of total cement consumption in 2008) respectively, assuming:

1. Cement consumption to account for 10% of development expenditure;
2. All projects are to be executed promptly;
3. 50% of the fiscal injection in 2010 is earmarked for development expenditure; and
4. Cement price of RM260/tonne.

Hence, we believe the recently announced mini budget will only help to cushion but not drive growth of cement demand, as domestic cement demand is weakening rapidly on the back of: (1) The downtrend in property development activities; and (2) Delays (if not cancellation) of certain large-scale infrastructure projects.

Erosion of local cement producers' pricing power

Besides, dwindling overseas cement demand on the back of global credit crunch (that may result in an influx of imported cement) coupled with the abolishment of the 10% import duty on cement since Nov 08 have weakened local cement producers' pricing power in the domestic market. This means that local cement producers will have to price their product more competitively in order to protect their shares in a shrinking pie.

Table 19

Valuations Of Building Material Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Sino Hua	Dec	0.20	4.5	6.0	+>100	34.8	4.5	3.3	1.7	0.3	1.5	0.0	OP
Kinsteel	Dec	0.40	3.4	9.4	-3.8	+>100	11.5	4.2	4.7	0.3	0.5	4.3	MP
Choo Bee Metal	Dec	1.10	17.0	25.1	-36.1	47.3	6.5	4.4	0.9	0.3	n.m.	5.5	MP
Ann Joo	Dec	1.10	16.0	31.6	-39.7	97.1	6.9	3.5	5.3	0.5	0.7	8.2	MP
Hiap Teck	Jul	0.64	2.7	13.5	-94.3	+>100	23.5	4.7	9.0	0.4	1.3	1.6	UP
CSC Steel	Dec	0.80	8.5	16.5	-45.9	94.3	9.4	4.8	4.1	0.4	4.1	5.3	UP
Lafarge	Dec	4.00	42.7	40.8	-1.2	-4.5	9.4	9.8	5.8	1.4	7.2	2.5	UP
Seacera	Dec	0.26	5.7	6.4	-25.1	13.4	4.6	4.0	n.m.	0.2	1.5	0.0	UP
PMB Tech	Dec	0.38	11.0	13.2	-6.1	20.5	3.5	2.9	5.1	0.3	3.3	7.9	UP
Quality Concrete^	Jan	1.13	3.7	4.3	44.8	17.3	30.7	26.2	10.5	0.4	n.m.	0.0	UP
YTL Cement	Jun	2.55	47.2	58.4	23.7	23.6	5.4	4.4	2.8	0.8	4.4	5.9	UP
Sector Avg					**-14.7**	**33.0**	**7.8**	**5.9**					

^ FY09-10 valuations refer to those of FY10-FY11

Construction : Stimulus Packages No Saviour — Underweight

43% rise in government spending in 2009

Gross development expenditure is projected at RM61.4bn in 2009, up 43% from RM42.8bn in 2008. The steep increase is largely due to additional allocation of RM4.7bn under the first stimulus package and RM5bn under the second stimulus package. Also, under the second stimulus package, there is additional allocation estimated at RM2.5bn to be spent in 2010.

Largely small projects

The key focus of the two stimulus packages is small projects that are easy to roll out such as schools, hospital, quarters, low-cost housing, roads and bridges. Under the second stimulus package, there are a handful of mid-sized projects in East Malaysia such as Sibu Airport expansion, Kota Kinabalu Electricity Transmission System and deepening works at Miri Port. In addition, under the "off-budget" list, there is a mid-sized project, i.e. the RM250m Penang Airport expansion, and a large project, i.e. the RM2bn low-cost carrier terminal (LCCT) at the Kuala Lumpur International Airport (KLIA) (see Tables 20 & 21).

Table 20

Projects Slated For Implementation Under The First Stimulus Package

	Project	Value (RMm)
1.	Build low-cost houses	1,200
2.	Maintenance of police stations and quarters, as well as Army camps	500
3.	Spending on general infrastructure such as building roads and bridges	600
4.	Maintenance and repair of public facilities such as schools, hospitals and roads	500
5.	Maintenance and upgrade of rural roads	500
6.	Aid for Chinese, Tamil, religious and mission schools	200
7.	Improve public transport system such as LRT, commuters and buses	500
8.	Rehabilitate abandoned housing projects	200
9.	Build business premises for small businesses	100
10.	Speed up the implementation of broadband services	400
Total		**4.700**

Source: Ministry of Finance

Table 21

Selected Projects Slated For Implementation Under The Second Stimulus Package

	Project/Key Area	Value(RMm)
1.	Build and improve facilities in 752 schools, particularly in rural areas, Sabah & Sarawak	1,950
2.	Infrastructure in Sabah & Sarawak Sabah: Giat Mara centres, Kota Kinabalu Electricity Transmission System, upgrading of schools, roads, bridges and health services in Queen Elizabeth Hospital Sarawak: Expansion of Sibu Airport, deepening works at Miri Port, repair and improve infrastructure damaged by floods, upgrading of schools, construction of Lawas Training Centre, Kota Samarahan Industrial Estate and tourism facilities	1,200
3.	Public infrastructure maintenance programmes and basic infrastructure projects, particularly in Sabah & Sarawak	500
4.	Construction of rural roads	350
5.	Coverage of electricity and water supply in rural areas, particularly Sabah & Sarawak	230
6.	Low-cost housing	200
7.	Renovation, maintenance and repairs of welfare homes, fire stations and public toilets	150
	"Off-Budget" Projects	
1.	LCCT at KLIA	2,000
2.	Expansion of Penang Airport	250
3.	Sky bridges and covered walkways especially in Golden Triangle, KL	100

Stimulus packages won't change fundamentals

We do not think the two stimulus packages will materially improve the fundamentals of construction companies under our coverage, particularly, the West Malaysia-based big players because: (1) The stimulus packages are not large enough; and (2) The projects are largely small-scale ones meant for small contractors or located in East Malaysia meant for East Malaysia-based contractors.

Not large enough

Theoretically, the RM12.2bn under the two stimulus packages could only sustain earnings (let's not talk about driving growth) of the top five construction companies under our coverage for slightly more than a year, based on our estimated combined annual churn rate of Gamuda, IJM, WCT, Zelan and Sunway of about RM10bn. Practically, we believe they may get none (see later part of this article for our thoughts on this point).

Only RM192,000 per contractor

Alternatively, assuming the Government is to distribute this RM12.2bn evenly amongst the 63,465 contractors currently registered with Construction Industry Development Board (CIDB), the amount of contracts each contractor will receive is only RM192,000. Even if we are to use only "active" CIDB-registered contractors (defined as contractors who have been awarded jobs over the last three years) of 46,077, the amount will remain insignificant at RM265,000 per contractor.

Small, East Malaysia-based contractors the key beneficiaries

Based on the nature of the projects under the two stimulus packages, we believe the major beneficiaries will be: (1) Small contractors; and (2) Small and mid-sized contractors based in East Malaysia. Large construction players (and incidentally mostly based in West Malaysia) are likely to be left out as their *modus operandi*, setup as well as economics are suited more to doing larger projects. Also, we believe the RM2bn LCCT at KLIA that is still at the planning stage is unlikely to get off the ground anytime soon.

Mega projects can't be implemented immediately

It was mentioned in the second stimulus package that the Government will accelerate implementation of projects under the 9MP amounting to RM8.4bn "which have high local content and multiplier effect, people-centric and can be implemented immediately". We do not think mega projects such as the new Kota Damansara – Cheras LRT line, Kelana Jaya and Ampang LRT line extension, West Coast Expressway and Gemas – Johor Bahru double-tracking, will fit the bill. Given the lengthy bidding process (if they are awarded on an open tender basis) or lobbying process (if they are awarded on a negotiated basis), coupled with the compulsory land acquisition that normally takes years to complete, we do not think these mega projects can be described as projects that can be "implemented immediately".

Marginalisation of Malaysian construction stocks

Lurking in the background, still, is the trend towards a more open public procurement model locally, prompted by the altered political landscape post the 12th General Election in Mar 08. While this is positive to the industry over the long term as it promotes competition, and hence efficiency, over the immediate term, it means: (1) The demise of one key appeal of Malaysian construction companies, i.e. their ability to secure "direct-nego" fat-margin public jobs; and (2) Further delays, if not cancellation of certain public projects, with the projects now being put under greater scrutiny.

Key construction stocks not featured in the new index

We believe these are reducing the appeal of Malaysian construction stocks and will eventually "marginalise" them to the extent that portfolio investors can afford not to own them anymore. Not helping either, is the likely non-inclusion of Gamuda, IJM, WCT and Zelan in the new 30-stock FTSE-Bursa Malaysia KLCI that will replace the 100-stock KLCI w.e.f. 6 Jul 09.

Table 22

Valuations Of Construction Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Zelan^	Mar	0.59	17.5	16.5	+>100	-5.9	3.4	3.6	1.3	0.4	3.3	11.9	OP
Sunway Hldgs	Dec	0.66	19.3	22.2	3.8	14.7	3.4	3.0	2.8	0.6	1.8	4.3	OP
Gamuda	Jul	1.97	9.7	15.0	-40.1	54.8	20.3	13.1	33.4	1.3	n.m	4.1	UP
Hock Seng Lee	Dec	0.49	7.1	7.6	-6.7	8.2	6.9	6.4	3.5	1.0	9.9	5.2	UP
MRCB	Dec	0.85	6.0	6.5	+>100	9.3	14.1	12.9	11.2	1.1	8.7	0.0	UP
IJM^	Mar	4.02	29.7	30.4	-3.7	2.3	13.5	13.2	9.4	0.8	6.4	5.0	UP
WCT	Dec	1.06	19.8	19.6	51.8	-1.3	5.3	5.4	6.9	0.6	n.m	5.7	UP
Sector Avg					**-23.6**	**35.9**	**12.6**	**8.7**					

^ FY09-10 valuations refer to those of FY10-FY11

RHB

Consumer : Weakening Sentiment And Slowing Spending Trend

Neutral

Government introduces measures to cope with job losses...

Weakening consumer sentiment as well as increasing job losses have prompted the Government to incorporate certain measures into the March 09 Mini Budget. These include: 1) double tax deduction on the amount of remuneration paid for corporates on employing the unemployed; 2) 100,000 training opportunities and job placements through joint collaborations between the Government and private sector; and 3) recruitment of 63,000 additional staff by the Government and its agencies on permanent or contractual basis. Taking a longer-term perspective, the Government has also given opportunities for further education (via Government financing and research grants), which we believe could lead to more skilled workers, hence, boosting consumer spending power.

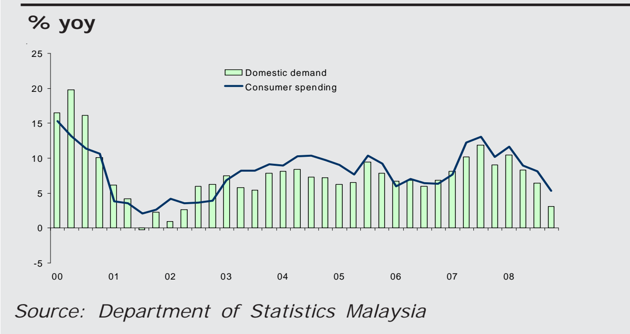
...but it would not necessarily translate to increase in spending

However, we believe these measures would not be as effective in kick-starting consumer spending (as other measures like the gradual fuel price reduction and voluntary cut in employees' contribution to the EPF have done) and would only be able to cushion job losses.

Government servants are spending amid the global downturn

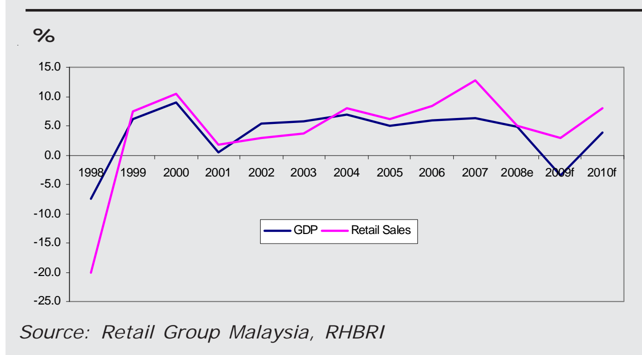
We note that some parties (in particular government servants), already benefitted from the fuel price reduction and the voluntary EPF contribution cut, as these parties are least worried about job losses. This can be seen via improved sales by companies like **Hai-O (OP, FV = RM4.00)**, whose MLM division relies heavily on sales to government servants. In 2HFY04/09 (after the gradual fuel price reduction to RM1.80 currently), Hai-O's sales have improved over and above their expectations, compared to the 33% QoQ decline recorded between 4QFY04/08 to 1QFY04/09 as a result of the fuel price hike of 78 sen to RM2.70 implemented in early-June 08. Nevertheless, the increase in consumer spending as a result of these measures were not as clearly visible across the other consumer groups

Chart 20
Falling Domestic Demand And Consumer Spending



Source: Department of Statistics Malaysia

Chart 21
Retail Sales Growth



Source: Retail Group Malaysia, RHBRI

For the retail industry, we still expect consumers to continue holding back on luxury purchases of non-necessities (electrical products and furniture). Retail Group Malaysia (RGM) had earlier forecasted retail sales growth to slow to 3% for 2009, the slowest in 8 years, which was based on GDP growth forecast of 3.5%, mainly due to job cuts (majority from the northern and southern regions). However, during the March 09 Mini Budget, the Government revised down its GDP forecasts further to between -1% and 1% (vs. RHBRI's 2009 GDP forecast of -3.5%), which indicates that there could be another downward revision to RGM's retail sales forecast, potentially even to a minimal or negative growth. Based on RHBRI's projected -3.5% GDP growth, our economic team forecasts consumer spending to remain in the positive territory, albeit at a minimal 1.2% growth in 2009, before recovery to a 4.5% growth in 2010.

More downside to retail sales growth figure, but the pace of contraction has now decreased

While we believe that the pace of the retail sales contraction has decreased, we believe that 2QCY09's retail sales could turn out to be the worst retail sales figure for the year especially given the lack of any major festivals or tourist-drawing events. Nevertheless, we expect to see some strength in retail sales from 3QCY09 onwards (in conjunction with Hari Raya festivities), while we continue to believe that

retailers would be one of the first few companies to benefit in terms of earnings and valuations when a market recovery does materialise. Hence, we are keeping our eye on some of the retailers, i.e. **AEON (MP, FV = RM4.06)**, **Parkson (UP, FV = RM3.50)** and **Bonia (UP, FV = RM0.61)**, watching for signs of a turnaround.

Tobacco: pictorial health warning would be net positive to BAT, but maintain Underperform as it is trading at premium valuations as compared to the market

For the tobacco sector, we maintain our 5% decline in 2009 total industry volume (TIV) as last year's 20% (or 3 sen/stick) increase in excise duty (which led to a 60-80 sen increase in 14-20 stick packs) will result in: 1) higher illicit trades; and 2) more downgrades to contraband or exceptionally low-priced cigarettes. Tobacco players have started the implementation of pictorial health warnings on all its brands and by June 09, all SKUs sold are required to display the pictorial health warnings, which we believe would have a temporary negative impact on TIV growth. Nevertheless, we are of the view that the implementation would also help to eliminate counterfeit and illicit trade (as the new cigarette packs would carry pictorial health warnings that are unique to Malaysia). This should therefore enable the authorities to detect smuggled and counterfeit cigarettes more effectively. As such, we believe that it would be a net positive for the Big Three tobacco players in Malaysia. However, due to its expensive valuations and given our stance that investors would be better off staying away from defensive stocks in view of the fact that these stocks are a poor proxy to a market recovery, we maintain our Underperform call on **BAT (FV = RM37.70)**.

Brewery: lower raw material costs to only benefit earnings in 2010

The worst may soon be over for the brewers in terms of escalating raw material costs. Industry players suffered badly in the last couple of years, with raw materials increasing by as much as 800%. However, the lower raw material prices may not benefit the brewers in 2009 yet, as we understand that the two major brewers have hedged their raw material needs for 2009 at higher prices and these hedges will only expire in the course of this year. Hence, the margin expansion would only be seen more clearly in 2010. We think TIV would continue to face pressure as drinkers may reduce consumption amid rising costs of living. No change to our TIV growth assumptions of -5% for 2009 and flat in 2010.

In 2009 Budget, a sum of RM13.7bn was allocated to the healthcare sector to enhance the quality of healthcare services. We think the bulk of this would go to the construction of new government hospitals and only have a minimal impact on private hospital operators like **KPJ Healthcare** (MP, FV = RM2.96). However, we believe the rising uptake of insurance products would continue to lead to patients opting for quality healthcare services provided by the private hospitals.

Table 23

Valuations Of Consumer Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
KFC	Dec	7.20	69.2	76.4	15.8	10.4	10.4	9.4	5.5	2.0	11.5	3.5	OP
Hai-O^	Apr	3.26	57.1	65.5	-1.2	14.8	5.7	5.0	2.8	1.4	6.2	9.2	OP
AEON	Dec	3.76	31.2	35.1	-9.2	12.3	12.0	10.7	4.0	1.4	4.3	2.4	MP
Amway	Dec	6.95	51.7	57.0	-10.6	10.4	13.4	12.2	8.5	4.4	14.9	7.2	MP
Carlsberg	Dec	3.32	22.8	25.5	-7.6	11.9	14.5	13.0	7.2	2.0	12.2	3.5	MP
KPJ Health	Dec	2.79	37.0	41.5	5.1	12.2	7.5	6.7	7.2	1.3	15.1	10.0	MP
BAT	Dec	45.00	272.2	267.6	-4.3	-1.7	16.5	16.8	11.8	n.m	15.0	5.7	UP
Parkson	Jun	3.88	23.8	27.5	14.5	15.4	16.3	14.1	4.6	2.8	7.1	1.5	UP
Bonia	Jun	0.85	8.4	12.0	-40.6	42.2	10.1	7.1	4.0	1.0	2.5	2.6	UP
Sector Avg					**-3.0**	**10.0**	**14.4**	**13.6**					

Gaming : Casino Related Stocks Bashed Down Unjustifiably

Overweight

Global economic downturn a concern, but historical data point to minimal impact to domestic casino and NFO operations

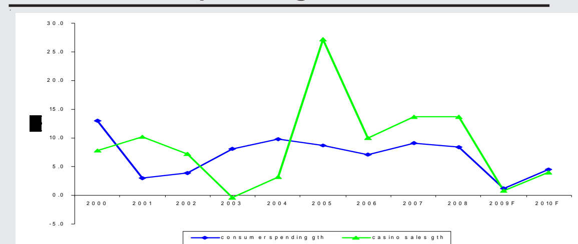
Global economic downturn still a concern, but history is on our side. The strength and length of the economic downturn is still of major concern to all global gaming players, as global gaming revenues continue to decline, especially in Macau and Las Vegas. In Malaysia, the Government has also cut its visitor arrival target for 2009 by close to 10% to 20m, which makes it the first reduction in six years. While this would have some impact to casino revenues in Genting, we believe the impact will be minimal, given that Malaysians still dominate the visitor numbers to Genting Highlands (85%). In addition, during the last few recessions/financial crises, visitor arrivals only fell by between 1.6-3.2% (3.2% drop in 1999 and 1.6% drop in 2006), while leisure and hospitality revenue fell by between 1-11% (11% drop in 1999 and 1.2% drop in 2003), although this can also be partly attributable to weaker luck factor. As for the NFO business, this is predominantly also reliant on domestic demand, which generally is not too severely affected even during economic downturns. BToto's toto betting revenue only fell by between 0.5-5% during the last few financial crises (0.5% drop in 1999 and 5% in 2003, which was during the SARS crisis when people were afraid to come out of their houses). Based on this information, we believe our casino visitor arrival projections of a 4% decline for 2009 followed by a 2% growth for 2010 for Resorts and our two–year toto betting CAGR projection of 1.5% p.a. for BToto are achievable.

Our casino sales numbers still relatively conservative despite lowered GDP forecasts …

Our casino sales projections still conservative vs lowered GDP and consumer spending forecasts. Over the last few months, RHBRI's economic team revised our GDP forecasts downwards twice, with GDP growth for 2009 now projected at -3.5% (from -1.5% projected in Feb 09 and +1.5% projected in Dec 08), while GDP growth for 2010 is projected at an unchanged 3.8%. Consumer spending growth projections have also been cut to 1.2% for 2009 (from 2% in Feb 09 and 3.5% in Dec 08), while the 4.5% growth in 2010 is maintained. As we have already imputed conservative casino sales growth assumptions of between 0.8-4% for FY09-10, we believe our current projection for average casino sales to grow at 0.85x average domestic consumer spending growth of 2.9% for the next two years is a relatively conservative projection, compared to the 1.3x average recorded in the last six years. Unless GDP growth is cut much further, we remain comfortable with our casino sales projections for the next few years.

Chart 22

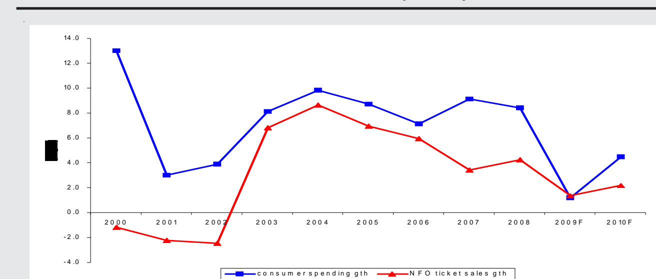
Casino Sales Growth vs Consumer Spending Growth



Source: RHBRI

Chart 23

NFO Sales Trend (RMm)



Source: RHBRI

… and our NFO sales projections also conservative vs reduced consumer spending forecasts

NFO sales more inelastic, although prize payout factor always a risk. For the NFOs, earnings should be even less affected due to the small-ticket pricing, and as such, we expect earnings to remain resilient during times of economic uncertainty. However, as NFO ticket sales are still well correlated to domestic private consumption spending (growing at average 0.7x consumer spending in the last six years), we project a more conservative ticket sales growth rate of 0.6x consumer spending going forward. We project NFO ticket sales to grow at an average of 1.8%-6.0% in 2009-2010 vs. consumer spending growth of 2.9%. Among the three NFOs, we project BToto to record the highest average ticket sales growth of 2% p.a. in 2009-2011, while Magnum is projected to achieve lower growth of 1.8% p.a., followed by Tanjong at 1.7% p.a.. We note that the major earnings risk for NFOs like BToto is in the form of prize payout ratios

or luck factor, given that our assumptions are based on theoretical ratios, while actual payout ratios are generally never exactly in line with theoretical levels. A case in point is BToto's recent 3Q04/09 results which recorded a gross payout ratio of 66.9% (from 63.2% in 2QFY09 and 62.9% in 3QFY08), versus theoretical ratio of 63%.

Maintain Overweight stance on Gaming sector

Maintain Overweight on Gaming. In the current market, where share prices have been bashed down dramatically, we believe investors should switch from defensive stocks to overly and unjustifiably bashed-down stocks. As such, we prefer the casino sub-segment over the NFOs because of (1) the better risk-return profile compared to NFOs at current price levels; (2) casinos being a better proxy to a recovery in the economy than NFOs; and (3) the potential for a spike in earnings and valuations should it be successful in spreading its wings regionally to acquire another gaming business. With sustainable and stable earnings growth (BToto and Resorts), high dividend yields (B-Toto), good earnings visibility (Resorts) and current inexpensive valuations (Resorts), we reiterate our **Overweight** rating on the sector.

Possible special dividend for BToto?

Possibility of special dividend for BToto? We continue to like BToto (Outperform, TP RM5.35) as a proxy for the NFO subsector, for its dominant market share and good dividend yields. In addition, we believe BToto shareholders could be in for a large special dividend payout soon, stemming from the fact that Berjaya Land (BLand), BToto's 50.1% major shareholder, may need to raise some cash soon in preparation for a potential redemption of its RM900m 8% nominal value 5-year secured exchangeable bonds (maturing in Aug 2011, but with an early redemption clause on 15 Aug 2009). As the exchange option is not "in-the-money" now, bondholders are likely to redeem the bonds on the early redemption date. As such, BLand may have no choice but to raise funds to pay the bondholders for the redemption, if it happens. BLand has three options to raise cash: via the sale of assets, via new funding from banks or via a special dividend from BToto. In view of BLand's already geared balance sheet and the tight credit environment, the first two options would not be an easy task and as such, we believe BToto may be roped in to help by gearing up to pay out a special dividend. Based on our back-of-the-envelope calculations, we believe BToto would be able to borrow another RM500m to add to its existing RM300m debt, thereby allowing it to pay between 100-110 sen in gross DPS for FY04/10. This would result in BLand obtaining between RM700-750m in cash proceeds, translating to a whopping net yield of 17.6%. The main caveat here is of course, BToto's ability to raise fresh financing from the banks, which we believe, should not be a problem.

Casino-related stocks bashed down unjustifiably ...

Casino stocks unjustifiably bashed down... We believe the two Malaysian casino-related stocks have been unjustifiably punished for a few market rumours which have so far, not materialised and are unlikely to materialise, in our view. The first market rumour is with regards to Resorts using its RM4.5bn cash hoard to acquire another asset from a related party. Given the extremely negative market reaction it got after its recent related party acquisition of Walker Digital Gaming LLC, we believe management would be more cautious in its next acquisition, especially in the current market environment where investors are very jittery. The other market rumour is with regards to a potential cash call from Resorts' 19% investment Star Cruises Plc, in order to fund the operations of its 50%-cruise-operator subsidiary, NCL. While this is something that cannot be ruled out, we note that in the event of a cash call, Resorts would not be the main party having to cough up funds, as the majority (63%) stake in Star Cruises is held by the Lim family. As such, we believe the cash call may not be as a solution worth undertaking for the Lim family.

... and trading below trough valuations

... and trading below trough valuations. Share prices of both Genting (Outperform, TP RM4.90) and Resorts World (Outperform, TP RM2.60) have been bashed down considerably over the last few months, and are now trading at below trough PE valuations recorded in the 1997 Asian crisis. We continue to prefer Resorts given: 1) the likelihood of it being used as the vehicle for the group's next overseas gaming expansion; 2) its cashpile of more than RM4.5bn at end-FY08 which would enable it to pay higher dividends; and 3) better earnings visibility. We have already attributed a 10%

discount to Resorts' SOP-based fair value and an additional 5%-pt discount (to 25% from 20%) to Genting's SOP-based fair value to account for the higher corporate governance risk post-Resorts' related party acquisition and for risks attributed to its high foreign shareholding level (of >30% for both companies as at end-Dec 08). Ex-cash of RM0.75/shr (end-FY08) and market value of its stake in Star Cruise of RM0.04/shr, investors are only paying RM1.24/shr for Resorts' core gaming operations. This is equivalent to a PE of 5.2x FY09, which is at a 36.5% discount to its trough PE valuations of 8.2x recorded in 1997. At the current price of Genting, investors will be getting Resorts' pure gaming operations at market value, Asiatic at market value and the Tangguh concession for free, only paying for Genting's stake in GIL at market price, the management fees from Resorts, the oil and gas business, the power operations, its investment in Landmarks (at market price) and all its other non-core assets.

Table 24

Valuations Of Gaming Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Genting	Dec	3.66	24.1	37.4	-47.5	54.8	15.2	9.8	2.4	1.6	6.0	1.7	OP
B-Toto^	Apr	4.68	32.3	34.4	0.9	6.7	14.5	13.6	10.3	n.m	14.0	7.5	OP
Resorts	Dec	1.99	20.3	21.7	-10.3	6.9	9.8	9.2	4.6	1.2	8.5	3.2	OP
Sector Avg					**-26.9**	**23.4**	**12.5**	**10.1**					

^ FY09-10 valuations refer to those of FY10-FY11

Infrastructure : Mixed Prospects

Neutral

Water: Uncertainties remain

Key concerns remain

Three key concerns linger within Puncak, which are:

1. The takeover of all water assets in Selangor state by Pengurusan Aset Air Bhd (PAAB) unlikely to materialise in the near term as existing water concessionaires are unlikely to part with their prized water assets at cheap valuations;
2. Puncak may not be entitled to an operating licence even after surrendering its water assets to PAAB, as it was reported that PAAB is unlikely to issue more than two operating licences (vis-à-vis four licences currently) pursuant to the consolidation of water assets in Selangor; and
3. The 37% scheduled water tariff hike may not be forth-coming, as we believe the Government may not want to make any unpopular decision in the near term.

Water sector restructuring unlikely to materialise by end 2009

We believe that the takeover of all water assets in Selangor by Pengurusan Aset Air Bhd (PAAB, a special purpose vehicle set up by the Ministry of Finance to takeover all water assets) is unlikely to materialise in the near term. This is given that the recent three water asset takeover deals concluded by PAAB recently at 1x book value imply that the offers to be made by PAAB to water concessionaires in Selangor (inclusive of PNSB, Syabas, Splash and Abass) are unlikely to be significantly higher than the offers made by Selangor state government. Recall, all four water concessionaires in Selangor rejected takeover offers made by Selangor state government on 13 Feb 09 (see Table 25).

Table 25

Takeover Offers From Selangor State Government on 13 Feb 09

	Abass (RMm)	PNSB (RMm)	Splash (RMm)	Syabas (RMm)
Asset Value	465.0	1,140.0	1,955.0	1,088.0
Equity Value	149.3	543.0	687.5	424.0
	614.3	1,683.0	2,642.5	1,512.0
Less: Dividend	-88.6	-75.3	-578.6	-
Offer Price*	525.7	1,607.7	2,063.9	1,512.0

** Before deducting net debt*
Source: Bursa Malaysia

May lose concession right too

It was reported that PAAB is unlikely to issue more than two operating licences (vis-à-vis four licences currently) pursuant to the consolidation of water assets in Selangor in order to improve the operating efficiencies of state's water assets. This implies that Puncak may run the risk of not given the right to operate even after surrendering its prized water assets at cheap valuations, and hence leaving Puncak with no core operating business.

Scheduled water tariff hike may not be forth-coming

We continue to hold the view that Puncak's 37% scheduled water tariff hike will not be forth-coming (supposedly effective 1 Jan 09) as we believe the Government may not want to make any unpopular decision in the near term. A case in point is the Government's recent move to reject a 5% toll rate hike for PLUS highways.

We remain cautious on Puncak.

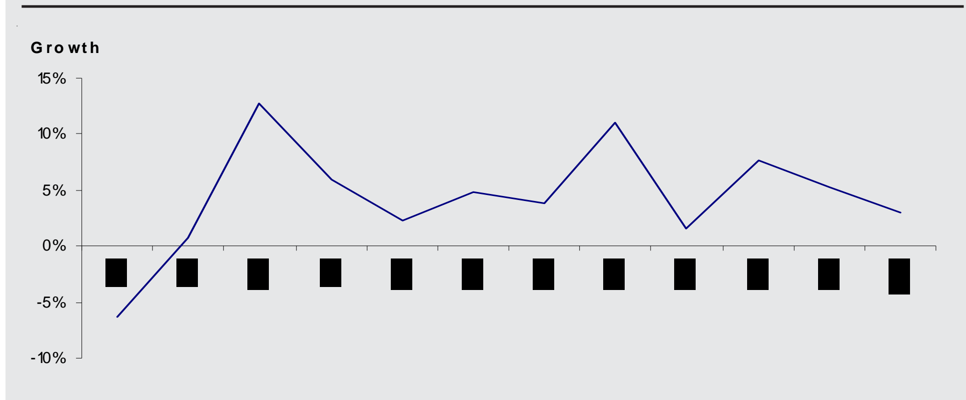
Toll Roads: A defensive play

Resilient in economic downturn

Since the financial crisis in 1997-1998, PLUS's traffic volume has registered positive growth over the past nine years (see Chart 24). This 9-year period embraced at least one major economic downturn, i.e. in 2001, of which PLUS emerged relatively unscathed.

Chart 24

PLUS's Traffic Volume Growth Trend



Defensive earnings, decent dividend yield

Despite the gloomy global economic outlook, we remain optimistic that PLUS traffic volume growth will remain in the positive region (albeit a slower projected growth rate 3% in FY12/09 vis-à-vis 5.2% growth registered in FY12/08) on the back of: (1) Lower petrol price; (2) Absence of toll rate hike at the North South Expressway (NSE) in FY12/09; and (3) The introduction of travel incentive programme since 1 Jan 09.

We like PLUS for its defensive earnings quality and decent dividend yield of about 6% per annum. It is our top pick for exposure to the infrastructure sector.

Table 26

Valuations Of Infrastructure Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
PLUS	Dec	2.94	21.9	22.9	1.3	4.9	13.4	12.8	11.8	2.5	9.1	6.1	MP
Puncak	Dec	2.85	44.2	36.0	+>100	-18.6	6.4	7.9	3.2	0.8	2.6	2.1	UP
Sector Avg					**15.5**	**1.5**	**12.4**	**12.3**					

^ FY09-10 valuations refer to those of FY10-FY11

Insurance : Unexciting Prospects And Lack Of Re-rating Catalysts

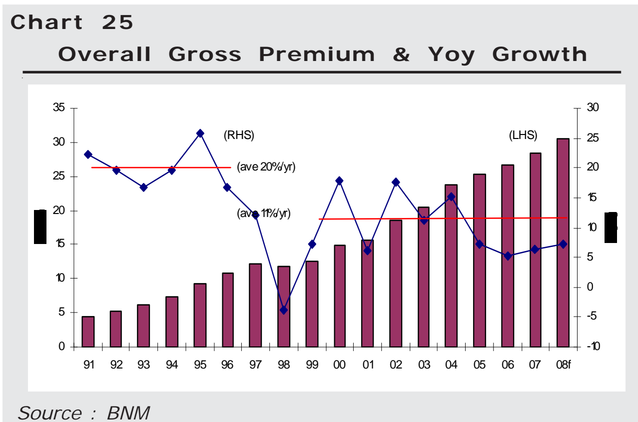
Neutral

Premium growth is strongly correlated with GDP growth

The insurance industry is generally a good proxy to the domestic economy as premium expands on the back of wealth creation. Industry growth is generally 2x of GDP growth (see Chart 25 pre and post crisis average growth were 20% and 11% vs. GDP average growth of 9-10% and 5-6%). The life insurance segment has a slightly higher correlation or about 2.3x GDP growth (see Chart 26). We believe this is due to rising awareness of life insurance as an investment cum social security protection asset class and the popularity of investment-linked, savings and bancassurance products, on top of the wealth creation.

Chart 25

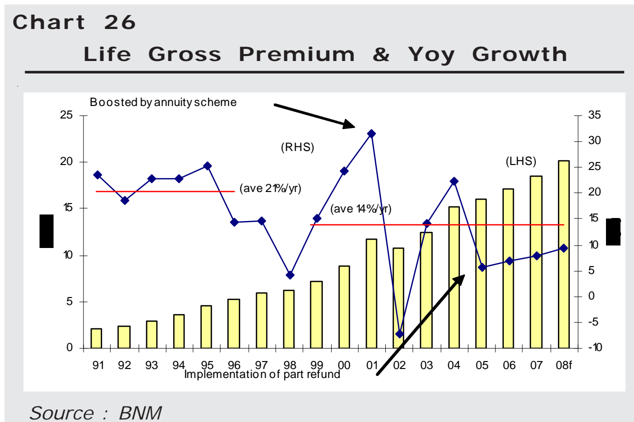
Overall Gross Premium & Yoy Growth



Source : BNM

Chart 26

Life Gross Premium & Yoy Growth



Source : BNM

Life insurance premium growth to sustain and outpace that of general insurance industry

Thus, in view of the higher correlation with GDP growth, rising awareness and the increasing popularity of investment-link, savings and bancassurance products, we expect the life insurance premium in 2009 and 2010 to grow at about 3-4% and 9-10% respectively and will likely continue to outpace that of the general insurance segment (circa 1-2% and 8-9% respectively). The above projection is also premised on our expectations that despite the sharp economic slowdown, consumers are unlikely to sacrifice the need to have insurance products as an asset class that provides savings cum social security protection.

Despite recovery in 2008 motor TIV, earnings growth impaired by higher claims ratios

Despite the recovery in 2008 motor industry TIV as well as growth in fire, marine, aviation and transit insurance on account of a robust growth in the offshore oil-related sector, earnings for the year were bogged down by higher claims ratios (arising from additional incurred but not reported claim reserve (IBNR) to meet the RBC requirement).

Outlook for 2009 remains lacklustre

Going forward, depressed used car prices and lower consumer appetite for big-ticket items amidst the global economic downturn will impair premium expansion as motor insurance constitutes about 45% of total premium. Moreover, a lower level of economic activities and the sharp plunge in oil price will also limit the growth from fire, marine, aviation and transit insurance. The higher motor claims ratio (of circa 65-70% versus other types of general insurance of about 55-60%) as well as the expectations of higher claims ratio (which has already shown signs of rising) during the economic downturn would also impair earnings growth.

M&A play unlikely

The implemented RBC framework in January 2009 and the relaxation to allow multiple M&A negotiations will likely speed up M&A activities. However, due to pricing issues, the progress has been slow. Moreover, the current dismal equity market may also deter such activities unless some of the smaller players are desperate to merge or seek additional capital to meet the capital requirement under RBC.

RBC risks

The implementation of RBC framework had already dampened general insurers' earnings in 2008, especially those that have yet to achieve 75% confidence level for IBNR. The more pertinent issue in 2009 for life insurers is capital requirement. We understand that life insurers are finalising their respective capital requirement under the latest updated framework and will thereafter commence discussion with BNM to ascertain the final amount. This would take time and raise uncertainties about subsequent fund raising exercises. Given that this segment is dominated by either large foreign or bank-backed players, we believe the total amount needed by the industry may not be significant. However, the dismal capital market raises concerns about the potential of a simultaneous capital raising exercise by several insurers while financial turmoil in the West also raised concerns about funding support from foreign insurers' parents.

Maintain Neutral stance on the sector

Overall, we are maintaining our Neutral stance on the sector as the progress of M&A is slow, while earnings growth of some general insurance players will be impaired by the recent rise in claims ratio. Meanwhile, the financial turmoil in the US is not likely to have a direct significant impact given that a large portion of most players' investments and exposures are in Malaysia. However, the equity investment portfolios of these insurers would be subject to the expected short-term volatility in the equity market.

Top pick is Allianz

Our top pick in the sector is Allianz (Outperform). We like Allianz for its above-industry premium growth and cheap valuation as well as below-industry total expense ratio. At the current share price, investors would be getting the life insurance business at a steep discount to its embedded value (without adding new business value).

Table 27

Valuations Of Insurance Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Allianz	Dec	2.99	47.1	53.1	2.5	12.7	6.3	5.6	n.m.	1.0	6.3	0.7	OP
MNRB	Mar	2.76	35.8	38.6	+>100	7.8	7.7	7.2	n.m.	0.6	7.1	7.2	MP
Kurnia Asia	Jun	0.30	1.1	4.4	+>100	+>100	27.6	6.9	15.4	2.8	27.6	0.0	UP
Sector Avg					**93.2**	**38.9**	**7.0**	**6.5**					

^ FY09-10 valuations refer to those of FY10-FY11

Manufacturing : Challenging Outlook As Demand Is Expected To Stay Weak

Neutral

Key concern still on demand

In our view, the key concern for the manufacturing sector continues to lie on the demand side of the equation. Recent data showed that exports continue to fall sharply while domestic demand has slackened amid weakening consumer's confidence. However, in mitigation, downward trends in input cost as well as raw material prices should help ease pressures on operating margins. In addition, the depreciation of the ringgit against the dollar would also help exporters for now, although we expect the ringgit to strengthen back to RM3.40/US$ by year-end.

We remain in favour of manufacturers with resilient demand ...

We generally remain in favour of manufacturers with resilient demand as this will help them weather through the current situation and, especially for exporters, allow them to take advantage of the current weak ringgit. We would continue to avoid manufacturers that are likely to be most sensitive to a slowdown in consumer spending and demand as well as companies that have high gearing levels.

... such as the glove manufacturers ...

For the glove manufacturers, despite heavy reliance on the developed countries and especially, US and Europe, we believe demand for gloves will remain resilient as gloves have evolved into a necessity and an essential medical product. Furthermore, with rising healthcare and hygiene awareness levels, best-practice standards will unlikely be compromised, in our view. Coupled with latex prices trending downwards (YTD average:-30% yoy) and weaker ringgit (YTD average:-12.2% yoy), these should be positive for margins. We do not expect the recent reduction in electricity tariffs to have any significant impact on earnings given that, for glove manufacturers, electricity only accounts for about 3-4% of total production cost. Similarly, we do not expect the recent cut in gas price from RM22.06/mmbtu to RM15/mmbtu, to have a significant impact on the glove manufacturers. This is largely because the glove manufacturers will pass on the cost savings to customers, thus resulting in a neutral impact to the earnings. Any time lag in passing on the cost savings, however, would be mildly positive but not significant. We continue to like Top Glove and Kossan and maintain our **Outperform** calls on both these companies. We are also maintaining our **Market Perform** call on Adventa for its smaller market capitalisation as well as lower liquidity, which we believe will see the stock price performance lag behind both Top Glove and Kossan.

We recently initiated coverage on Hartalega with an **Outperform** call and fair value of RM3.15 (target FY03/10 PER of 8.5x). We like Hartalega for its product mix of predominantly (higher value) nitrile gloves, which results in higher margins compared to its peers. Valuations are also decent. Hartalega's current FY10 PER of 6.3x is lower compared to Top Glove's and Kossan FY09 PER of 11.6x and 6.5x respectively. Overall, we are maintaining our **Overweight** call on the glove sector.

... but would avoid companies that are sensitive to a slowdown in consumer spending and/or have high gearing levels

In terms of companies to avoid, two companies that we believe are sensitive to a slowdown in consumer demand are **Axis** and **Euro**. We note that Axis has been served with a winding-up petition and a provisional liquidator has been appointed after it defaulted in paying one of its creditors. As for Euro, in the near term, we believe its customers will continue to defer projects and orders until economic conditions stabilise.

Amid plummeting worldwide semiconductor sales, we do not see any meaningful recovery in the near term for **Texchem**'s packaging division. Coupled with its high net gearing ratio of 1.4x as at end-FY08, up from 1.1x as at end-FY07, this puts Texchem's ability to meet its debt obligations at risk during this present challenging operating environment. Likewise, for **V.S Industry**, we believe its exposure to the consumer electrical and electronics sector means that the group will unlikely see any meaningful recovery in the near term.

For **Toyo Ink**, near-term earnings are dependent on the ink manufacturing and trading businesses, and could be vulnerable during this global economic downturn. Already, the Group slipped into the red in its recent 3QFY03/09 results on the back of weaker demand and lower margins. For **Lion Forest**, although rubber prices have retraced since mid-2008, we believe the outlook for the automotive industry will remain weak and sales will continue to be sluggish, thus, affecting demand for tyres as well.

As for **Wellcall**, we note that management is taking measures to weather the slowdown in demand by aggressively marketing and pricing its products competitively. Such measures could, in our view, further dampen margins and profitability especially if these measures do not lead to stronger revenue growth.

Overall, we are maintaining our **Neutral** call on the sector.

Maintain Neutral stance

Table 28

Manufacturing Sector Recommendation And Fair Value

Company	Recommendation	FV RM	Valuation Benchmark
Adventa	Market Perform	0.94	Target CY09 PER of 6x
Axis	Underperform	0.10	Based on 0.2x FY03/08 NTA/share
Euro	Underperform	0.29	Target CY09 PER of 5x
Hartalega	Outperform	3.15	Target FY03/10 PER of 8.5x
Kossan	Outperform	3.83	Target CY09 PER of 8.5x
Lion Forest	Market Perform	0.42	Target CY09 PER of 5x
Texchem	Underperform	0.91	Target CY09 PER of 10x
Top Glove	Outperform	5.50	Target CY09 PER of 13.0x
Toyo Ink	Underperform	1.19	Target FY03/10 PER of 9.5x
VS Ind	Market Perform	1.36	Target CY09 PER of 5x
Wellcall	Underperform	0.94	Target CY09 PER of 7x

Table 29

Valuations Of Manufacturing Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Kossan	Dec	2.91	45.1	52.2	21.7	15.8	6.5	5.6	5.2	1.3	6.5	4.3	OP
Top Glove	Aug	4.80	41.3	45.4	11.1	10.0	11.6	10.6	7.0	2.0	7.7	3.2	OP
Hartalega^	Mar	2.34	37.0	45.2	18.6	21.9	6.3	5.2	5.4	1.9	5.4	6.8	OP
Adventa^	Oct	0.80	14.8	19.6	49.7	32.6	5.4	4.1	5.3	0.6	2.9	5.0	MP
VS Industry	Jul	0.92	26.0	29.1	-26.7	11.8	3.5	3.2	2.5	0.5	2.7	11.6	MP
Lion Forest	Jun	0.36	7.6	9.1	44.6	20.4	4.8	4.0	n.m	0.2	6.7	0.0	MP
Axis Incorp^	Mar	0.05	-19.1	-15.6	-4.4	18.6	n.m.	n.m.	n.m	0.3	n.m	0.0	UP
Euro Holding	Dec	0.58	5.5	6.2	-16.6	12.6	10.5	9.4	3.5	0.6	3.6	3.6	UP
Wellcall	Sep	0.80	12.1	14.9	-9.9	23.3	6.6	5.4	3.1	1.2	4.7	10.0	UP
Texchem	Dec	1.00	6.5	11.8	+>100	80.2	15.3	8.5	5.0	1.1	1.8	8.0	UP
Toyo Ink^	Mar	1.19	11.0	14.0	36.8	26.9	10.8	8.5	1.9	0.7	4.5	0.0	UP
Sector Avg					**12.0**	**17.6**	**7.8**	**6.6**					

^ FY09-10 valuations refer to those of FY10-FY11

Media : No Rerating Catalysts, Yet

Underweight

1Q09 adex downtrend expected to continue ...

According to Nielsen Media Research, YTD (Jan and Feb) gross advertising expenditure (adex) for print and TV contracted by 5.4% yoy with print media down 8% yoy while TV adex dropped by 1% yoy. We believe this drop largely reflects the higher base in 2008 resulting from a confluence of factors such as the spillover effects of the strong adex momentum from end-2007 as well as effects of the general election. While the change of guard in the country's leadership could potentially provide a slight lift to Mar's adex, we do not think that this would be sufficiently strong enough to stem the declining yoy adex trend especially given that Mar '08 adex continued to benefit from the general elections.

... into 2Q09

Looking ahead, we see 2Q09 shaping out to be a rather dry quarter for advertisers. While we would not discount the possibility of some spillover effects from the abovementioned change in leadership, we believe it will still be difficult for 2Q09 adex to surpass the level recorded a year ago. Adex momentum in 2Q08 remained strong and was further helped by events such as Euro 2008. Apart from weaker topline, we believe earnings for the media players will be exacerbated by cost pressures from higher newsprint and content costs. Newsprint prices are currently hovering around US$650-700/tonne, down from US$925-950/tonne in early-4Q. However, with typical inventory levels of 6 months or more, the impact from the high newsprint stock will continue to be felt in 2Q09. For Media Prima, management guided that content cost will likely rise by around 5-7% this year.

Double whammy for media players due to weaker topline and cost pressures

2H could be better with possible recovery in adex ...

While 1H appears bleak, a possible recovery could be on the cards for the media players in 2H. Underpinned by the huge economic stimulus packages and financial rescue plans implemented by governments globally as well as the low interest rate environment, we envisage that these factors would help set a stage for the global economy to gradually stabilise in 2H09, followed by a recovery in 2010. This recovery should be positive for adex as well. Over at the cost side, we expect the current (lower) newsprint price would also start to filter through in 2H, especially for companies with low inventory levels. This cost savings, however, could be tempered slightly by the depreciation of the ringgit against the greenback.

... coupled with softening newsprint prices starting to kick-in

MCIL – earnings threats already priced in

We are maintaining our **Market Perform** recommendation on MCIL as we believe that valuations at current levels have already factored in the twin threats of softening revenue and cost pressures. Our fair value of RM0.61 is based on target CY09 PER of 11x.

NSTP – nothing exciting for now

As for NSTP, despite the strong start to the year (in terms of gross adex) for Harian Metro (YTD: +55.4% yoy) and NST (YTD: +39.4% yoy), we highlight that net ad revenue could differ significantly from the gross numbers. Firstly, the group typically offers "rate protection" to customers. For instance, although Harian Metro had raised its ad rates by 15-20% this year, customers that had signed up before end-2008 would still be able to enjoy the old rates for the first 2-3 months of the year. In addition, higher discounts given could also lead to lower net revenue. With losses projected for the year and the absence of dividend (for FY09, in line with its dividend policy) to tide investors through the year ahead, we see little reason to hold the stock and maintain our **Underperform** call. Indicative fair value of RM1.00 is based on FY09 target P/NTA of 0.23x.

Star – steep YTD adex contraction reminiscence of 1998

We have retained our **Underperform** call and fair value of RM2.70 (13x CY09 EPS) for Star. Feb '09 was the eight consecutive month that Star has reported yoy adex contraction while on a YTD basis, Star's gross adex has contracted by 21.3% yoy. Since 1995, we believe 1998 was the only year that Star witnessed a contraction in ad revenue, which was around 22.8% yoy then. Hence, we believe there could be further downside risk to our FY09 ad revenue growth projection of 0.8% for Star (incorporates a 3% hike in ad rates), which, in turn, suggests downside risk to our FY09 net profit as well as dividend projections.

RHB

For Media Prima, we maintain our **Underperform** recommendation and fair value of RM1.05. We see earnings contraction of 20.4% this year due to weaker contribution from associate, NSTP, and, especially, the TV division. Media Prima's high fixed cost structure would, in our view, mean that earnings are especially sensitive to a slight change in topline. While Media Prima's channels collectively posted YTD growth of 3.3% yoy, we are not overly excited at this stage as we believe part of the growth was from ad rate hikes (e.g. TV3's ad rates were raised by 6%).

Media Prima – high fixed cost structure means earnings are especially sensitive to weaker topline

As for Astro, we believe focus will shift back to the Malaysian operations now that the Indonesian story has reached closure. Management believes adequate provisions have been made with respect to the DTH business in Indonesia and does not expect any future provisions to be significant. We have given management the benefit of the doubt and have not included any further provisions in our FY10-12 forecasts. However, we still expect FY10-12 earnings to be dragged by associate losses of around RM93-110m, mainly due to startup losses for the DTH business in India. Our fair value of RM2.07 is based on 20% discount to SOP of RM2.59. Maintain **Market Perform** recommendation.

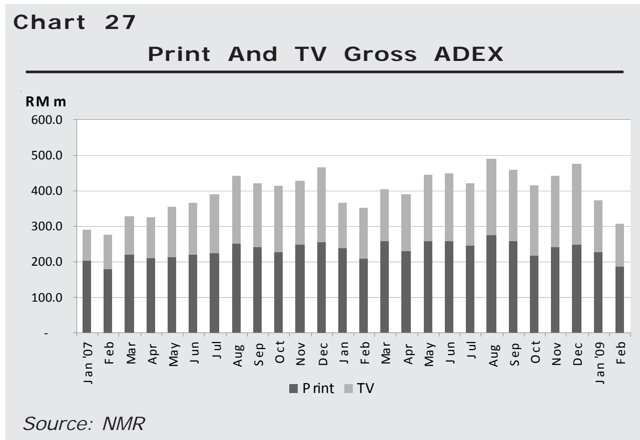
Astro – Focus shifts back to Malaysian operations now that Indonesian story has reached closure

Overall, we are maintaining our **Underweight** stance on the sector.

Underweight sector rating maintained

Chart 27

Print And TV Gross ADEX



Source: NMR

Chart 28

YoY Adex Growth

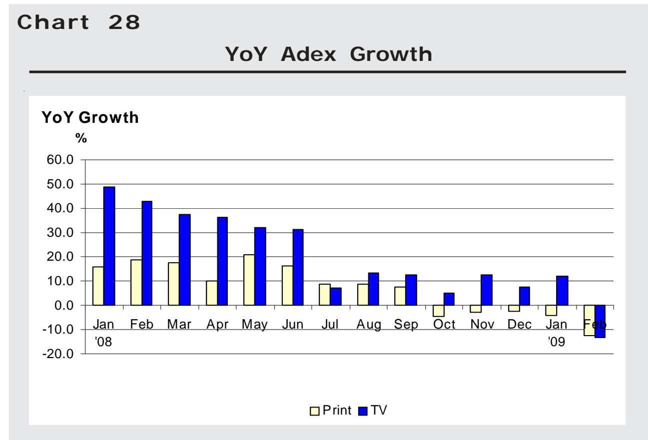


Table 30

Valuations Of Media Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Astro^	Jan	2.02	5.9	6.6	+>100	13.0	34.5	30.5	6.0	12.2	8.4	7.3	MP
Media Chinese^	Mar	0.55	5.7	6.6	9.3	15.5	9.5	8.3	4.2	1.1	7.0	7.0	MP
Star	Dec	3.18	20.9	22.7	-5.4	8.5	15.2	14.0	7.8	2.0	11.8	6.6	UP
Media Prima	Dec	1.03	11.1	13.6	-20.4	22.3	9.3	7.6	5.9	2.0	5.2	7.3	UP
NSTP	Dec	1.04	-3.8	10.5	->100	+>100	n.m.	9.9	8.2	0.2	6.2	0.0	UP
Sector Avg (Ex- Astro)					**-17.5**	**23.8**	**12.9**	**10.4**					

^ FY09-10 valuations refer to those of FY10-FY11

Motor : Moving On Slower Gear

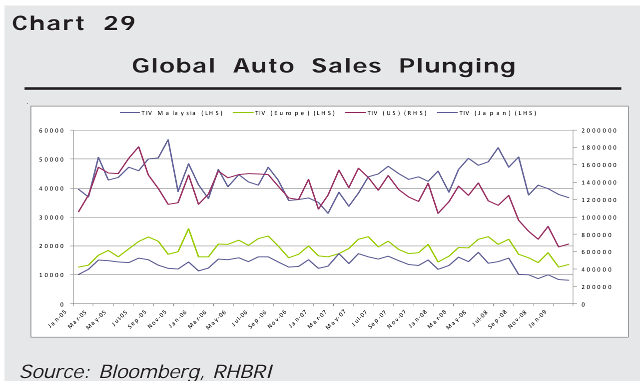
Underweight

Bleak outlook ahead

Global auto sales including Malaysia have plunged in recent months due to the global economic downturn and falling demand (see Chart 29). YTD 09 domestic total industry volume (TIV) declined by 11.7%, suggesting that consumers continued to defer the purchase of big-ticket items due to deteriorating economic condition. In February, yoy TIV contracted for the 5th consecutive month by 4.8% and mom performance saw 3rd consecutive month of contraction of 3%. Toyota and Proton were the worst hit among the top 5 marques, with average mom contraction of 15.1% and 13.17%, respectively (see Chart 30).

Chart 29

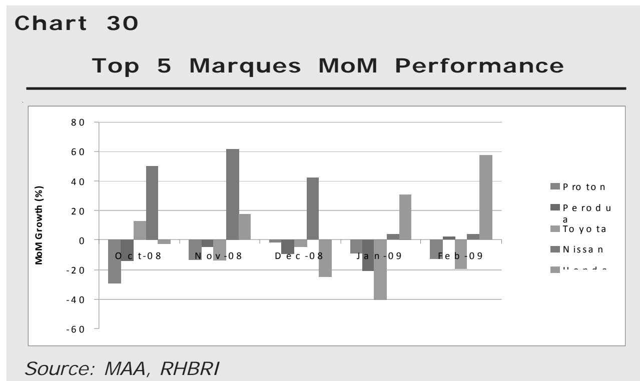
Global Auto Sales Plunging



Source: Bloomberg, RHBRI

Chart 30

Top 5 Marques MoM Performance



Source: MAA, RHBRI

Three macro factors weighing down on the sector

Given the deteriorating economic outlook (following the downward revision of our 2009 real GDP growth to -3.5% from -1.5% previously) and sluggish sales performance for the first two months of this year, we have trimmed our 2009-10 industry TIV further by 11.8% and 6.2% to 411.2k and 476.4k respectively. This includes a 19-32% drop in 2009 sales of Proton, Perodua, Toyota, Honda and Nissan respectively (see Table 31). The new assumption translates into 2009-10 TIV growth of -25.0% and +15.9% yoy respectively (vs. -14.9% and +8.9% previously). Our less sanguine outlook is premised on:

Tighter credit procedure by banks

1) In tandem with the sharp TIV contraction since October 08, we note that yoy growth of Hire Purchase (HP) loan approval has declined for four consecutive month (See Chart 32). Rising unemployment rate would likely impair borrowers' ability to meet loan repayment plans, and hence higher NPL risk going forward. We expect unemployment rate to rise to 4.5% of total labour force in 2009, from 3.7% in 2008. This will likely drive financial institutions to tighten credit. Separately, although lower HP rate (after the series of OPR cuts to 2.0%) has reduced car buyers' cost of ownership, we believe falling consumer confidence will be the overriding factor that will drive sales down. Moreover, tighter credit will reduce the pool of potential buyers. Non-national and national cars' HP rates currently stand at 2.4-2.7% and 3.5-3.7% respectively.

Weaker sentiment - MIER's CSI plunged in 4Q 08

2) We stress that interest rate is not the sole factor in purchasing big-ticket items. Based on our analysis, TIV is inter-correlated with three underlying factors: 1) Population growth; 2) Per Capita Income; and 3) Business and consumer sentiment. Although the new scrapping policy is intended to stimulate car sales, we believe demand would remain weak against the backdrop of poor consumer sentiment and the expected 7.6% decline in 2009 per capita income. The Consumer Sentiment Index (CSI) has fallen by 17.5 points to 71.4 in 4Q 2008, after having rebounded by 18.5 points in 3Q 2008. It suggests that consumers have again turned more cautious and this will continue to dampen spending. Separately, we note that Business Confidence Index (BSI), which hover at above the benchmark 100 since the beginning of 2005, started to fall below the benchmark in 3Q 2008 and continued to decline by a larger magnitude of 45.8 points to 53.8 in the 4Q. This is the lowest level seen in 2001 (post bursting of the dotcom bubble), suggesting that business confidence has deteriorated significantly and

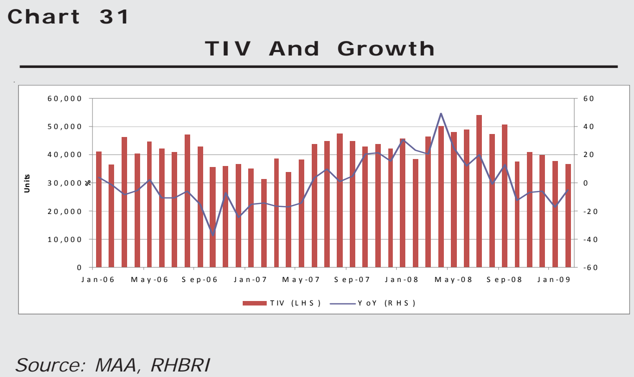
rapidly. However, we expect to see a rebound in 2010, when GDP bounces back to register positive growth of 3.8% and per capita income is projected to improve by 2.8%.

3) With more consumer items price markdowns, we believe that auto dealers may provide incentives and discounts to drive new sales. However, we do not view this as a significant catalyst to counter the depressed sentiment. This strategy may backfire due to the impact on secondary value and margins. Recall that post implementation of the National Automotive Policy (NAP) in 2006, when new car segment saw 8-15% reduction in prices, the resale values of second hand cars fell by a larger magnitude of 10-20%, limiting existing owner trading older vehicles for newer ones.

Potential price markdowns may lower resale value

Chart 31

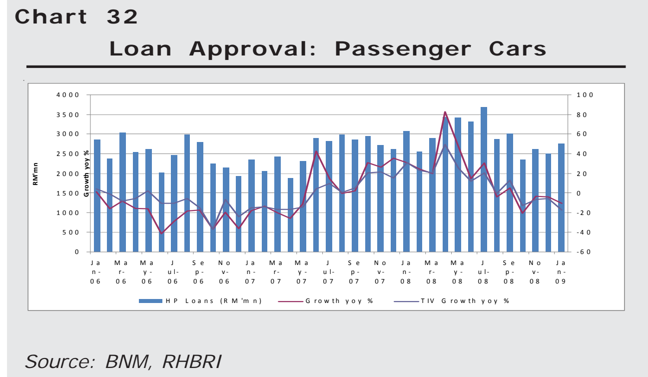
TIV And Growth



Source: MAA, RHBRI

Chart 32

Loan Approval: Passenger Cars



Source: BNM, RHBRI

Table 31

Motor Sales Forecast By Key Marques & Segment

	2009 (Nos.)	2010 (Nos.)	2011 (Nos.)	2009 (% yoy)	2010 (% yoy)	2011 (%yoy)
Perodua	128,889	151,534	171,323	(28.7)	14.6	16.6
Proton	101,200	115,981	135,212	(23.0)	17.6	13.1
Toyota	69,664	81,965	99,332	(31.5)	17.7	21.2
Nissan	25,141	27,209	31,374	(18.7)	8.2	15.3
Honda	35,793	45,109	55,717	10.2	26.0	23.5
TIV	**411,158**	**476,423**	**560,601**	**(25.0)**	**15.9**	**17.7**
-Passenger	*374,154*	*432,354*	*504,541*	*(24.8)*	*15.6*	*16.7*
-Commecial	*37,316*	*44,069*	*56,060*	*(26.3)*	*18.1*	*3.6*

Source: RHBRI
Source: MAA, RHBRI forecasts

Following our downward revision of 2009-10 TIV projection, we have cut our FY09-10 unit sales and EPS forecasts for UMW, Tan Chong, Proton and Perodua by 7-25% and 1-34% respectively (see Table 32). We maintain our **Underperform** recommendation for all four stocks:

Cut forecasts

a) **UMW:** Our SOP-based fair value was trimmed to RM4.44 (from RM4.56), based on 10x PER for its automotive and oil & gas divisions and 7x for its heavy equipment and manufacturing division.
b) **Tan Chong:** Our fair value was fine-tuned slightly to RM1.12 (from RM1.10), based on an average of 5.5x FY09-10 EPS.
c) **Proton:** Maintain the stock fair value of RM1.95 based on historical P/Book of 0.4x.
d) **MBM:** Fair value was trimmed to RM1.94 (from RM2.28), based on an average of 5.5x FY09-10 EPS. Reiterate **Underperform.**

Table 32

Forecast Revision Summary

Company	Sales Change (%)		EPS Change (%)		Fair Value (RM/share)	
	FY09	FY10	FY09	FY10	New	Previous
UMW	-24.6	-16.9	-12.6	-12.4	4.44	4.56
Tan Chong	-8.7	-7.3	-16.6	-12.5	1.12	1.10
Proton	-17.0	-20.2	-33.9	-1.3	1.95	1.95
MBM	-17.2	-7.4	-21.5	-20.7	1.94	2.28

Source: RHBRI estimates

We expect auto assemblers' 2009 EPS to drop by 21-54% arising from: 1) depressed consumer confidence on big-ticket spending; 2) margin squeeze from price mark-downs, volatile raw material cost, and unfavourable exchange rates; and 3) lower demand for heavy-duty equipment and pick-up trucks amidst global economic down-turn. Hence, our **Underweight** stance on the sector remains unchanged.

Table 33

Valuations Of Motor Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
UMW	Dec	5.40	40.8	44.4	-21.2	8.9	13.2	12.2	6.6	1.6	9.7	4.2	UP
Proton^	Mar	1.59	20.0	17.5	+>100	-12.7	7.9	9.1	1.0	0.2	1.7	0.0	UP
MBM	Dec	2.00	32.5	38.1	-32.9	17.0	6.1	5.3	12.2	0.5	11.4	6.0	UP
Tan Chong	Dec	1.25	16.7	23.9	-54.4	43.0	7.5	5.2	6.4	0.6	5.2	8.8	UP
Sector Avg					**-21.8**	**11.7**	**10.8**	**9.7**					
Sector Avg(ex-Proton)					**-31.5**	**15.9**	**11.3**	**9.8**					

^ FY09-10 valuations refer to those of FY10-FY11

Oil price assumption

In 2009, we expect crude oil prices to remain range bound at US$40-60/barrel. While a weaker US$ and OPEC's progressive production cuts have helped to push the oil price above US$50/barrel, continued weak demand amidst the severe economic downturn would likely undermine any major price rally over the medium term. According to the International Energy Agency (IEA), OECD oil products' inventory continued to rise (up 9m barrel) in January despite OECD refinery throughput falling to its lowest since 1995 and YTD global oil supply cuts amounting to 3.4mbpd.

Re-evaluation of risk hamper investment decisions.

Although most conventional E&P investments are benchmarked at the lower end of the US$40-60/barrel range (estimated to be around US$25-35/barrel for Petronas), still-low crude oil prices (64% down from its peak of US$147/barrel) would likely force oil majors to reconsider their risk profiles. The comfort of a large price differential between investment hurdle rates and prevailing price has effectively disappeared. Hence, we highlight the risk that these contracts would continue to be deferred/re-negotiated given less urgency of oil majors to spend on E&P projects.

Tighter credit.

Medium term, we believe tighter financing amidst liquidity crunch would constrain smaller oil companies' (which are heavily dependent on debt financing) funding for E&P projects, hence lead to further delays or even cancellation. However, unlike North America, we believe the majority of E&P companies in Malaysia waters (i.e. international oil companies and Petronas) are cash rich and with a considerable portfolio of long-term sanctioned projects supported by strong cash flows. The recent announcement by SapuraCrest that it had been awarded the US$825m pipelay contract for Shell's Gumusut-Kakap project in East Malaysia, albeit three months later than expected, bodes well for the sector, and suggests that deepwater E&P projects will continue (albeit with some delays) as long as crude oil price remains stable at US$40-60/barrel.

Weathering the storm....

While we have highlighted that FY09 E&P spending would likely slow and contracts priced at more competitive rates, we believe local players with diversified earnings (i.e. from businesses with low correlation to crude oil prices) and strong market position (to protect margins via value-added services) such as Dialog would be able to fare better than others. We highlight that companies with strong balance sheet would be in a better position to acquire currently depressed assets to increase ROE upon recovery in E&P activities.

1. **Dialog.** While we recognise that the medium-term outlook for EPCC, catalyst handling and specialist services business remains challenging, we believe Dialog's FY09-11 earnings visibility remains good on the back of strong demand for its higher-margin plant maintenance services and steady recurrent income from TLP CTF business. Although we estimate the company to be in net debt position of RM179.9m and RM4.1m in FY09-10 (due to capex for the TLP tank terminal), we expect a reversal to a strong net cash position of RM227.8m in FY11. Dialog should thus be in a strong position to acquire business within its core strategy of specialist technical and plant maintenance services. Reiterate **Outperform** with unchanged SOP fair value of RM1.09/share based on 10x FY10 PER, i.e. at a premium to the sector target PER of 8x.

2. **Petra Perdana.** Although charter rates for the 10k HP and above AHTS are holding up at around US$2.40-2.60/HP/day, rates for the 5k+ HP AHTS have slipped to around US$1.70-1.80 on average (from over US$2 in FY08). Furthermore, medium-term marine division's margin would be affected by higher lease charges and related cost incurred during the transit from China shipyard to Singapore. Further out, we believe charter rates would trend upwards as we expect the vessel shortage to persist beyond the near-term slowdown, and

especially for vessels in the larger range as new deepwater fields are opened up. However, given limited upside to our fair value of RM1.63, we have downgraded our recommendation on the stock to **Market Perform** (from Outperform previously).

3. **Wah Seong.** While E&P spending appears to be intact in the Asia region for now, we highlight that gas pipeline projects in Eastern Europe remain uncertain amidst heightened geopolitical risk, especially between Russia and its Eastern Europe neighbours. Nevertheless, we believe Wah Seong's current orderbook of RM1.6bn would likely be boosted by three sizeable pipe-coating contracts i.e. Gorgon, Browse (Australia) and Papua New Guinea. For now, we are reiterating our **Market Perform** call on the stock. However, our fair value is raised to RM1.40/share (from RM1.30/share previously) as we rolled forward our valuation base year to average FY09-10 PER (from FY09 previously).

4. **SapuraCrest.** While we have given management the benefit of doubt that new lumpy IPF contracts (including the recent RM3bn Gumusut-Kakap contract) would have a combination of lump sum, cost plus and day rate elements, we highlight that oil majors could potentially revise some of these clauses to lower the E&P cost amidst still-low crude oil prices. As of now, we have assumed FY10 IPF's EBIT margin of 4.0% before rising to 5.0% in FY11, given higher-mix of contracts with cost pass-through clauses. Reiterate **Market Perform** on the stock with unchanged fair value of RM0.86/share.

5. **KNM.** According to the management, 90% of its RM18bn worth of tenderbook have been retendered due to falling steel and crude oil prices. While the tenderbook value remains unchanged for now, we highlight the risk that these contracts would be deferred/re-negotiated given less urgency of oil majors to spend on E&P projects amidst low oil prices. We believe the share price has been affected by mounting concerns over the company's earnings risks, mostly driven by the recent drop in crude oil prices, which includes: a) lower capacity utilisation as demand for process equipment falters during the protracted economic downturn; and b) competition from larger global players would intensify if contracts dried up hence putting downward pressure on margin. Fair value nudged up slightly to RM0.39 (from RM0.37/share previously) as we rolled forward our valuation base year to average FY09-10 PER (from FY09 previously). Reiterate **Underperform**.

6. **EPIC.** Although KSB provides the bulk of earnings and is relatively stable, we remain concerned about the outlook and execution for the new businesses. Reiterate **Underperform** with an unchanged fair value of RM0.86/share.

Slight discount to Singapore peers....

We note that Singapore peers are currently trading at an average FY09 PER of 7.6x, which compares to 6.7x for our O&G stocks universe (excluding Petronas Gas). Comparatively, Singapore peers were trading at an average of 4.5x which was at a discount to our O&G stocks universe of 5.5x in our note dated October 2008. This suggests that Singapore oil & gas stocks have rebounded from its low given that crude oil price appeared to have hit the bottom already.

Reiterate Neutral

We note that there is high correlation of stock price performance to crude oil price. Nevertheless, we believe crude oil prices will remain volatile in the near term as demand continues to be affected by the global economic downturn. We are holding on to our view that crude oil prices will hover within the US$40-60/barrel range in 2009. At this level, while conventional E&P programmes are viable, we remain wary of more delays for deepwater activities as oil majors re-evaluate their risk profiles. Furthermore we reiterate that companies with diversified earnings and strong market position would fare better than others. For now, we are reiterating our **Neutral** stance on the sector. Our top pick for the sector is Dialog.

Table 34

Valuations Of Oil & Gas Stocks

Company@	Short-Term Momentum	Long-Term Drivers
EPIC	In process of transformation – risks have risen with change in top management.	New businesses including fabrication and ship repair/maintenance may not bring upside.
Dialog	Ramp up in new businesses (catalyst handling and Tanjung Langsat Port CTF).	Increasing focus on technology and specialisation, moving up the value chain.
KNM	Newly-acquired Borsig will drive 2HFY08 and FY09 earnings growth.	Target global market share of 3% by end-2008, and 6% by 2011.
Petra Perdana	Capacity expansion; Uptrend in charter rates due to shortage of offshore support vessels.	Bullish charter rates for 10K+ HP vessels where supply will remain tight through 2010.
Petronas Gas	Revenue growth capped by upstream gas processing volumes.	Proposed 300MW power plant in Sabah; more aggressive capital management appears unlikely.
SapuraCrest	New contracts especially in subsea installations, and drilling rig charters.	Execution risk for IPF partly mitigated by cost-pass through under Petronas Carigali contracts.
Wah Seong	New pipe-coating contracts in Malaysia and overseas.	Margins to be sustained as larger players are able to better-manage their material costs.

@ Table only includes oil and gas companies under RHBRI coverage
Source: Company data, RHBRI

Table 35

Valuations Of Oil & Gas Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Dialog	Jun	0.85	6.6	10.6	21.3	60.7	12.9	8.0	13.7	2.8	11.0	4.3	OP
Petra Perdana	Dec	1.41	20.5	24.8	-2.5	21.1	6.9	5.7	4.4	0.8	n.m.	1.4	MP
SapuraCrest^	Jan	0.76	10.2	12.1	22.1	17.6	7.4	6.3	3.3	0.8	3.3	3.9	MP
Wah Seong	Dec	1.27	16.2	17.4	60.5	7.5	7.8	7.3	4.7	1.7	7.2	5.2	MP
KNM	Dec	0.40	7.5	8.0	-12.2	6.9	5.3	4.9	5.9	24.6	n.m.	12.7	UP
EPIC	Dec	1.22	16.5	18.0	-2.1	9.1	7.4	6.8	3.7	0.7	3.4	4.7	UP
P Gas^	Mar	9.75	45.7	53.7	-1.0	17.4	21.3	18.1	9.9	3.0	12.8	5.0	UP
Sector Avg					**-0.03**	**17.2**	**14.6**	**12.5**					

^ FY09-10 valuations refer to those of FY10-FY11

RHB◆

Plantation : No Real Demand Catalysts To Drive Next Price Bull-Cycle Yet

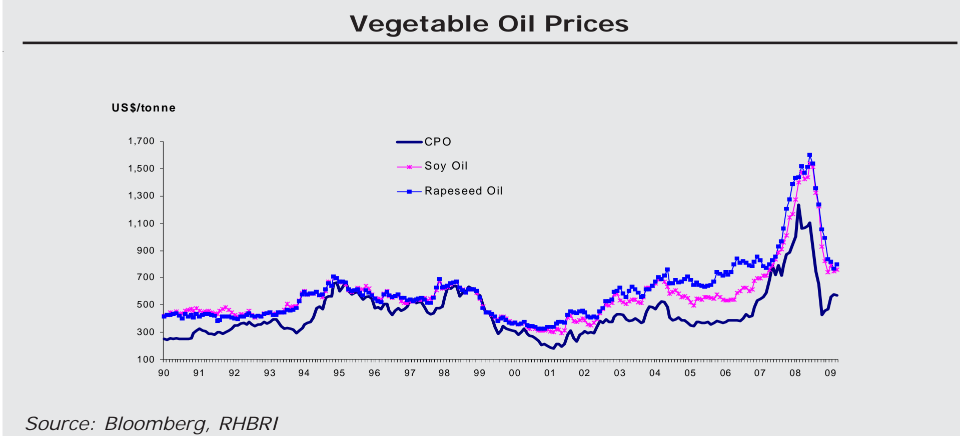
Neutral

Recent "catch-up" of crude oil prices to be in line with historical correlation with CPO prices

Crude oil prices catching up with CPO prices. Over the last week, crude oil prices have rallied to above the US$50/barrel mark, closing at US$53/barrel on March 24th, while CPO prices have also rallied somewhat, closing at RM2,110/tonne (see Chart 33). We believe the recent rally in crude oil prices was long overdue, given our expectation that crude oil prices would revert to trading at a 0.7x historical correlation to CPO (recorded in 2000-2005, on a US$/tonne basis), from the 1-1.1x CPO price it has been trading at over the last three years. As such, based on current crude oil price of US$53/barrel and applying the historical 0.7x correlation factor, this would translate to CPO price of RM2,030/tonne, which is relatively close to the current price. In the medium term (ie. within the next 12-24 month period), our energy analyst continues to believe crude oil prices are likely to stabilise at between US$60-70/barrel and only go past this level once economic growth regains positive momentum. As we continue to believe that as long as biofuel mandates exist, the price direction of crude oil would have an influence on the direction of vegetable oil prices, we expect CPO prices to still be partially supported by a potential rise in crude oil prices in the medium term.

Chart 33

Vegetable Oil Prices



Source: Bloomberg, RHBRI

Mixed industry developments – including:

Over the last few months, there have been several developments in the industry which we believe, could have an impact on price movement going forward. However, as the news flow has been rather mixed, we believe our Neutral call on the sector is still justified. These include:

Argentinean farmers on strike again;

(1) Argentinean farmers on strike again – positive for CPO. Argentinean farmers are once again involved in a conflict with the government to protest the high export taxes of 35% on soybeans, by going on strike since 20 March. The strike continues this week as negotiations with the government failed recently. As a result of the farmers withholding crops and blocking highways, exports from Argentina have slowed, resulting in the recent spike in soybean oil prices.

weather volatilities creating uncertainties;

(2) Weather volatilities – positive for CPO. The impact of the *La Nina* phenomenon on South American crops is still as yet uncertain, although we note that the latest *El Nino/La Nina* outlook by the US National Oceanic and Atmospheric Administration (NOAA) as well as Australian Bureau of Meteorology suggests that although steady warming is expected across the entire equatorial Pacific Ocean for the next few months, these conditions are expected to turn neutral by April 09. In northeastern China also, the aggravating dryness is already threatening wheat production in the country and if it spreads and continues, there are concerns that this could also affect China's rapeseed and soybean plantings.

(3) ***China demand projections reduced – negative for CPO.*** In China, Oil World is projecting a decline in demand growth for oils and fats due to the sharp slowdown of economic growth, to 30.1m tonnes in 2009, up only 2.7% yoy, which is the lowest increase in many years. This translates to an increase in the average per capita consumption to only 0.5kg, versus 0.7kg in 2008 and 1.0kg in 2007. We believe this is not entirely unexpected, although we would expect demand from China to be one of the first few markets to pick up in an economic recovery.

China demand projections reduced;

(4) ***India eliminates 20% import duty on soyoil – negative for CPO.*** In a surprise move, on March 19, the Indian Government eliminated the 20% import duty on crude soya oil, making it on par with the zero import taxes imposed on CPO currently. This was done to bring down domestic prices ahead of the general elections in May. The impact of this move is likely to be negative for CPO, given that there is no longer any duty differential between soyoil and CPO, while the downward pressure on domestic prices in India could likely result in reduced domestic production and sales of soybeans as well as lower crush margins. This could then have the opposite effect of raising India's soyoil imports. There are also some schools of thought that believe the unexpected move to reduce soyoil duties is a temporary measure put in place prior to the election, meaning that there could potentially be a reversal of this regulation once the election is over. Nevertheless, we note that even prior to the reduction of import duties for soyoil, imports of vegetable oils in India were already expected to reach record levels of 6.8-6.9m tonnes in 2009, up by about 0.9m tonnes or 15% yoy, as domestic production of oilseeds is expected to be weaker this year.

India eliminates soyoil import duties;

(5) ***EU imposes import duties on US biodiesel - negative for CPO-based biodiesel.*** On 3 March, the EU decided to impose temporary duties on US biodiesel imports to be effective from 13 March onwards for an initial period of six months. The additional tariffs will range from Euro26 (RM120.90) to Euro 41 (RM190.65) per 100 kg. We believe this would discourage US exports of biodiesel into Europe, potentially leading to excess biodiesel supply in the US, which may result in falling biodiesel prices. As margins on biodiesel are already not as attractive as diesel, given the still weaker crude oil prices, the import duties will only serve to exacerbate matters.

EU imposes import duties in US-based biodiesel;

(6) ***EU's new Renewable Energy Directive – negative for CPO-based biodiesel.*** The EU's new Renewable Energy Directive, which will be made into national law within the next 18 months, states that the share of renewable energy in EU has to increase from 8.5% (in 2005) to 20% by 2020. Specifically for biofuel, the directive states that the EU has to achieve a 10% target for renewable energy in transport by 2020 (or approximately 30m tonnes of oil equivalent), and this is expected to come mainly from biofuels. However, the biofuels to be used would have to fulfill the new sustainability criteria which involve, amongst other things: minimum greenhouse gas (GHG) savings (of 35% now, rising to 60% by 2018); raw material (ie. feedstock) for biofuel must be traceable back to plantations that existed before Jan 2008 and should not come from land that was forest, wetland, protected areas etc; and the recognition of "voluntary schemes" to certify sustainable productions.

EU imposes new Renewable Energy Directive; and

Although under the RSPO (Roundtable Sustainable Palm Oil) certification, Malaysian plantations which are certified would fit the sustainability requirements under the EU Directive, palm-based biodiesel still does not fulfill the GHG emissions guidelines. Palm-based biodiesel only has GHG savings of between 19-26% (various sources give different estimates), as compared to the EU Directive of at least 35%, compared to rapeseed-based biodiesel, which has GHG savings of > 50%. This means that Malaysian biodiesel producers would need to invest further into the biodiesel process to ensure that the GHG emissions meet the EU targets in order to be able to export its products to the EU. Given the already unattractive margins of biodiesel versus diesel currently, we believe there would be even less incentive for Malaysian companies to start up their dormant biodiesel plants or even crank up production activities.

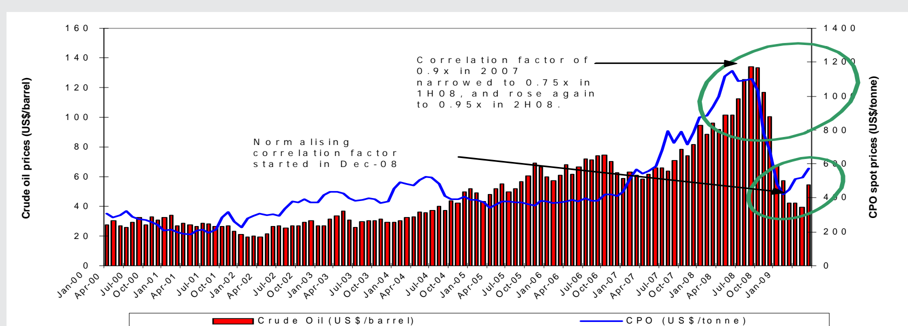
(7) ***Discounts between CPO and soyoil/rapeseed oil getting close to historical averages – positive for CPO.*** The discount between CPO and soyoil is now at US$185/tonne (versus historical average of US$100/tonne), while the

further narrowing of discounts between soya oil and rapeseed oil vs. CPO

discount between CPO and rapeseed oil has now narrowed to US$220/tonne (versus historical average of US$200/tonne) (see chart 34). We continue to expect the discounts to narrow further over the next one to two years, going back to historical averages.

Chart 34

Crude Oil vs. CPO Prices



Source: Bloomberg, RHBRI

CPO price assumptions unchanged. We maintain our view that CPO prices have bottomed at end-2008 (with downside risk limited at RM1,500/tonne) and that there are no real demand catalysts to drive the next price bull-cycle yet, resulting in rangebound CPO prices of RM1,600-2,000/tonne in 2009. We acknowledge however, that volatilities in weather patterns as well as currency movements would be the two wild cards which may cause discrepancies to our price views. Nevertheless, as noted above, *El Nino/La Nina* conditions are expected to turn neutral by April 09, while on the currency front, our economic team expects the US$ to remain strong for most of the calendar year, before weakening towards the end of the CY2009. Going into 2010, we believe prospects are looking better and expect CPO prices to potentially cross the RM2,000/tonne mark in a more convincing manner, to trade in a RM1,800-2,300/tonne range. As such, we maintain our CPO price projections at RM1,800/tonne for CY 2009; RM2,000/tonne for CY2010 and RM2,500/tonne for CY2011.

CPO price assumptions maintained

Maintain Neutral. We continue to align our valuation targets for the plantation companies under our coverage with our market target of 14.5x for 2009 and base our valuation targets on an average of CY09 and CY10 earnings, in order to partially capture the anticipated price recovery in 2010. As such, we maintain our target PE of 14.5x average CY09/10 earnings for the plantation divisions of the big-cap plantation stocks, 12.5x average CY09/10 earnings for the mid-cap plantation stocks and 10x average CY09/10 earnings for the small-cap plantation stocks. We reiterate our NEUTRAL stance on the plantation sector but note that the current and anticipated fluctuations of CPO prices in 2009 due to seasonalities and major news developments would provide good trading opportunities for investors. We maintain our recommendations of Outperform for CBIP, Market Perform for Sime Darby and Underperform for IOIC, KLK, Asiatic and IJMP.

Neutral on plantation sector maintained

Table 36

Valuations Of Plantation Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
CBIP	Dec	2.12	45.3	63.3	3.2	39.6	4.7	3.3	4.9	1.1	3.8	7.1	OP
Sime Darby	Jun	5.80	30.7	33.4	-49.3	8.9	18.9	17.3	10.6	1.5	12.7	3.6	MP
Asiatic	Dec	4.26	28.0	38.2	-43.2	36.2	15.2	11.2	11.7	1.3	13.4	1.3	UP
KLK	Sep	10.70	54.1	62.6	-49.0	15.7	19.8	17.1	12.1	2.1	32.3	2.8	UP
IOI Corp	Jun	4.00	25.2	23.5	-21.4	-6.8	15.9	17.0	11.9	2.9	13.3	2.5	UP
IJMP^	Mar	2.12	10.4	16.3	-47.8	56.1	20.3	13.0	12.2	1.5	14.5	2.4	UP
Sector Avg					**-40.9**	**6.5**	**17.5**	**16.2**					

^ FY09-10 valuations refer to those of FY10-FY11

Power : Looking Beyond Near-Term Demand Issues — Overweight

Demand issues continue to plague the sector ...

In our view, the main concern in 1Q09 was with respect to falling electricity demand. Jan unit sales contracted 6.1% yoy with the key culprit being the industrial segment, where demand fell by a whopping 15.3% yoy. Mitigating this drop were the commercial and domestic segments, where yoy growth was +0.8% and +5.7% respectively. In addition, heeding calls for lower electricity tariffs, the Government responded by reducing the price of gas to the power sector by 25.2% to RM10.70/mmbtu (from RM14.31/mmbtu), effective from 1 Mar. In turn, TNB lowered electricity tariffs by an average of 3.7%. We were, however, pleasantly surprised that the Government allowed TNB to keep some of the cost savings from the lower gas price. As it stands, the current electricity tariffs allow TNB to cover its coal cost up to US$85/tonne, as compared to US$75/tonne previously.

... which could see reserve margin rising to 56.5%

Looking ahead to 2Q, we believe investors will continue to keep a close watch on demand. We had recently cut our 2009 GDP growth projection to -3.5% (from -1.5%) and likewise, lowered our FY09 demand growth assumption for TNB to -3.5% (-1.5% previously). Based on our demand growth forecast, we estimate that the reserve margin could rise to as high as 56.5% this year, from 40.8% in the previous year. Apart from the above, the Government had earlier promised to review electricity rates periodically. The next review is scheduled to take place on 1 Jul and subsequently, every six months. With coal prices continuing to trend downwards (current Newcastle Benchmark price is around US$60.30/tonne), we would not discount the possibility that TNB may be allowed to keep some of the cost savings to help cover rising capacity payments from Jimah Power.

IPPs position still relatively insulated thanks to PPAs

By contrast, the position of IPPs appears relatively insulated. Shielded by PPAs, demand and fuel risk remains concentrated on TNB's shoulders. Besides that, while there have been reports that the Government plans to review the PPAs, we believe any such renegotiations will likely only take place after the National Energy Plan has been unveiled, i.e. sometime 2H09. We highlight that talks between TNB and IPPs on PPAs have not been successful in the past and thus, we believe any fresh negotiations will similarly be protracted and complicated. We doubt the IPPs would be willing to accept lower payments without any incentives in return, for instance, the IPPs may link negotiations to a possible extension of current concessions or future planting up.

Expectations currently low given past experience ...

Looking further ahead into 2H09, we believe focus will firmly be on the National Energy Plan. We believe investors will look to the blueprint to address prevailing uncertainties in the industry, as well as provide a roadmap in terms of future interaction and growth among the players. Given past policy changes and disappointments, it would not be wrong to have low expectations. The lack of continuity in the Government's policies towards the industry since 1993 has been most damaging, in our view. Planting programmes have been ad hoc at best, and driven by the Government and the Economic Planning Unit (EPU), rather than TNB's management. Having said that, we believe there is reason to be more optimistic this time round. In our view, the Government needs to turn more investor friendly to rebuild confidence in the sector, and to ensure that new power projects can be financed via the capital markets. A clear direction for the industry from the National Energy Plan would be positive for the sector on the whole.

... but Government needs to turn more investor friendly to rebuild confidence in the sector

As highlighted above, we believe demand growth remains at the top of the list of issues plaguing TNB. This would be exacerbated by rising capacity payments for Jimah Power, although the full impact of the additional RM1bn capacity payment will only be felt in FY11. On the flipside, we see a mid-year tariff review as a potential near-term catalyst for the stock as it will help reaffirm the Government's commitment to a bi-annual review. Further out, we see TNB as an excellent proxy to a recovering economy (expected early-2010). This expected recovery underpins our +3.8% FY10 demand growth assumption and +30.6% FY10 EPS growth projection. Hence, we have kept our **Outperform** call on the stock. Fair value of RM8.60 is based on 14x average FY09 and FY10 EPS.

Demand remains a near-term concern for TNB ...

... but potentially mitigated by mid-year tariff review ...

... while further out, TNB is an excellent proxy to an economic recovery

As for the IPPs, both Tanjong and YTL Power offer rather similar investment thesis, i.e. both have diversified and/or overseas businesses to help cushion the impact of domestic power policy changes, if any. Both remain on the lookout for growth opportunities in overseas markets given huge energy demand in regions such as Middle East-North Africa, India sub-continent, South Africa and Southeast Asia. Finally, dividend yields for both companies are attractive and, more importantly, sustainable, in our view (Tanjong: FY09-11 gross yields of 7.3-7.6%; YTL Power: FY09-11 gross yields of 7.9%). Between the two, Tanjong remains our preferred pick as valuations are cheaper. Besides that, Tanjong is also a beneficiary of the strengthening US$ given that its overseas PPAs are in US$ terms. We have retained our **Outperform** call on the stock and our SOP-derived fair value of RM19.60. As for YTL Power, we believe the GBP's weakness could hamper earnings as well as valuations with respect to Wessex and, on the whole, cap share price performance. Thus, we are maintaining our **Market Perform** recommendation and SOP-derived fair value of RM1.87.

Tanjong is our preferred pick for the IPP sector

For Sarawak Energy, the company's demand growth and results have been disappointing. Thus, we expect the share to perform in line with the market, at best, and hence, maintain our **Market Perform** call.

Overall, we believe the sector offers the best of both worlds to investors, i.e. stable IPP earnings with attractive yields to help tide investors through the current volatility (i.e. Tanjong) and liquid, fundamental stocks such as TNB to help position investors for recovery. Maintain **Overweight** stance on the sector.

Maintain Overweight stance on the sector

Table 37

Power Sector Fair Value Calculations

Company	Recommendation	FV RM	Comments
TNB	Outperform	8.60	14x average FY09 and FY10 EPS
Tanjong	Outperform	19.60	SOP comprising DCF for power and target FY10 PER of 15x for gaming
YTL Power	Market Perform	1.87	SOP comprising EV/RCV of 1.1x for Wesse Water, DCF for power
Sarawak Energy	Market Perform	1.85	DCF-based fair value

Table 38

Valuations Of Power Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Tenaga	Aug	6.20	53.0	69.2	-1.4	30.6	11.7	9.0	6.9	1.0	4.4	4.0	OP
Tanjong^	Jan	14.00	174.9	182.6	29.5	4.4	8.0	7.7	6.3	1.4	7.8	7.5	OP
Sarawak	Dec	1.70	14.7	18.7	16.3	27.2	11.6	9.1	6.3	0.8	5.2	2.3	MP
YTL Power	Jun	1.89	11.0	11.7	-34.6	6.2	17.2	16.2	8.4	1.5	6.2	7.9	MP
Sector Avg					**-2.7**	**14.1**	**11.0**	**9.1**					

^ FY09-10 valuations refer to those of FY10-FY11

RHB

Property : Worst Has Yet To Come

Underweight

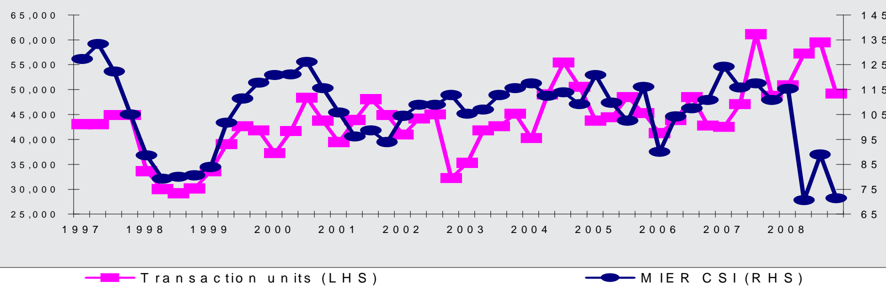
Minimal impact from Mini Budget

In the recently-announced Mini Budget, the Government has proposed that house buyers be given tax relief on interest paid on housing loans of up to RM10,000 a year for three years. This is to attract buying interest and stimulate the property sector. Although this latest development will improve house buyers' affordability, we doubt its effectiveness in boosting the demand for property under the current economic downturn. We believe that the impact from the tax relief would be muted as **weak consumer sentiment will continue to defer purchasers from making long-term commitment on big-ticket items** during an economic downturn. Based on historical data, property transactions tend to track MIER Consumer Sentiment Index (CSI), albeit with some time lag. With CSI of 71.4 in 4Q08 staying below the benchmark 100 points, we expect the property market to remain challenging for the rest of the year (see Chart 35).

Weak consumer sentiment will continue to haunt local property market

Property transactions tend to track MIER Consumer Sentiment Index (CSI) albeit with some time lag

Chart 35
Malaysia - Property Transactions Versus MIER Consumer Sentiment Index (CSI) Weak consume sentiment has led to sharp decline in property transactions in 4Q08.

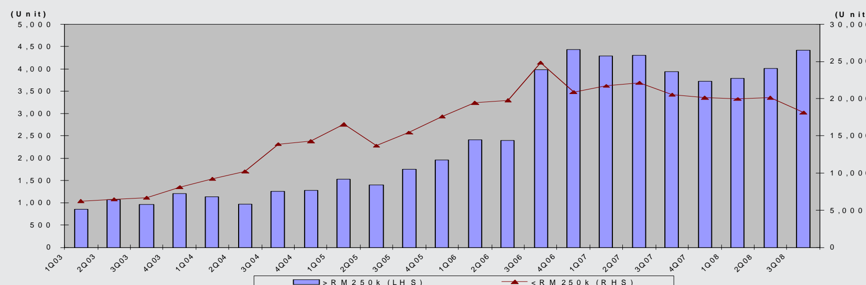


Source : Napic

Meanwhile, despite the weakening raw material prices since Aug 08, we are expecting developers' **margins to be under pressure in the coming quarters**. This is due to aggressive marketing activities and special offers in order to maintain sales amidst the economic downturn. Furthermore, some developers have indicated their intention to switch focus to middle-end products as demand is now focusing more on affordable housing (which has lower margin versus high-end products). Based on recent statistics, there was a drop in total overhang units for properties priced below RM250k by 10% qoq and 11.8% yoy in 3Q08 whilst overhang units for properties priced above RM250k increased by 10.1% qoq and 12% yoy (see Chart 36).

Lower margin due to higher marketing costs and switch to more affordable housing products

Chart 36
Total Overhang Units Dropped By 6.7% qoq And 8.0% yoy In 3Q08 Due To The Cut In Property Launches By Developers.



Source : Napic

Overall, demand is expected to remain sluggish in the absence of recovery in the economy and consumer sentiment. As a consequence, we expect to see a **sharp decline in developers' unbilled sales in the coming quarters** due to: a) lower property demand; and b) delay in launches, which will affect earnings in subsequent years.

Expect sharp decline in developers' unbilled sales

Not time to accumulate yet

Despite steep valuation i.e. PER of 3.2-8.7x (excluding SP Setia of 17.8x) and 44-81% discount to RNAV, we believe the property market **has yet to experience the full impact of the current economic downturn. Hence, we do not think it is time to accumulate property stocks now.**

Healthiness of companies' balance sheet is paramount

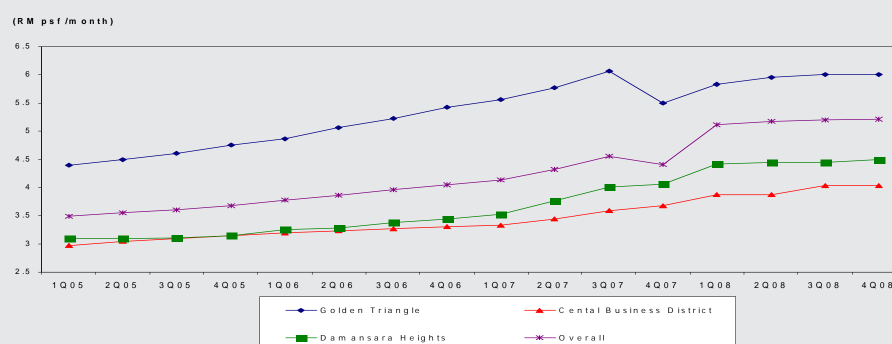
Maintain Underweight stance on property developers

In times of uncertainties, we advocate investors **to focus on the healthiness of the companies' balance sheet** (instead of income growth as the decline in earnings growth is unavoidable under the current economic downturn) and whether the companies are able to weather the current storm. **Avoid developers with high gearing and high short-term debt-to-total debt ratio** (repayment and refinancing risk). Maintain **Underweight** recommendation on the property (developers) sector.

Office rentals are expected to drop in 2H09

Meanwhile, office rents are expected to be on a downward trend in 2H09 due to weaker leasing activities and increasing office supply. However, we believe investment property owner with strong support from parent company and/or long-term lease agreements like **KLCCP (FV = RM3.45, MP)** can weather the short-term or cyclical weak office market environment.

Chart 37
Average rental rate (RM/psf) in Klang Valley office buildings. Overall office rental rate showed marginal growth in rental since 1Q08.



Source: Knight Frank Malaysia

Higher downside risks for M-REITs players especially those without long-term leases

Nevertheless, we are **cautious on the stability and sustainability of M-REITs'** short-term earnings performance (especially those without long-term leases) in view of rising occupancy and devaluation risks as well as potential downward revision in rental rates amidst the current economic downturn. Furthermore, it lacks catalyst for re-rating i.e. lesser opportunities for yield accretive acquisitions due to poor capital market condition and financial constraint. The pause in acquisition mode implies M-REITs near-term earnings performance will solely depend on organic growth i.e. higher rental rate and cost-cutting measures. However, we see **more downside risks on rental rates** now due to lower leasing activities and increasing supply. Even though we prefer investment property owners over developers, due to the abovementioned issues, we are maintaining our **Neutral** stance on investment property owners / M-REITs.

Maintain Neutral stance on investment property owners / M-REITs

Table 39
Valuations Of Property Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Axis REIT	Dec	1.29	15.5	15.6	1.9	0.2	8.3	8.3	10.7	0.4	6.0	12.0	OP
Glomac^	Apr	0.50	10.6	11.8	2.3	11.2	4.7	4.2	3.0	0.3	2.8	10.1	MP
Sunway City	Dec	1.48	46.7	34.8	61.1	-25.5	3.2	4.3	3.2	0.4	1.8	3.4	MP
KLCC	Mar	2.95	24.2	24.6	3.3	1.7	12.2	12.0	5.6	0.6	6.6	3.7	MP
SP Setia	Oct	3.00	16.9	18.6	-10.5	10.0	17.8	16.1	22.2	1.5	16.7	2.8	UP
Sunrise	Jun	0.91	21.7	18.5	-14.2	-14.9	4.2	4.9	5.4	0.6	7.1	13.3	UP
YNHB	Dec	1.00	17.5	18.1	-23.1	3.6	5.7	5.5	6.9	0.6	6.8	8.0	UP
IOIP	Jun	2.60	29.8	26.4	-22.8	-11.3	8.7	9.8	9.1	0.7	11.7	7.7	UP
Quil Capita	Dec	0.81	7.6	7.6	1.1	0.1	10.6	10.5	12.6	0.6	2.7	9.5	UP
Sector Avg					**-6.7**	**-6.4**	**8.5**	**9.1**					
Sector Avg (EX- REIT & KLCC)					**-10.3**	**-9.1**	**7.5**	**8.2**					

^ FY09-10 valuations refer to those of FY10-FY11

RHB

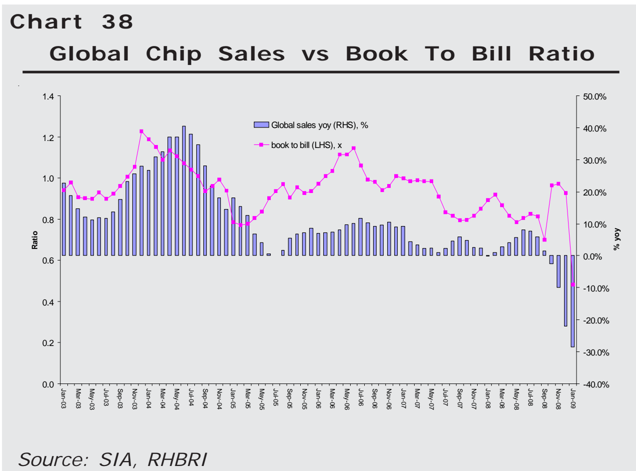
Semiconductor & IT : Outlook Still Bleak Despite A Slight Uptick In Chips Demand From China

Underweight

Has the cycle troughed out?

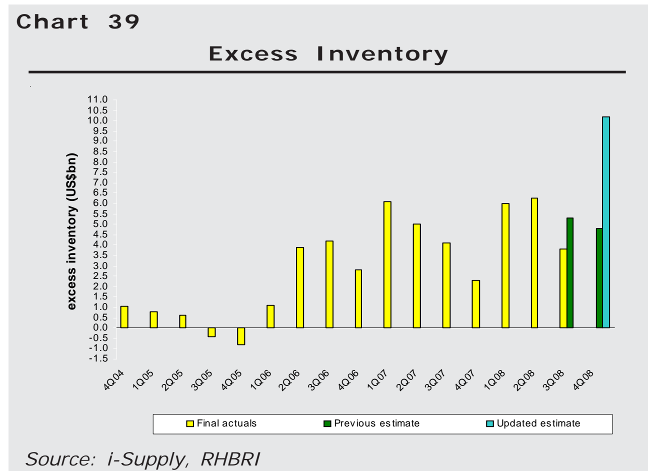
We gather that chips demand has risen beginning March 09 mainly due to the stimulus package in China and low inventory level for certain chips (especially consumer IC). While this is positive for the sector, we believe sustainable recovery is unlikely until demand in mature markets (i.e. US and Europe) picks up. We highlight that the inventory level would likely spiral up again if chips producers over-estimate demand in mature markets and start to ramp up capacity. Hence, unless consumer sentiment in US and Europe starts to recover in 3Q, orders for the back-to-school and holiday season sales would likely be depressed, hence delaying the sustained stabilisation of inventory level and pricing. The four consecutive months of yoy decline since October 2008 (see Chart 38), suggests that chips demand remains weak amidst global economic downturn and battered consumer sentiment. We believe the PC replacement cycle in developed markets could lengthen, while growth momentum in emerging markets could slow dramatically due to weak consumer sentiment in these regions.

Chart 38
Global Chip Sales vs Book To Bill Ratio



Source: SIA, RHBRI

Chart 39
Excess Inventory



Source: i-Supply, RHBRI

Forecasts for chip sales are reset sharply lower

Further reinforcing this bleak outlook, Gartner has lowered its growth projection for global chip sales for the third time since Nov 08 to a sharper -24% (vs. -16.3% previously) amid deteriorating sign i.e. increase in order cancellations as players across the supply chain moved to extremely cautious position amid global economic downturn. Closer to home, 4Q real exports contracted 13.4% yoy (vs. +5.1% yoy in 3Q) mainly due to decline in E&E products (which contributed approximately 40% to the total exports). Moreover, American Malaysian Chamber of Commerce expects 2009 recovery to be at risk, citing waning demand for Dell computers and fallen order visibility for Intel and Motorola. Note that US electronics makers account for about 12% of Malaysia's total exports and more than a quarter of the country's electronic shipments.

Weak equipment orders suggest chips demand remains subdued

Moreover, Feb 09 equipment orders plunged to its 18-year low of US$263.5m. The sharper-than-expected contraction of 78% yoy (vs -75% yoy in Jan 09), suggests that chip makers in Asia, Europe and US have turned extremely cautious on capex spending on the back of slumping chips demand as well as severe cash crunch. As a result, North America-based manufacturers of semiconductor book-to-bill ratio in Feb 09 remained flattish at 0.48x, which compares to 0.47x in Jan 09 and a high of 0.98x in Nov 08. Moreover, Japan's Semiconductor Equipment Association book-to-bill ratio plunged to its record low of 0.35x, further reinforcing the severity of the downturn in the semiconductor equipment market due to subdued capex spending for chip producers.

Hence we remain cautious on equipment suppliers i.e. **LKT (Not Rated)** and **Pentamaster (Not Rated)** given slowing demand for wafer fab, packaging and testing equipment, which will likely hurt their earnings going forward.

Temporary insourcing adding to PAT's woes

While integrated device manufacturers' (IDMs) longer-term goal is to increase outsourcing, we believe they will temporarily reduce their outsourcing during a downturn in an effort to bolster inhouse production. We expect chip producers in US and Europe to be under pressure from their governments to cut down on outsourcing given the rising retrenchment rate. Reduced outsourcing during a downturn will aggravate the already weak orders to IC packaging, assembly and testing (PAT) subcontractors.

Good news - excess inventory level excluding memory products remains healthy

However, we are comforted by some positive signs for the industry, i.e. better inventory control (excluding memory products) and good capex discipline in the supply chain. We believe inventory level for broad-based chips excluding DRAM and NAND will remain at its low level as major semiconductor players continue to exercise capex discipline and tight control of the supply chain. Note that both MPI and Unisem have no exposure to memory products, hence they are shielded from margin compression arising from falling ASP for DRAM and NAND products.

Risk to earnings hinges on bigger exposure to consumer sector – MPI

We believe slowing US spending on consumer electronics such as mobile devices and game consoles would have a bigger knock-on effects on MPI's medium-term earnings as revenue contribution from consumer electronics segment remains the highest. Although we are positive on MPI's cost-reduction initiatives, we believe the full impact can only be realised over the longer term given time required to set up new processes and customer qualification. Hence, our **Underperform** call and indicative fair value of RM2.65/share for the stock remain unchanged.

Unisem not spared too

Going forward, Unisem's earnings visibility remains poor given diminishing order visibility and customers' lower order rate amidst financial crisis and global economic downturn. Already, the company guided 1QFY12/09 revenue to decline by 35-38% qoq on the back of slumping chips demand amidst global economic downturn and battered consumer confidence. We believe medium-term chips demand would remain uninspiring given weakness in end-market demand for consumer electronics and business equipment. Hence, our **Underperform** call and fair value of RM0.33 (based on 6x average CY09-10 fully-diluted EPS) on the stock remain unchanged.

Maintain Underweight

While chips demand from China has risen in March (with sales momentum going into 2Q), we reiterate that sector recovery is dependable on stronger chips sales from US and Europe. We advocate that 3Q chip sales (especially from the US and Europe regions) will be a better indicator as to whether a sustainable recovery is in sight. Hence, we reiterate our **Underweight** stance on the sector for now.

Table 40

Valuations Of Semiconductor/IT Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Unisem	Dec	0.56	-0.7	11.7	->100	+>100	n.m.	4.7	4.2	0.4	1.2	22.5	UP
MPI	Jun	4.58	-13.1	44.1	->100	+>100	n.m.	10.4	5.7	1.6	3.9	11.4	UP
H-Displays	Dec	0.13	-0.3	1.2	-40.7	+>100	n.m.	10.0	12.4	0.7	27.2	0.0	UP
Sector Avg					**->100**	**+>100**	**n.m.**	**8.0**					

^ FY09-10 valuations refer to those of FY10-FY11

Telecommunication : Recycling Of Cash To Hog Limelight

Neutral

1Q09 more eventful than expected as Digi rolled out broadband services, P1 continued its aggressive WiMax rollout and Maxis launched Apple iPhone 3G

TM surprised investors with the magnitude of its capital repayment but TMI's rights issue perceived negatively due to huge EPS dilution

1Q09 turned out to be a more eventful quarter for the sector than we had envisaged. As expected, Digi rolled out its wireless broadband service with the tagline "Broadband Done Right" while P1, Green Packet's subsidiary, continued to be the most visible and aggressive WiMax player. P1 aims to have 700 new sites up by year-end and budgets to spend around RM1bn in capex over the next five years with respect to its WiMax rollout plans. Maxis was also in the spotlight with the launch of the Apple iPhone 3G and this could help spur its mobile data revenue growth. Meanwhile, although TM released the terms and conditions of access to its high speed broadband (HSBB) network, industry players were largely disappointed as it failed to address key issues such as pricing for access, which is only expected to be revealed next month. In terms of corporate proposals, TM pleasantly surprised investors by declaring a capital repayment of RM0.98/share, which would be funded by the RM4bn repayment from TMI. On the other hand, TMI's 5-for-4 rights issue to raise RM5.25bn was generally perceived negatively by shareholders due to the significant EPS dilution that would result from the exercise.

Spotlight for 2Q09 on repayment of RM4bn by TMI to TM and completion of TMI's rights issue and TM's capital repayment

Following from the above, we believe focus in 2Q09 will be on the repayment of the RM4bn by TMI to TM, completion of TMI's rights issue and TM's capital repayment exercise (although this could slip into 3Q09). The RM4bn repayment is expected to be made by Apr 25, i.e. before TMI's rights issue can be completed. To address the timing difference, TMI is expected to settle the TM debt with bank loans and repay the bank as soon as its rights issue is completed, i.e. early-May. Completion of the rights issue exercise will finally address TMI's high gearing levels (FY09-11 net debt/EBITDA estimated to fall to 2.2-2.6x from 3.1-3.6x pre-rights issue) and place the group on a firmer footing to weather the current economic conditions. Meanwhile, an EGM for shareholders' approval for TM's capital repayment is expected to take place sometime in May as well. Apart from the above, the Idea-Spice merger is due to be completed in Apr. With that, TMI will be able to start accounting for its share of earnings in the enlarged Idea group.

Despite high mobile penetration rate and intensifying competition in broadband space, competition still expect to remain rationale

Amid a fairly matured mobile market space (mobile penetration as at end-2008 stood at 96.8%) and intensifying competition within the broadband space, we expect competition to continue to remain rationale and do not expect a price-war to erupt. Having said that, we do expect to see operators continue to try to differentiate themselves while at the same time, raise spending in customer acquisition and retention programmes (such as more advertising and loyalty programmes and more contract tie-ups). All these should lead to higher operating cost and thus, we do not see any significant margin expansion in the near term. For instance, despite being a late-comer to the wireless broadband market, we note that Digi has opted to differentiate itself and has focused on trying to enhance broadband user experience by offering consistency in speeds rather than, for example, focusing on prices or "top download speed".

TM – near-term focus on capital repayment ...

Turning to the individual companies, for TM, we have projected FY09 core net profit growth of 6.6% as we do not expect lumpy items such as ESOS costs and provisioning for bad debts to be as significant as compared to FY08. Near term, we believe focus will be on the proposed capital repayment exercise and this should help provide support to share price.

... while longer-term focus will be on the sustainability of the minimum RM700m dividends

Looking beyond that, we believe the key focus will be on the sustainability of the minimum RM700m dividends, especially given that TM will also be embarking on the HSBB project. Our analysis suggests that in order to meet the minimum dividend payment (post capital repayment) in the near-mid term, TM will have to dig into its coffers. Mitigating factors include potential cash inflows from ESOS (of around RM330m) and from the sale of non-core assets (monetisation of staff loans was earlier esti-

mated to fetch around RM500m). In addition, while we estimate TM's net debt/ EBITDA ratio would rise to 1.6x (from 0.15x) after the capital repayment, TM still has room to gear up further. Although it appears that there is little room for error if TM intends to honour its dividend policy over the long term and management will likely be under increased pressure to improve operational efficiency (and cash flows), this could turn out to be a longer-term positive for the group overall if management executes their plans well. Our fair value of RM3.55 for TM assumes a minimum required net yield of 5.5% on the minimum RM700m dividends. After incorporating the proposed capital repayment, the stock offers a total potential return of 29.4%. No change to our **Outperform** recommendation.

TMI – near-term share price performance likely capped by rights issue exercise

Our **Market Perform** recommendation for TMI remains unchanged. Our fair value of RM2.72 is based on 25% discount to SOP value of RM3.63. In the near term, we believe share price performance will be capped by the significant EPS dilution (estimated around 48.5-50% to FY09-11 EPS) resulting from the rights issue. On the flipside, this fund raising exercise will finally help address TMI's gearing levels and allow TMI to start anew with better financial flexibility.

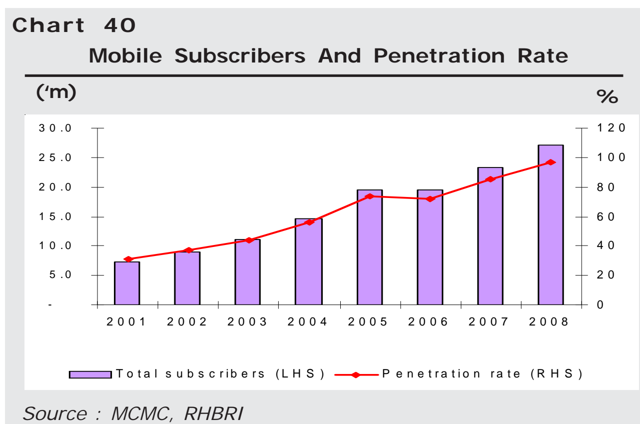
Digi – muted earnings growth due to investments and competition, but attractive yields to provide support

For Digi, although we project FY08-11 revenue CAGR of 6.5%, net profit CAGR is only projected at 1.7%. The slower projected bottomline growth factors in falling EBITDA margins (from 45.1% in FY08 to 42.6% in FY11) as a result of competition, higher network cost (opex and depreciation) from rollout of 3G as well as amortisation of 3G spectrum cost. Despite the slower earnings growth, we believe share price will continue to be well supported by dividends (FY09-11 gross yields of 6.9-7.3%) and potential for special dividends as Digi moves towards a more optimal capital structure. Our indicative fair value of RM22.70 (based on 15.5x FY12/09 EPS) and **Market Perform** recommendation is unchanged. We believe Digi deserves to trade at a premium to the market given its clean balance sheet, strong management and corporate governance.

Maintain Neutral stance

Overall, we are **Neutral** on the telecommunications sector.

Chart 40
Mobile Subscribers And Penetration Rate



Source : MCMC, RHBRI

Chart 41
Mobile Subscriber Market Share – End-2008

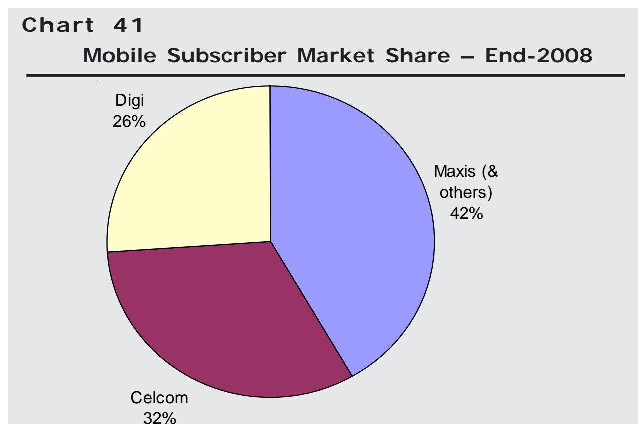


Table 41
Valuations Of Telecommunications Stocks

	FYE	Price (RM/s)	EPS (sen) FY09	EPS (sen) FY10	EPS Gwth (%) FY09	EPS Gwth (%) FY10	PER (x) FY09	PER (x) FY10	EV/EBITDA (x) FY09	P/NTA (x) FY09	P/CF (x) FY09	GDY (%) FY09	Rec
TM	Dec	3.50	17.4	17.9	4.4	2.9	20.2	19.6	4.2	1.2	4.1	7.5	OP
Digi	Dec	21.20	146.2	149.9	-1.6	2.6	14.5	14.1	7.2	13.1	8.0	6.9	MP
TMI	Dec	2.61	31.0	33.1	21.4	6.6	8.4	7.9	5.6	2.6	2.1	4.6	MP
Sector Avg					**7.6**	**3.8**	**13.0**	**12.5**					

^ FY09-10 valuations refer to those of FY10-FY11

Timber : Temporary Mismatch In Supply And Demand

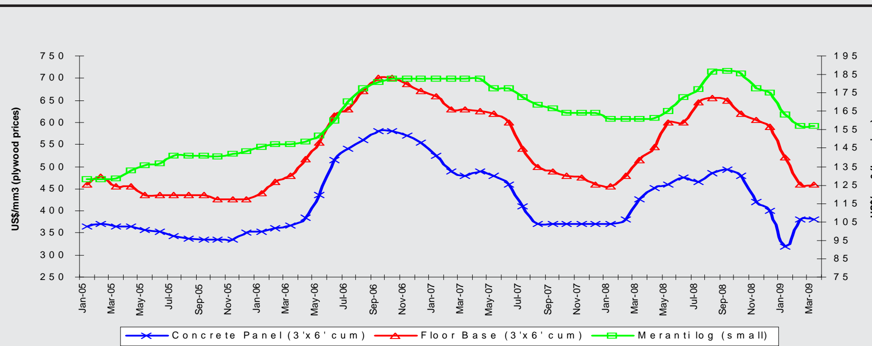
Underweight

Price rebound for plywood in March may be yet another false recovery start

We believe it is yet another false start for the recovery and bottoming of prices. Tropical log and plywood (floor-based) prices, which started weakening in mid-Nov 08, fell by 4-20% per month till February before stabilising in March, with the exception of concrete forming, which rebounded earlier by 19% mom in Feb 09. We do not believe the price rebound is sustainable, as we think it was merely due to short-term imbalances in supply and demand on account of: 1) lower plywood production in view of the New Year and Chinese New Year festivities; and 2) temporary shutdown in plywood mills / production lines in Indonesia as prices of plywood were below their cash cost. Prices of concrete forming plywood have stabilised in March, after the rebound in Feb 09. Given the continued weakness in demand and still relatively high inventory levels of tropical logs and plywood, we believe the price rebound in March may be yet another false recovery start for the tropical timber industry.

Chart 42

Tropical Log And Plywood Prices



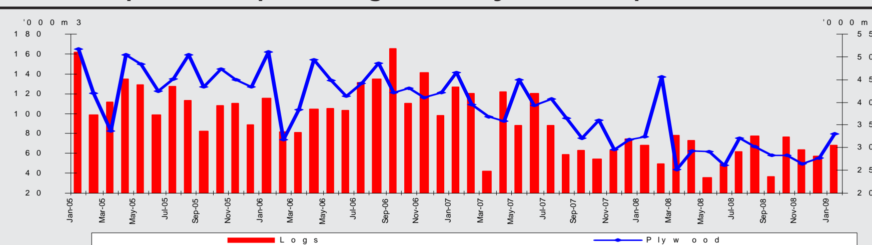
Source: *Japan Lumber Report*

Drop in log and plywood imports from Malaysia

Global demand remains weak. We understand that the global demand for tropical plywood and logs remain weak, particularly in Malaysia's major importing countries. Japanese plywood mills are continuing with production curtailment of about 30%, while log inventories in Japan remain high. Negotiations for recently arrived logs between the importers and plywood mills are largely postponed and delayed. We believe that any significant increases in purchases of logs for plywood production from Japan would only be seen when inventories start to move as demand picks up. In 2008, Japan's imports of tropical wood products already fell by 19.8% yoy to 360,688 cum while Japan's imports of logs fell by 28.7% yoy to 1,020,764 cum. In Jan 09, Japan's tropical plywood and log imports were flattish to slightly positive yoy (+1.8% and +0.4% respectively) and 19% higher mom for both plywood and logs. However, we note that on the log front, the marginal increase in total imports was mainly due to higher imports from Papua New Guinea, which increased 344% yoy and 39% mom while log imports from Malaysia fell by 23.9% yoy and 8% mom, which is the third consecutive month of decline. For plywood, the 19% increase in imports in Jan 09 was also not coming from Malaysia, as imports from Malaysia continued to fall by 5.4% yoy.

Chart 43

Japan's Tropical Log And Plywood Import Trends

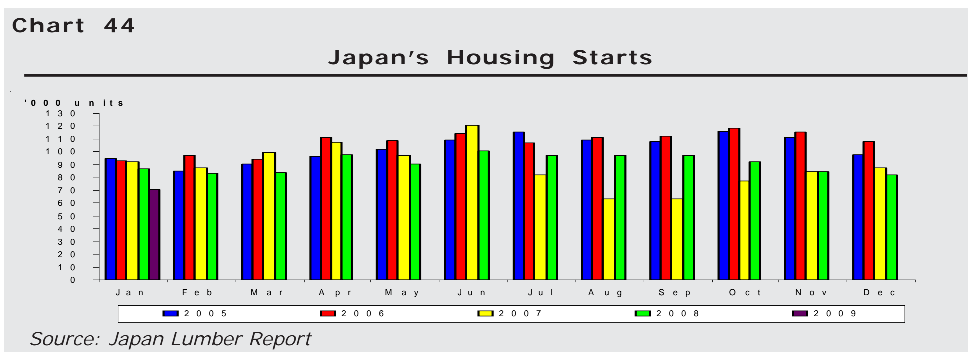


Source: *Japan Lumber Report*

Jan's housing starts deteriorated further yoy in Japan. Japan's housing starts deteriorated 18.7% yoy to 70,688 units in Jan 09, the lowest since the 63,076 and 63,018 units recorded in Aug and Sep 07 respectively (due to the tightening of building regulations in Jun 07). As highlighted in our 2009 timber sector outlook report, we still expect housing starts to weaken in the medium term, amid large scale bankruptcies, as the current weakness in Japan's economic outlook and uncertain future job security are expected to continue to discourage investment on housing.

Chart 44

Japan's Housing Starts



Source: Japan Lumber Report

Price assumptions unchanged...

Our price assumptions unchanged. As such, we maintain our projections of an 11% yoy decline in average plywood prices for 2009 and 6% yoy increase in average plywood prices for 2010-11. Meanwhile, we project a 5% yoy decline in log prices for FY09 and 10% yoy hike in FY10. We believe that any recovery in log and plywood prices may only be seen from end-CY09/beg-CY10 onwards.

... as well as Underweight call on the sector

Maintain Underweight on the sector... We maintain our Underweight call on the sector. Our fair values are based on unchanged target PER of 8x CY09 attributed to the earnings of pure timber product companies and to the timber divisions of more diversified companies. For companies with exposure to the plantations sector, we attribute an unchanged target PER of 10x against average CY09/10 earnings for the plantations division.

Underperform ratings on all timber counters

... with an Underperform call on all stocks. For WTK, which is still a pure timber company, our fair value is maintained at RM0.30 (8x CY09). For Jaya Tiasa, our SOP-derived fair value is unchanged at RM0.64 (8x CY09 for the timber division and 10x average CY09/10 for the plantation division), while for Ta Ann, our SOP-derived fair value is RM1.70 (8x CY09 for the timber division and 10x average CY09/10 for the plantation division). Our recommendations for WTK, Jaya Tiasa and Ta Ann remain as Underperform. As for Evergreen, we believe the worsening economic conditions, the potential further fallout of demand and the still higher selling prices versus the financial crisis period could lead to further earnings weakness, while the zero dividend payout in FY08 has led to Evergreen losing its status as a high dividend yield stock. We maintain our Underperform on Evergreen with a fair value of RM0.33 (6x CY09).

Table 42

Valuations Of Timber Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Ta Ann	Dec	3.00	18.4	26.1	-47.2	41.8	16.3	11.5	9.0	1.1	8.2	1.7	UP
Evergreen	Dec	0.49	5.5	6.8	-66.4	22.6	8.9	7.2	4.8	0.4	3.1	1.8	UP
WTKH	Dec	0.77	3.9	4.9	-66.7	25.9	19.7	15.6	5.4	0.4	n.m	1.4	UP
Jaya Tiasa^	Apr	1.71	6.8	16.0	83.9	+>100	25.1	10.7	8.7	0.5	4.5	0.2	UP
Sector Avg					**-51.1**	**50.6**	**16.2**	**10.7**					

Aviation: Fuel hedges now bite, falling demand but capacity holds up

Fuel hedges now a drag

Prima facie, the cost pressure on airlines has eased tremendously with the falling prices of crude oil, and hence jet fuel. However, fuel hedges (largely long positions in crude oil futures at high prices) airlines entered into prior to the sharp plunge in crude oil prices, now become a drag on profits. MAS, for instance, has effectively hedged forward 64% and 40% of its FY12/09 and FY12/10 requirements at US$100/barrel and US$95/barrel WTI (crude) respectively, vis-à-vis the current crude oil prices of only US$50-55/barrel. This means MAS will in FY12/09-10 incur fuel cost that is higher than the spot price, assuming crude oil prices are to stay low. AirAsia has bitten the bullet, having unwound and taken losses from its fuel hedges in 4QFY12/08.

Falling demand but capacity holds up

We believe greater concerns come from falling demand for air travel, but only a mild contraction in capacity. The International Air Transport Association (IATA) projects global traffic to fall 3.6% in 2009 against a backdrop of "the deepest recession since the early-1980s". On the other hand, it projects global capacity to only fall by 2.5% due to sizeable new aircraft delivery in Asia and the Middle East, coupled with capacity cut that is sticky to the downside in Europe as airlines are unwilling to give up slots at congested airports (if they are not used). Zooming in on Asia-Pacific, IATA projects traffic to decline by 2.5% on the back of a mild 0.5% contraction in capacity (see Charts 45 & 46). Falling demand while capacity holds up means greater competition that will depress yields. We are negative on both the airline stocks under our coverage, i.e. AirAsia and MAS.

Chart 45

Traffic Volume Growth Rates

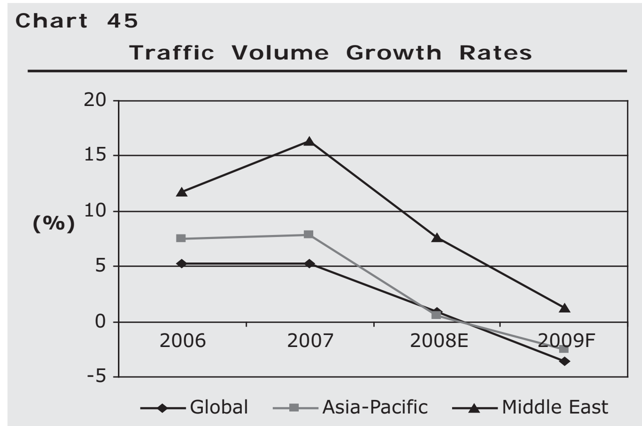
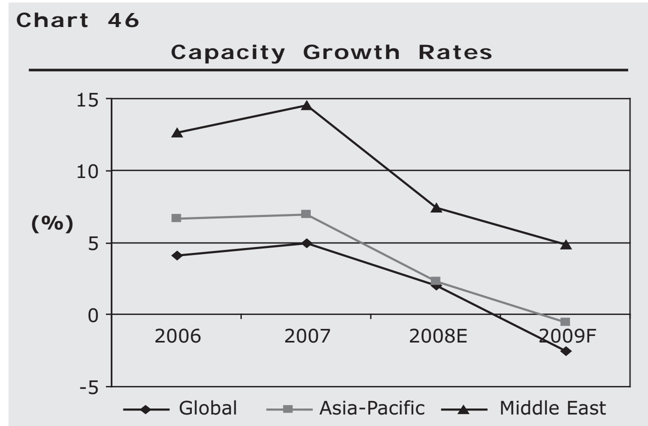


Chart 46

Capacity Growth Rates



Shipping (Petroleum tanker segment): Falling demand but rising capacity

Yet to see the light at the end of the tunnel

Similar to 2007-08 (see Chart 47), petroleum tanker freight rates are generally expected to remain subdued in 2009 (with small relief occasionally from spikes due to temporary mismatch in demand and supply) on the back of the double-whammy of slowing demand but rising capacity. Based on statistics published by Drewry Shipping Consultants, we estimate industry capacity to surge 14.2% to 327.4m dwt in 2009, way outpacing a 1.2% contraction in world crude oil demand to 84.6m barrels/day projected by OPEC. The demand for petroleum tanker service correlates to world crude oil demand. We are therefore negative on MISC.

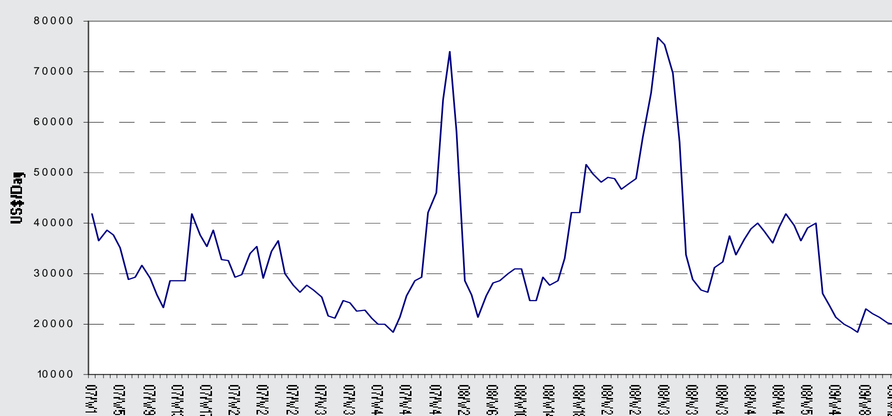
Logistics: ILB and Freight Management are niche players

We like ILB for (1) Its niche strength in the operation of supply chain management system vendor-managed inventory (VMI) to support the production of Lenovo's *ThinkPad* laptops and IBM's servers in China; and (2) Its long-term growth potential driven by new overseas warehouse projects in the pipeline. However, rental yields and values of its properties, largely warehouses, will remain under tremendous pressure over the short term on the back of the global economic recession. Freight Management, a freight forwarder covering international destinations, carves itself a niche in the lucrative "less than container load" (LCL) business.

ILB and Freight Management are specialist logistics providers

Chart 47

Arabian Gulf To Singapore 80,000-Tonne Dirty Tanker Rate



Source: P.F. Bassoe AS Weekly Reports (www.pareto.no)

Table 43

Valuations Of Transportation Stocks

	FYE	Price	EPS (sen)		EPS Gwth (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	P/CF (x)	GDY (%)	Rec
		(RM/s)	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY09	FY09	FY09	
Freight	Jun	0.60	11.6	12.1	15.8	4.9	5.2	4.9	3.1	0.6	4.0	8.3	OP
AirAsia	Dec	0.97	7.4	7.8	4.7	4.1	13.0	12.5	11.1	1.3	2.6	0.0	UP
ILB	Dec	0.61	1.9	8.9	44.0	+>100	32.6	6.9	14.9	0.3	6.6	3.3	UP
MAS	Dec	2.70	9.5	11.0	-26.6	15.4	28.3	24.5	5.0	1.1	11.3	0.9	UP
MISC^	Mar	8.40	48.8	51.0	9.4	4.4	17.2	16.5	10.3	1.4	8.0	4.2	UP
Sector Avg					**-25.7**	**5.8**	**18.0**	**16.6**					

^ FY09-10 valuations refer to those of FY10-FY11

Table 44

Valuations And Ratings Of Individual Stocks Under Coverage

	Financial Year End	Price (RM/s)	Fair Value (RM/s)	EPS (sen)			EPS Growth (%)			PER (x)			EV/EBITDA (x)		
				08f	09f	10f	08f	09f	10f	08f	09f	10f	08f	09f	10f
OUTPERFORM															
Allianz Malaysia	Dec	2.99	4.09	46.0	47.1	53.1	+>100	2.5	12.7	6.5	6.3	5.6	n.a.	n.a.	n.a.
AMMB	Mar	2.62	3.87	31.7	18.5	25.1	31.2	(41.7)	36.2	8.3	14.2	10.4	n.a.	n.a.	n.a.
Axis Reit	Dec	1.29	2.35	15.2	15.5	15.6	12.0	1.9	0.2	8.5	8.3	8.3	10.5	10.7	10.9
BCHB	Dec	6.80	10.10	57.8	43.2	64.3	(31.1)	(25.3)	48.9	11.8	15.7	10.6	n.a.	n.a.	n.a.
B-Toto^	Apr	4.68	5.35	32.0	32.3	34.4	15.8	0.9	6.7	14.6	14.5	13.6	10.2	10.3	9.8
CBIP	Dec	2.12	3.45	43.9	45.3	63.3	24.7	3.2	39.6	4.8	4.7	3.3	5.4	4.9	3.7
Dialog	Jun	0.85	1.09	5.4	6.6	10.6	54.1	21.3	60.7	15.7	12.9	8.0	14.3	13.7	5.3
Eon Cap	Dec	2.82	5.05	19.3	11.6	29.7	(38.5)	(39.7)	+>100	14.6	24.3	9.5	n.a.	n.a.	n.a.
Freight Mgmt	Jun	0.60	0.71	10.0	11.6	12.1	25.6	15.8	4.9	6.0	5.2	4.9	3.5	3.1	2.7
Genting	Dec	3.66	4.90	46.0	24.1	37.4	(5.3)	(47.5)	54.8	8.0	15.2	9.8	2.8	2.4	1.5
Hai-O Ent	Apr	3.26	4.00	57.7	57.1	65.5	(1.2)	(1.2)	14.8	5.6	5.7	5.0	3.1	2.8	2.1
Hartalega	Mar	2.34	3.15	31.2	37.0	45.2	91.8	18.6	21.9	7.5	6.3	5.2	6.3	5.4	4.3
KFCH	Dec	7.20	8.30	59.8	69.2	76.4	13.7	15.8	10.4	12.0	10.4	9.4	6.0	5.5	4.2
Kossan	Dec	2.91	3.83	37.1	45.1	52.2	17.7	21.7	15.8	7.9	6.5	5.6	6.2	5.2	4.5
RCE Capital^	Mar	0.38	0.70	9.3	10.1	10.6	11.6	8.7	5.0	4.1	3.7	3.6	7.1	7.5	8.0
Resorts	Dec	1.99	2.60	22.6	20.3	21.7	21.5	(10.3)	6.9	8.8	9.8	9.2	3.5	4.6	4.0
Sino Hua An	Dec	0.20	0.37	0.1	4.5	6.0	(99.1)	+>100	34.8	+>100	4.5	3.3	6.2	1.7	1.0
Sunway	Dec	0.66	0.90	18.6	19.3	22.2	+>100	3.8	14.7	3.5	3.4	3.0	4.8	2.8	3.3
Tanjong^	Jan	14.00	19.60	135.0	174.9	182.6	(1.8)	29.5	4.4	10.4	8.0	7.7	6.9	6.3	5.9
Tenaga	Aug	6.20	8.60	53.8	53.0	69.2	(34.2)	(1.4)	30.6	11.5	11.7	9.0	6.9	6.9	6.1
TM	Dec	3.50	3.55	16.6	17.4	17.9	(7.8)	4.4	2.9	21.0	20.2	19.6	5.8	4.2	4.1
Top Glove	Aug	4.80	5.50	37.2	41.3	45.4	19.2	11.1	10.0	12.9	11.6	10.6	7.5	7.0	6.2
Zelan^	Mar	0.59	1.31	-17.7	17.5	16.5	->100	+>100	(5.9)	n.m.	3.4	3.6	n.m	1.3	0.6

^ FY08, 09 & FY10 valuations refer to those of FY09, 10 & FY11

Table 44

Valuations And Ratings Of Individual Stocks Under Coverage

P/CF (x)			P/NTA (x)			Div Yield (%)			ROE (%)			% Chg In Price			Mkt Cap
08a	09f	10f	08a	09f	10f	08a	09f	10f	08a	09f	10f	1 Mth	3 Mth	12 Mth	(RMm)
OUTPERFORM															
6.5	6.3	5.6	1.2	1.0	0.9	0.7	0.7	0.7	20.0	17.2	16.5	8.7	4.9	(0.3)	460
n.a.	n.a.	n.a.	1.2	1.1	1.0	2.7	3.1	3.4	11.6	6.2	8.1	1.6	8.7	(26.8)	7134
5.4	6.0	6.4	0.7	0.4	0.4	11.8	12.0	12.1	10.0	9.2	9.5	0.0	19.4	(24.1)	330
n.a.	n.a.	n.a.	2.5	2.4	2.2	3.9	2.7	2.7	11.9	9.0	13.0	0.0	17.2	(31.0)	24331
10.7	14.0	12.9	n.m	n.m	n.m	7.5	7.5	8.1	116.7	88.9	80.1	(2.1)	(0.4)	(7.3)	6323
4.1	3.8	2.8	1.3	1.1	0.9	7.1	7.1	9.9	29.6	25.1	28.6	11.6	27.7	(47.3)	292
13.5	11.0	7.1	3.2	2.8	2.3	3.6	4.3	6.8	21.6	22.7	31.0	1.2	11.8	(39.7)	1189
n.a.	n.a.	n.a.	0.6	0.6	0.6	2.7	2.7	2.7	4.2	2.5	6.2	(6.6)	(10.8)	(36.5)	1960
3.8	4.0	3.5	0.7	0.6	0.6	8.3	8.3	8.3	17.0	18.3	17.0	4.3	7.1	(26.8)	73
5.4	6.0	n.m	1.1	1.6	1.3	2.2	1.7	3.1	13.7	6.9	9.6	1.7	(2.1)	(2.1)	13556
20.1	6.2	5.6	1.6	1.4	1.1	9.2	9.2	10.7	30.9	25.7	25.0	(1.2)	4.5	4.5	271
6.4	5.4	4.5	2.5	1.9	1.5	5.7	6.8	8.3	36.9	34.4	33.3	18.2	47.2	47.2	567
9.8	11.5	3.9	2.3	2.0	1.7	3.1	3.5	3.9	18.4	18.6	18.0	2.1	(1.4)	22.0	1428
5.4	6.5	5.0	1.6	1.3	1.1	3.4	4.3	5.0	21.5	21.9	21.2	0.7	3.9	(23.4)	465
n.m	n.m	n.m	1.0	0.8	0.7	2.6	2.6	2.6	27.9	23.9	20.4	5.6	7.0	(27.6)	270
6.9	8.5	7.8	1.4	1.2	1.0	3.5	3.2	3.4	16.9	13.5	12.5	(11.2)	(8.7)	(40.4)	12271
6.7	1.5	2.9	0.3	0.3	0.3	0.0	0.0	0.0	0.1	6.4	8.0	(7.0)	(13.0)	(65.5)	224
4.5	1.8	2.3	0.7	0.6	0.5	4.3	4.3	4.3	18.3	23.3	14.8	0.0	(10.3)	(50.4)	359
8.1	7.8	7.6	1.6	1.4	1.3	7.3	7.5	7.6	15.1	17.6	16.6	0.0	3.7	(12.0)	5646
5.0	4.4	3.3	1.0	1.0	0.9	4.8	4.0	4.5	9.4	8.7	10.8	(1.6)	3.3	(15.6)	26868
4.7	4.1	4.0	1.2	1.2	1.2	7.5	7.5	7.5	5.2	5.9	6.1	(1.6)	3.3	(15.6)	12521
8.2	7.7	6.9	2.2	2.0	1.7	2.8	3.2	3.8	17.1	17.4	16.9	8.1	34.1	17.1	1445
n.m	3.3	3.6	0.5	0.4	0.4	11.9	11.9	11.9	n.m	13.1	11.1	(24.8)	(28.5)	(76.6)	332

Table 44

Valuations And Ratings Of Individual Stocks Under Coverage

	Financial Year End	Price (RM/s)	Fair Value (RM/s)	EPS (sen) 08f	EPS (sen) 09f	EPS (sen) 10f	EPS Growth (%) 08f	EPS Growth (%) 09f	EPS Growth (%) 10f	PER (x) 08f	PER (x) 09f	PER (x) 10f	EV/EBITDA (x) 08f	EV/EBITDA (x) 09f	EV/EBITDA (x) 10f
MARKET PERFORM															
Adventa^	Oct	0.80	0.94	9.9	14.8	19.6	(22.8)	49.7	32.6	8.1	5.4	4.1	7.9	5.3	4.7
AEON	Dec	3.76	4.06	34.4	31.2	35.1	14.6	(9.2)	12.3	10.9	12.0	10.7	4.4	4.0	3.4
Amway	Dec	6.95	7.57	57.8	51.7	57.0	17.9	(10.6)	10.4	12.0	13.4	12.2	7.1	8.5	7.5
Ann Joo	Dec	1.10	1.18	26.6	16.0	31.6	(27.6)	(39.7)	97.1	4.1	6.9	3.5	8.3	5.3	3.6
Astro^	Jan	2.02	2.07	(27.4)	5.9	6.6	->100	+>100	13.0	n.m.	34.5	30.5	n.m.	6.0	5.3
Carlsberg	Dec	3.32	3.80	24.7	22.8	25.5	(3.0)	(7.6)	11.9	13.4	14.5	13.0	6.9	7.2	6.1
Choo Bee Metal	Dec	1.10	1.26	26.6	17.0	25.1	6.6	(36.1)	47.3	4.1	6.5	4.4	4.2	0.9	1.4
Digi.com	Dec	21.20	22.70	148.5	146.2	149.9	4.8	(1.6)	2.6	14.3	14.5	14.1	7.5	7.2	7.0
Glomac^	Apr	0.50	0.60	10.3	10.6	11.8	7.6	2.3	11.2	4.8	4.7	4.2	5.0	3.0	2.5
HL Bank	Jun	5.30	6.25	46.9	52.2	40.8	19.5	11.2	(21.7)	11.3	10.2	13.0	n.a.	n.a.	n.a.
Kinsteel	Dec	0.40	0.45	3.6	3.4	9.4	(71.3)	(3.8)	+>100	11.1	11.5	4.2	7.8	4.7	2.0
KLCCP^	Mar	2.95	3.45	23.5	24.2	24.6	3.9	3.3	1.7	12.6	12.2	12.0	5.7	5.6	5.4
KPJ Health	Dec	2.79	2.96	35.2	37.0	41.5	(1.44)	5.1	12.2	7.9	7.5	6.7	5.1	7.2	4.1
Lion Forest	Jun	0.36	0.42	5.2	7.6	9.1	16.8	44.6	20.4	6.9	4.8	4.0	n.m	n.m.	n.m.
Maybank	Jun	4.40	5.20	69.9	55.2	33.7	5.8	(21.0)	(38.9)	6.3	8.0	13.1	n.a.	n.a.	n.a.
Media Chinese^	Mar	0.55	0.61	5.2	5.7	6.6	9.4	9.3	15.5	10.4	9.5	8.3	4.6	4.2	3.4
MNRB^	Mar	2.76	3.36	2.9	35.8	38.6	(96.3)	+>100	7.8	94.0	7.7	7.2	n.m.	n.m.	n.m.
Petra Perdana	Dec	1.41	1.63	21.0	20.5	24.8	(21.4)	(2.5)	21.1	6.7	6.9	5.7	2.9	4.4	3.9
Public Bank-F	Dec	7.50	9.34	76.9	63.8	72.1	21.5	(17.1)	13.0	9.7	11.8	10.4	n.a.	n.a.	n.a.
Public Bank-L	Dec	7.50	9.34	76.9	63.8	72.1	21.5	(17.1)	13.0	9.7	11.8	10.4	n.a.	n.a.	n.a.
Plus	Dec	2.94	3.49	21.6	21.9	22.9	(13.5)	1.3	4.9	13.6	13.4	12.8	10.0	11.8	11.0
SapuraCrest^	Jan	0.76	0.86	8.4	10.2	12.1	47.2	22.1	17.6	9.1	7.4	6.3	3.4	3.3	2.7
Sarawak Energy	Dec	1.70	1.85	12.6	14.7	18.7	(26.1)	16.3	27.2	13.4	11.6	9.1	7.3	6.3	5.6
Sime Darby	Jun	5.80	6.40	60.6	30.7	33.4	81.1	(49.3)	8.9	9.6	18.9	17.3	6.1	9.4	9.0
Suncity	Dec	1.48	1.88	29.0	46.7	34.8	16.2	61.1	(25.5)	5.1	3.2	4.3	2.2	3.2	5.2
TMI	Dec	2.61	2.72	25.5	31.0	33.1	(41.5)	21.4	6.6	10.2	8.4	7.9	4.9	5.6	5.2
VS. Industry	Jul	0.92	1.36	35.5	26.0	29.1	(13.2)	(26.7)	11.8	2.6	3.5	3.2	2.7	2.5	1.9
YTL Power	Jun	1.89	1.87	16.8	11.0	11.7	29.1	(34.6)	6.2	11.2	17.2	16.2	7.1	8.4	8.5
Wah Seong	Dec	1.27	1.40	10.1	16.2	17.4	0.9	60.5	7.5	12.6	7.8	7.3	5.8	4.7	4.3
UNDERPERFORM															
Affin	Dec	1.33	1.41	19.6	6.9	15.0	15.7	(65.0)	+>100	6.8	19.4	8.9	n.a.	n.a.	n.a.
AirAsia	Dec	0.97	0.67	7.1	7.4	7.8	19.0	4.7	4.1	13.6	13.0	12.5	12.5	11.1	11.1
Asiatic	Dec	4.26	4.15	49.4	28.0	38.2	7.9	(43.2)	36.2	8.6	15.2	11.2	6.2	11.7	8.4
Axis^	Mar	0.05	0.10	-18.3	-19.1	-15.6	59.1	(4.4)	18.6	n.m.	n.m.	n.m.	n.m	n.m	n.m
BAT	Dec	45.00	37.70	284.3	272.2	267.6	10.9	(4.3)	(1.7)	15.8	16.5	16.8	11.4	11.8	11.8
Bonia	Jun	0.85	0.61	14.2	8.4	12.0	(11.5)	(40.6)	42.2	6.0	10.1	7.1	3.1	4.0	3.0
CSC Steel	Dec	0.80	0.75	15.7	8.5	16.5	(26.0)	(45.9)	94.3	5.1	9.4	4.8	4.0	4.1	2.9
Epic	Dec	1.22	0.86	16.9	16.5	18.0	(16.0)	(2.1)	9.1	7.2	7.4	6.8	2.5	3.7	4.9
EURO Hldgs	Dec	0.58	0.29	6.6	5.5	6.2	(41.3)	(16.6)	12.6	8.8	10.5	9.4	5.4	3.5	2.7
Evergreen	Dec	0.49	0.33	16.4	5.5	6.8	(33.5)	(66.4)	22.6	3.0	8.9	7.2	4.9	4.8	4.1
Gamuda	Jul	1.97	0.90	16.2	9.7	15.0	49.4	(40.1)	54.8	12.1	20.3	13.1	13.8	33.4	17.6
H-Displays	Dec	0.13	0.03	(0.2)	(0.3)	1.2	(112.1)	(40.7)	481.2	n.m.	n.m.	10.0	n.m	12.4	n.m
Hiap Teck	Jul	0.64	0.67	47.1	2.7	13.5	+>100	(94.3)	+>100	1.3	23.5	4.7	3.1	9.0	6.3
HSL	Dec	0.49	0.42	7.6	7.1	7.6	8.1	(6.7)	8.2	6.4	6.9	6.4	3.5	3.5	2.9
IOI Corp	Jun	4.00	3.90	32.1	25.2	23.5	63.0	(21.4)	(6.8)	12.5	15.9	17.0	8.8	11.9	11.8
IOI Prop	Jun	2.60	2.60	38.6	29.8	26.4	(4.4)	(22.8)	(11.3)	6.7	8.7	9.8	19.0	9.1	9.7
IJM Corp^	Mar	4.02	1.78	30.9	29.7	30.4	(10.8)	(3.7)	2.3	13.0	13.5	13.2	8.2	9.4	9.1
IJM Plantations^	Mar	2.12	1.75	20.0	10.4	16.3	(16.1)	(47.8)	56.1	10.6	20.3	13.0	6.2	12.2	8.3

Table 44

Valuations And Ratings Of Individual Stocks Under Coverage

P/CF (x)			P/NTA (x)			Div Yield (%)			ROE (%)			% Chg In Price			Mkt Cap (RMm)
08f	09f	10f	08f	09f	10f	08f	09f	10f	08f	09f	10f	1 Mth	3 Mth	12 Mth	
MARKET PERFORM															
4.6	2.9	2.3	0.7	0.6	0.5	0.0	5.0	6.7	8.4	11.5	13.6	(10.1)	15.9	(31.0)	111
4.5	4.3	4.0	1.5	1.4	1.2	2.4	2.4	2.4	14.4	11.8	12.1	2.7	(5.1)	(20.1)	1320
7.2	14.9	7.3	4.9	4.4	4.0	7.8	7.2	7.8	41.3	34.5	34.5	(0.7)	0.7	10.1	1143
n.m.	0.7	n.m.	0.6	0.5	0.5	10.9	8.2	10.9	16.2	8.4	14.4	(5.2)	(7.6)	(62.8)	575
n.m.	8.4	7.7	10.9	12.2	14.0	6.6	7.3	7.9	n.m	14.9	18.9	1.0	(11.0)	(41.3)	3907
11.4	12.2	11.6	2.2	2.0	1.8	3.8	3.5	4.5	16.2	14.3	14.6	(4.0)	(7.8)	(17.5)	1023
1.7	n.m.	12.0	0.3	0.3	0.3	5.5	5.5	5.5	8.1	4.9	5.9	(6.0)	(1.8)	(44.2)	121
8.1	8.0	8.0	18.3	13.1	10.1	7.0	6.9	7.1	65.7	55.8	49.9	0.5	(1.9)	(9.8)	16483
11.8	2.8	3.3	0.3	0.3	0.3	10.1	10.1	10.1	11.5	11.0	12.6	0.0	(1.0)	(55.8)	147
n.a.	n.a.	n.a.	1.7	1.5	1.4	4.5	4.5	4.5	15.3	15.4	11.1	(0.9)	5.0	(9.4)	8375
n.m.	0.5	1.4	0.5	0.3	0.3	4.3	4.3	4.3	4.7	3.8	8.6	(3.7)	(6.0)	(65.9)	356
6.7	6.6	6.3	0.6	0.6	0.6	3.7	3.7	3.7	5.0	5.0	5.0	1.7	5.7	6.1	2756
5.2	15.1	15.1	1.3	1.3	1.3	13.6	10.0	10.8	10.1	13.3	14.2	3.3	9.4	(11.1)	584
74.1	6.7	6.1	0.2	0.2	0.2	0.0	0.0	0.0	1.4	2.1	2.4	9.1	9.1	(60.0)	152
n.a.	n.a.	n.a.	1.1	1.0	1.0	11.1	5.7	8.0	15.2	13.3	7.7	(17.8)	(12.9)	(50.8)	21477
7.5	7.0	6.3	1.1	1.1	1.0	6.4	7.0	8.1	8.2	8.7	9.5	4.8	4.8	n.a	919
48.1	7.1	7.2	0.7	0.6	0.6	7.2	7.2	7.2	0.7	8.6	8.8	(8.0)	(2.1)	(39.5)	588
2.0	n.m.	9.8	0.9	0.8	0.7	1.4	1.4	1.4	14.5	12.2	24.7	5.2	11.0	(61.9)	420
n.a.	n.a.	n.a.	3.5	3.4	3.2	7.3	10.0	10.7	27.3	22.8	24.8	(15.7)	(11.3)	(25.8)	26489
n.a.	n.a.	n.a.	3.5	3.4	3.2	7.3	10.0	10.7	27.3	22.8	24.8	(15.2)	(10.8)	(26.5)	26489
8.1	9.1	8.7	2.6	2.5	2.4	5.4	6.1	6.8	29.3	28.2	28.5	1.7	(2.0)	(5.2)	14700
3.6	3.3	2.7	0.9	0.8	0.7	3.9	3.9	3.9	13.2	14.0	26.9	2.0	(0.7)	(33.3)	1055
4.1	5.2	4.1	0.9	0.8	0.8	3.2	2.3	3.0	7.0	7.6	8.7	6.3	(26.1)	(19.0)	2588
7.9	12.7	11.9	1.6	1.5	1.5	8.4	3.6	3.8	17.4	8.3	8.7	1.8	11.5	(36.4)	34855
25.4	1.8	2.7	0.4	0.4	0.4	5.4	3.4	3.4	8.7	12.3	8.4	1.4	(19.6)	(47.1)	695
2.7	2.1	2.0	3.4	2.6	2.1	4.4	4.6	4.8	9.0	10.0	9.9	(16.9)	(27.1)	(27.1)	9796
2.0	2.7	2.5	0.6	0.5	0.5	15.3	11.6	13.0	19.4	12.5	12.8	(25.2)	(24.0)	(58.0)	207
5.5	6.2	7.1	1.6	1.5	1.4	8.0	7.9	7.9	16.6	12.7	12.7	(3.1)	(1.0)	(20.9)	10501
3.3	7.2	4.1	2.2	1.7	1.4	4.3	5.2	5.6	19.5	25.7	42.0	15.5	24.5	(42.0)	799
UNDERPERFORM															
n.a.	n.a.	n.a.	0.6	0.6	0.6	3.8	3.0	3.8	6.8	2.3	5.0	3.9	(0.7)	(34.2)	1988
n.m	2.6	4.0	1.4	1.3	1.2	0.0	0.0	0.0	9.1	10.4	9.8	(0.5)	6.6	(30.7)	2328
8.2	13.4	9.9	1.4	1.3	1.2	2.3	1.3	1.8	16.9	8.7	10.4	3.4	23.1	(46.8)	3224
n.m	n.m	n.m	0.1	0.3	n.m	0.0	0.0	0.0	n.m	n.m	n.m	(56.5)	(52.4)	(97.5)	8
13.5	15.0	12.8	n.m	n.m	n.m	5.9	5.7	5.7	n.m	n.m	n.m	2.3	0.6	8.4	12849
2.8	2.5	3.0	1.1	1.0	0.9	2.9	2.6	3.8	18.7	10.0	13.1	0.0	(25.4)	(46.6)	171
27.2	4.1	9.8	0.4	0.4	0.4	9.8	5.3	10.4	8.5	4.5	8.6	(9.1)	(4.2)	(38.8)	302
6.7	3.4	3.9	0.7	0.7	0.6	4.8	4.7	5.2	10.3	9.4	9.7	(6.2)	29.8	(32.6)	364
3.4	3.6	5.4	0.6	0.6	0.6	3.4	3.6	3.7	7.5	6.0	6.4	0.0	0.0	(6.4)	47
2.1	3.1	3.3	0.4	0.4	0.4	0.0	1.8	2.2	14.0	4.8	5.6	4.3	(9.3)	(62.3)	251
n.m	n.m	26.2	1.4	1.3	1.3	12.7	4.1	4.1	10.6	5.9	8.5	2.1	7.7	(36.9)	3950
25.2	27.2	6.0	0.7	0.7	0.7	0.0	0.0	0.0	n.m	n.m	5.9	25.0	4.2	(34.2)	26
2.8	n.m	n.m	0.4	0.4	0.3	4.7	1.6	3.1	33.5	1.6	7.0	(21.1)	0.0	(60.0)	208
8.4	9.9	8.9	1.1	1.0	0.9	4.5	5.2	5.2	18.2	15.2	14.7	(0.9)	5.0	(9.4)	270
11.2	13.3	14.0	3.1	2.9	2.6	4.3	2.5	3.3	24.1	17.1	15.2	7.5	13.6	(40.7)	24602
4.8	11.7	14.9	0.3	0.7	0.6	11.5	7.7	7.7	11.1	8.8	6.6	4.0	30.0	(53.2)	2170
5.3	6.4	6.4	0.7	0.8	0.8	11.2	5.0	5.0	5.7	5.9	5.9	12.3	44.1	(23.5)	3782
8.9	14.5	10.1	1.6	1.5	1.4	4.7	2.4	3.8	15.6	7.6	11.2	5.5	9.8	(39.8)	1355

Table 44

Valuations And Ratings Of Individual Stocks Under Coverage

	Financial Year End	Price (RM/s)	Fair Value (RM/s)	EPS (sen)			EPS Growth (%)			PER (x)			EV/EBITDA (x)		
				08a	09f	10f	08a	09f	10f	08a	09f	10f	08a	09f	10f
UNDERPERFORM															
ILB	Dec	0.61	0.53	1.3	1.9	8.9	(78.7)	44.0	+>100	47.0	32.6	6.9	7.1	14.9	9.2
Jaya Tiasa^	Apr	1.71	0.64	3.7	6.8	16.0	(80.9)	83.9	+>100	46.1	25.1	10.7	9.9	8.7	6.8
KL Kepong	Sep	10.70	8.95	106.2	54.1	62.6	87.0	(49.0)	15.7	10.1	19.8	17.1	6.9	12.1	10.6
Lafarge	Dec	4.00	1.98	43.3	42.7	40.8	27.7	(1.2)	(4.5)	9.2	9.4	9.8	6.4	5.8	5.1
KNM	Dec	0.40	0.39	8.5	7.5	8.0	76.9	(12.2)	6.9	4.6	5.3	4.9	3.5	5.9	5.4
Kurnia Asia	Jun	0.30	0.22	-20.3	1.1	4.4	->100	+>100	+>100	n.m.	27.6	6.9	n.m	15.4	5.4
MAS	Dec	2.70	1.24	13.0	9.5	11.0	(61.5)	(26.6)	15.4	20.8	28.3	24.5	2.4	5.0	6.9
MBM	Dec	2.00	1.94	48.5	32.5	38.1	6.3	(32.9)	17.0	4.1	6.1	5.3	4.2	12.2	9.5
Media Prima	Dec	1.03	1.05	13.9	11.1	13.6	(3.1)	(20.4)	22.3	7.4	9.3	7.6	5.9	5.9	5.2
MISC-F^	Mar	8.30	5.50	44.6	48.8	51.0	(23.9)	9.4	4.4	18.6	17.0	16.3	10.7	10.3	10.1
MISC-L^	Mar	8.40	5.50	44.6	48.8	51.0	(23.9)	9.4	4.4	18.8	17.2	16.5	10.7	10.3	10.1
MPI	Jun	4.58	2.65	53.4	(13.1)	44.1	(14.8)	->100	+>100	8.6	n.m.	10.4	3.1	5.7	3.2
MRCB	Dec	0.85	0.58	-6.2	6.0	6.5	->100	+>100	9.3	n.m.	14.1	12.9	24.3	11.2	9.8
NSTP	Dec	1.04	1.00	17.7	-3.8	10.5	+>100	->100	+>100	5.9	n.m.	9.9	2.9	8.2	3.0
PMB Tech	Dec	0.38	0.44	11.7	11.0	13.7	(0.5)	(6.1)	20.5	3.2	3.5	2.9	5.8	5.1	4.0
P Gas^	Mar	9.75	9.15	46.2	45.7	53.7	(16.3)	(1.0)	17.4	21.1	21.3	18.1	10.1	9.9	8.8
Parkson	Jun	3.88	3.50	20.8	23.8	27.5	n.a	14.5	15.4	18.6	16.3	14.1	4.8	4.6	3.2
Proton^	Mar	1.59	1.95	4.8	20.0	17.5	(85.8)	+>100	(12.7)	33.2	7.9	9.1	1.3	1.0	0.9
Puncak	Dec	2.85	2.11	6.0	44.2	36.0	(74.8)	+>100	(18.6)	47.6	6.4	7.9	4.1	3.2	3.3
Quill Capita	Dec	0.81	0.76	7.5	7.6	7.6	14.2	1.1	0.1	10.7	10.6	10.5	13.7	12.6	12.8
Quality concrete	Jan	1.13	1.02	2.5	3.7	4.3	(7.2)	44.7	17.2	44.4	30.7	26.2	11.0	10.5	10.6
Seacera Tiles	Dec	0.26	0.27	7.6	5.7	6.4	160.7	(25.1)	13.4	3.4	4.6	4.0	6.1	n.m	n.m
SP Setia	Oct	3.00	2.06	18.9	16.9	18.6	(26.2)	(10.5)	10.0	15.9	17.8	16.1	9.7	22.2	19.3
Star	Dec	3.18	2.70	22.1	20.9	22.7	(3.5)	(5.4)	8.5	14.4	15.2	14.0	7.8	7.8	7.1
Sunrise	Jun	0.91	1.07	25.3	21.7	18.5	(1.9)	(14.2)	(14.9)	3.6	4.2	4.9	3.6	5.4	6.7
Ta Ann	Dec	3.00	1.70	34.8	18.4	26.1	(23.0)	(47.2)	41.8	8.6	16.3	11.5	6.8	9.0	7.2
Tan Chong	Dec	1.25	1.12	36.6	16.7	23.9	+>100	(54.4)	43.0	3.4	7.5	5.2	3.3	6.4	4.1
Texchem^	Dec	1.00	0.91	(1.2)	6.5	11.8	->100	+>100	80.2	n.m.	15.3	8.5	5.3	5.0	4.3
Toyo Ink^	Mar	1.19	1.19	8.0	11.0	14.0	(23.5)	36.8	26.9	14.8	10.8	8.5	1.8	1.9	2.2
UMW	Dec	5.40	4.44	51.8	40.8	44.4	19.9	(21.2)	8.9	10.4	13.2	12.2	4.5	6.6	6.5
Unisem	Dec	0.56	0.33	15.2	-0.7	11.7	(34.0)	(104.8)	1712.4	3.6	n.m.	4.7	2.6	4.2	2.6
WCT Bhd	Dec	1.06	0.94	13.1	19.8	19.6	(43.3)	51.8	(1.3)	8.1	5.3	5.4	5.5	6.9	6.8
Wellcall	Sep	0.80	0.94	13.4	12.1	14.9	10.8	(9.9)	23.3	6.0	6.6	5.4	3.2	3.1	2.1
WTK	Dec	0.77	0.30	11.7	3.9	4.9	(22.5)	(66.7)	25.9	6.5	19.7	15.6	4.1	5.4	5.0
YNH Property	Dec	1.00	1.03	22.8	17.5	18.1	11.2	(23.1)	3.6	4.4	5.7	5.5	4.6	6.9	7.8
YTL Cement	Jun	2.55	2.32	38.2	47.2	58.4	16.0	23.7	23.6	6.7	5.4	4.4	3.7	2.8	1.9

^ FY08, 09 & FY10 valuations refer to those of FY09, 10 & FY11

** Excludes special DPS*

Table 44

Valuations And Ratings Of Individual Stocks Under Coverage

P/CF (x)			P/NTA (x)			Div Yield (%)			ROE (%)			% Chg In Price			Mkt Cap
08a	09f	10f	08a	09f	10f	08a	09f	10f	08a	09f	10f	1 Mth	3 Mth	12 Mth	(RMm)
UNDERPERFORM															
147.6	6.6	3.4	0.3	0.3	0.3	3.3	3.3	3.3	0.7	0.9	4.4	8.9	8.0	(12.9)	120
6.1	4.5	4.5	0.5	0.5	0.4	0.0	0.2	0.6	1.0	1.8	3.9	6.2	(9.0)	(43.0)	483
13.8	32.3	11.5	2.1	2.1	2.0	6.5	2.8	3.3	21.7	10.4	11.7	8.1	20.2	(35.9)	11422
6.2	7.2	7.0	1.1	1.4	1.2	7.5	2.5	2.5	12.3	10.9	9.2	3.6	2.6	(8.3)	3399
2.4	n.m	6.2	11.1	24.6	8.0	9.5	12.7	15.8	29.3	17.4	18.3	(3.7)	(2.5)	(75.1)	1559
n.m	27.6	6.9	3.2	2.8	2.0	0.0	0.0	0.0	n.m	9.6	27.9	(21.1)	0.0	(60.0)	447
n.m	11.3	10.4	1.1	1.1	1.0	0.9	0.9	0.9	5.3	3.8	4.3	0.0	(6.9)	(24.6)	4581
7.6	11.4	9.6	0.6	0.5	0.5	6.0	6.0	6.0	14.3	8.9	9.8	(18.4)	(11.9)	(24.4)	484
5.4	5.2	5.0	2.4	2.0	1.7	9.0	7.3	9.0	21.2	16.6	18.3	7.3	(5.5)	(52.9)	879
8.5	7.9	7.5	1.5	1.4	1.3	4.2	4.2	4.3	8.1	8.5	8.5	(2.4)	(1.2)	1.8	30875
8.6	8.0	7.6	1.5	1.4	1.4	4.2	4.2	4.3	8.1	8.5	8.5	(1.8)	(0.6)	1.8	31247
2.6	3.9	2.7	1.3	1.6	1.6	11.4	11.4	11.4	15.6	n.m	15.5	(16.7)	(19.6)	(47.4)	961
4.5	8.7	11.1	1.2	1.1	1.0	0.0	0.0	0.0	n.m	8.1	8.2	0.0	18.2	(39.2)	761
2.6	6.2	3.3	0.2	0.2	0.2	7.7	0.0	4.8	4.0	n.m	2.3	(1.0)	6.1	(36.6)	226
0.6	3.3	2.5	0.3	0.3	0.3	3.3	4.1	4.9	11.3	13.1	11.4	(16.5)	(3.8)	(44.9)	30
12.8	12.8	11.6	3.0	3.0	3.0	5.1	5.0	5.9	28.0	28.0	33.3	(1.0)	(0.5)	0.0	19293
6.4	7.1	4.6	3.0	2.8	2.4	1.5	1.5	1.8	17.1	18.0	18.8	16.9	0.0	(29.4)	4021
2.2	1.7	1.7	0.2	0.2	0.2	0.0	0.0	0.0	0.5	2.1	1.8	(10.2)	(11.7)	(58.6)	873
n.m	2.6	2.6	0.9	0.8	0.8	2.1	2.1	2.1	1.5	10.7	8.1	1.8	7.1	(14.2)	1172
8.3	2.7	2.7	0.7	0.6	0.6	9.3	9.5	8.5	6.0	5.9	5.7	(8.5)	(10.6)	(31.2)	314
7.0	n.m	n.m	0.4	0.4	0.4	0.0	0.0	0.0	1.0	1.4	1.6	3.7	3.7	(5.8)	65
1.4	1.5	2.4	0.2	0.2	0.2	0.0	0.0	0.0	6.1	4.2	0.0	0.0	(13.3)	(45.8)	14
13.9	16.7	55.6	1.5	1.5	1.4	5.7	2.8	3.1	11.1	8.4	8.7	(9.1)	(1.3)	(17.1)	3027
13.8	11.8	11.2	2.0	2.0	1.9	7.3	6.6	7.1	13.4	12.6	13.2	4.6	(0.6)	(7.3)	2349
5.4	7.1	3.1	0.5	0.6	0.5	13.1	13.3	13.3	16.6	14.0	11.4	(22.0)	(37.6)	(57.7)	448
4.8	8.2	6.2	0.9	1.1	1.0	5.0	1.7	2.3	11.0	5.6	7.5	31.6	0.0	(55.2)	644
2.9	5.2	4.0	0.6	0.6	0.6	8.6	8.8	9.6	19.0	8.0	11.0	6.8	5.9	(22.4)	840
2.1	1.8	1.7	1.1	1.1	1.0	10.0	8.0	8.0	n.m.	4.8	8.5	0.0	4.7	(20.0)	124
7.9	4.5	3.2	0.8	0.7	0.7	0.0	0.0	0.0	5.5	7.1	8.3	(24.7)	(24.7)	(24.7)	48
6.5	9.7	9.1	1.7	1.6	1.5	4.1	4.2	4.4	17.2	12.5	12.9	(0.9)	1.9	(12.2)	5867
1.2	1.2	1.0	0.4	0.4	0.4	22.5	22.5	22.5	10.7	n.m	9.3	(6.7)	(22.9)	(56.6)	248
n.m	n.m	5.4	0.7	0.6	0.6	5.7	5.7	5.7	9.8	12.5	11.3	(4.5)	(35.4)	(68.3)	819
6.5	4.7	5.1	1.4	1.2	1.1	14.5	10.0	12.5	24.3	19.7	21.9	(13.0)	(15.8)	(38.2)	102
n.m	n.m	n.m	0.3	0.4	0.4	3.9	1.4	1.7	4.7	1.6	1.9	3.4	1.3	(63.4)	335
5.2	6.8	11.3	0.6	0.6	0.5	8.8	8.0	8.0	13.1	10.2	10.0	7.5	(6.5)	(52.4)	395
7.8	4.4	3.5	0.9	0.8	0.7	5.9	5.9	5.9	14.6	16.2	17.5	0.0	6.7	(41.0)	1250

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