Market Pulse

Friday, 30 Aug, 2019

M+Online
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Malacca Securities Sdn Bhd
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Hotline: 1300 22 1233
Email: support@mplusonline.com.my
Website: www.mplusonline.com.my

FBM KLCI – Daily

Market Scorecard

	Close 29-Aug-19	Change %
FBM KLCI	1,595.18	0.34
52-W High	*1,823.24*	
52-W Low	*1,572.03*	
FBM EMAS	11,223.15	0.09
FBM 100	11,062.12	0.11
FBM Fledgling	14,265.94	-0.27
FBM Small Cap	12,864.39	-0.37
FBM ACE	4,510.39	-0.61
FBM Shariah	11,778.53	0.09
Volume (mln)	1,998.36	3.23
Value (RM mln)	1,665.65	8.05

Market Participation	%	Net (RM mln)
Institution	N/A	N/A
Retail	N/A	N/A
Foreign	N/A	N/A

Futures		
FKLI Spot	1,596.50	0.57
FKLI Forward	1,587.00	0.70

Foreign		
Dow Jones	26,362.25	1.25
S&P 500	2,924.58	1.27
NASDAQ	7,973.39	1.48
FTSE 100	7,184.32	0.98
DAX	11,838.88	1.18
CAC 40	5,449.97	1.51
FTSE STI	3,081.83	0.83
Shanghai Composite	2,890.92	-0.10
Hang Seng Index	25,703.50	0.34
Nikkei 225	20,460.93	-0.09

Commodities		
WTI Crude Oil (USD)	56.58	-0.23
Brent Spot (USD)	61.08	0.98
Gold (USD)	1,528.03	0.03
CPO (RM)	2,221.00	-1.42

Currency		
USD	4.2172	-0.09
GBP	5.1438	-0.14
EURO	4.6717	0.00
SGD	3.0389	-0.21
YEN	25.1980	-0.37

Easing Trade Dispute To Spur More Upside

- The FBM KLCI (+0.3%) halted a three-day losing streak after recovering all its intraday losses in the second half of the trading session, lifted by bargain hunting activities in selected oil & gas and banking heavyweights yesterday. The lower liners – the FBM Small Cap (-0.4%), FBM Fledgling (-0.3%) and FBM ACE (-0.6%), however, all declined, while the broader market closed mixed.

- Market breadth stayed negative as losers outstripped gainers on a ratio of 451-to-338 stocks, while 401 stocks traded unchanged. Traded volumes, however, rose 3.2% to 2.00 bln shares.

- Two thirds of the key index components advanced, led by Petronas Dagangan (+38.0 sen), followed by Hap Seng Consolidated (+29.0 sen), Hong Leong Financial Group (+28.0 sen), Hong Leong Bank (+24.0 sen) and Petronas Gas (+22.0 sen). Amongst the biggest gainers on the broader market include Advance Packaging (+25.0 sen), Shangri-La (+25.0 sen), Panasonic (+20.0 sen), Batu Kawan (+16.0 sen) and Ayer Holdings (+13.0 sen).

- On the flipside, Telekom Malaysia (-34.0 sen), Heineken (-24.0 sen), Syarikat Takaful (-20.0 sen), KLCC (-19.0 sen) and Aeon Credit (-18.0 sen) fell on the broader market. Meanwhile, Petronas Chemicals (-13.0 sen), CIMB (-4.0 sen), RHB Bank (-3.0 sen), AmBank (-2.0 sen) and DIGI (-2.0 sen) led the local bourse decliners list.

- Asian benchmark indices finished mostly lower as the Nikkei and Shanghai Composite fell 0.1% each as investors continue to monitor on the U.S. Treasury yield that inverted further overnight. The Hang Seng Index gained 0.3% after Hong Kong Police banned a mass weekend protest march. ASEAN equities, meanwhile, ended on a mixed note on Thursday

- U.S. stockmarkets extended their gains as the Dow rose 1.3% on trade optimism after Chinese authorities will not retaliate against the latest round of tariffs. On the broader market, the S&P 500 added 1.3% with all eleven major sectors in the green, led by the industrials sector (+1.8%), while the Nasdaq finished 1.5% higher.

- Earlier, European benchmark indices – the FTSE (+1.0%), CAC (+1.5%) and DAX (+1.2%), all advanced on Sino-U.S. trade optimism. The tepid inflation that rose 1.1% Y.o.Y in July 2019 reinforced expectations that the European Central Bank will provide more stimulus to the region's economy next month.

THE DAY AHEAD

- The FBM KLCI made a more credible upside yesterday that could prompt further near term recoveries and allow the key index to end the week on a more positive note. The slight thawing of the U.S.-China trade dispute will further provide impetus for the key index's near term recovery.

- While the 1,600 points the obvious target for now, it remains to be seen if the recovery could strengthen beyond the level as there remains some measure of cautiousness that could cap the potential upsides. At the same time, the key index's valuation remains on the fair side despite its recent pullback and with corporate earnings growth still anemic, the upside potential could still be measured for now.

- Therefore, we see further upsides to be largely be driven by how much sentiments will improve over the near term, particularly developments on the U.S.-China trade dispute. Above 1,600 points, the other resistance is the 1,610 level, while the supports are at the 1,580-1,590 levels.

- We also think that the broader market stocks are set for a recovery, helped by the improved market undertone. Already, many of the lower lines are tipping into the oversold and the recovery will be welcomed to break the downtrend.

COMPANY UPDATE

- **Kimlun Corporation Bhd**'s 2Q2019 net profit grew 36.6% Y.o.Y to RM13.4 mln, lifted by the higher contribution from the construction and manufacturing & trading segments that offset the weakness in the property development segment. Revenue for the quarter rose 49.2% Y.o.Y to RM325.2 mln. For 1H2019, cumulative net profit added 30.6% Y.o.Y to RM13.4 mln. Revenue for the period expanded 46.7% Y.o.Y to RM643.7 mln.

Comments

- The reported earnings came slightly below our expectations, accounting to 46.6% of our full year estimated net profit of RM63.0 mln. Meanwhile, the reported revenue came above our expectation, accounting to 63.6% of our full year revenue forecast of RM1.01 bln. The better-than-expected revenue was due to higher execution of construction orderbook and improvement from the manufacturing & trading segment with deliveries to the KVMRT Line 2 project and quarry products supplied.

- Although the reported earnings makes up slightly less than half of our forecast, we deem it to be in line as we reckon earnings growth will play catch up in 2H2019. Hence, we made no changes to our earnings forecast and we maintain our **BUY** recommendation with an unchanged target price of RM1.65.

- Our target price is derived from ascribing an unchanged target PER of 9.0x to its 2020 fully diluted construction earnings and PER of 6.0x (unchanged) to its fully diluted manufacturing earnings, while its property development segment's valuation remains unchanged at 0.6x its BV due to its relatively small-scale development projects.

- **Leong Hup International Bhd**'s (LHI) 2Q2019 net profit sank 75.5% Y.o.Y to RM16.1 mln, dragged down by the sharp downturn in average selling price (ASP) of broiler day old chicks (DOC) and broiler in Malaysia. Revenue for the quarter, however gained 3.8% Y.o.Y to RM1.48 bln. For 1H2019, cumulative net profit decreased 35.2% Y.o.Y to RM76.7 mln. Revenue for the period, however, added 7.7% Y.o.Y to RM2.98 bln.

Comments

- The reported results came below our expectations, making up to only 32.0% of our net profit estimate of RM239.3 mln. The reported revenue, however, came within our expectations, amounting to 50.5% of our full-year forecast of RM5.92 bln.

Comments

- With the reported earnings coming below our expectations, we slashed our earnings forecast by 44.5% and 34.1% to RM132.7 mln and RM177.1 mln for 2019 and 2020 respectively, to reflect the sharp decrease in ASP of DOCs and broilers.

- Consequently, we downgrade recommendation on LHI to **HOLD** (from BUY) with a lower fair value of RM0.82 (from RM1.40) as we assigned a forward PER of 19.0x to our revised estimated 2020 EPS of 4.9 sen.

- The assigned target PER represents 10.0% discount to its local and regional peers average of 21.5x, after taking into account of the larger market capitalisation of the aforementioned companies (**Charoen Pokphand Foods PLC** and **ThaiFoods Group PLC** in Thailand, **JAPFA Ltd** in Singapore and **QL Resources Bhd** in Malaysia).

- **Mitrajaya Holdings Bhd** sank deeper into the red as 2Q2019 net loss stood at RM14.5 mln vs. a net profit of RM10.3 mln recorded in the previous corresponding quarter, dragged down by lower contribution in the construction segment that saw delay in payment collection from certain completed projects. Revenue for the quarter decreased 29.7% Y.o.Y to RM145.4 mln.

- For 1H2019, cumulative net loss stood at RM18.8 mln vs. a net profit of RM29.5 mln recorded in 1H2018. Revenue for the period declined 29.9% Y.o.Y to RM330.9 mln.

Comments

- The reported earnings came below our expectations as we expected Mitrajaya to chalk-in net profit of RM15.8 mln in 2019, while revenue came slightly below our expectations, accounting to 42.3% of our RM783.1 mln revenue forecast. The difference in the bottomline is mainly due to lower-than-expected contribution from the construction segment amid its depleting unbilled orderbook.

- With the reported earnings coming below our estimates, we now expect Mitrajaya to remain in the red at net losses of RM32.3 mln and RM26.6 mln (from net profit of RM15.8 mln and RM16.0 mln) for 2019 and 2020 respectively, in view of the depleting construction orderbook.

Consequently, we maintain our **SELL** recommendation on Mitrajaya with a lower target price of RM0.25 (from RM0.30).

- Our target price is derived from a sum-of-parts valuation as we ascribed a target PER of 8.0x (unchanged) to its fully diluted 2020 construction earnings, while its local and overseas property development units are valued at 0.4x of their respective book values.

- HIL Industries Bhd's (HIL) 2Q2019 net profit jumped 23.7% Y.o.Y to RM4.7 mln, in comparison to RM3.8 mln in the last corresponding period, in-line with stronger revenue of RM35.9 mln, from RM28.5 mln earlier.

- Cumulative 1H2018 net profit, however, plunged 32.6% Y.o.Y to RM6.2 mln, from RM9.2 mln previously, owing to a one-off gain from the acquisition of a subsidiary in the previous corresponding period. However, if we exclude the non-recurring gain, net profit was 60.7% Y.o.Y higher. Revenue, however, was 45.6% Y.o.Y higher at RM71.5 mln, from RM49.1 mln a year ago.

Comments

- The reported net profit was within expectations, accounting for about 34.2% of our estimated earnings at RM18.1 mln. This is typical as the group usually post stronger performance in the second half of the year amid year-end sales and promotions. Revenue also met our forecast revenue of RM128.1 mln (or 55.8%). Consequently, we keep our FY19-FY20 estimates unchanged for now.

- We also maintain our **HOLD** recommendation on HIL Industries Bhd with an unchanged target price of RM0.70 as the group lacks near-term re-rating catalysts, coupled with unending weakness in the property market and still low utilisation levels from the manufacturing division.

- Our target price is based on sum-of-parts (SOP) approach with an unchanged target PER of 9.0x to its 2019 manufacturing business and a discount of 50% (unchanged) to the revalued net asset value (RNAV) estimate of HIL's property unit.

COMPANY BRIEF

- Axiata Group Bhd's President and Chief Executive Officer (CEO) Tan Sri Jamaludin Ibrahim has dismissed rumors that the group's planned merger with Norway's Telenor ASA has been called off, saying the deal is on track and the due diligence for it is now 70.0% complete.

- Meanwhile, negotiations with Telenor are expected to take three to six months, with talks targeted to be concluded by early November. (The Star Online)

- TH Plantations Bhd (THP) remains in the red with a 2Q2019 net loss of RM19.2 mln, compared to a net profit of RM200,000 a year ago, marking its fourth consecutive quarter of losses since it fell into the red in 3Q2018. Revenue also declined by 23.0% Y.o.Y to RM106.1 mln, from RM138.6 mln in 2Q2018. The weak bottomline was mainly due to significantly lower CPO and palm kernel prices, coupled with higher finance cost.

- Cumulative 1H2019 net loss was RM27.2 mln, from a net profit of RM3.4 mln earlier, while revenue fell 15.0% Y.o.Y to RM221.4 mln, from RM259.8 mln earlier. (The Edge Daily)

- Bina Darulaman Bhd's (BDB) 2Q2019 net loss narrowed 49.0% Y.o.Y to RM4.9 mln vs. RM9.5 mln in the previous year's corresponding quarter, despite weaker revenue of RM47.3 mln (-11.0% Y.o.Y), compared to RM53.0 mln previously. The improved earnings were due to its business turnaround initiatives which focused on business improvement processes to deliver better margins and cost optimisation exercise.

- Cumulative 1H2019 net loss also fell to RM10.7 mln, from RM20.2 mln in the same period last year, while revenue fell 13.0% Y.o.Y to RM86.9 mln, from RM100.0 mln in 1H2018. (The Edge Daily)

- PPB Group Bhd's 2Q2019 net profit nearly halved to RM156.0 mln, from RM304.5 mln a year ago, dragged down by lower contribution from associate Wilmar International Ltd and weaker profit in its core grain and agribusiness segment. Quarterly revenue, however, rose 6.5% Y.o.Y to RM1.15 bln, from RM1.08 bln in the second quarter last year. Even so, the group declared an interim dividend of eight sen per share, payable on 2nd October 2019.

- Cumulative 1H2019 net profit also decreased by 17.3% Y.o.Y to RM408.4 mln, while revenue inched higher by 3.7% Y.o.Y to RM2.31 bln. (The Edge Daily)

- Minister of Finance (Incorporated) (MoF Inc) and Gamuda Bhd's 70.0%-owned unit, Kesas Holdings, have agreed to extend the cut-off date to negotiate and finalise the terms of the definitive agreement on the takeover of highway concessions to 31st October 2019 from 30th August 2019.

- To recap, Gamuda accepted a proposed offer by MoF Inc to purchase all of its equity stakes in four companies in Jun this year. (The Star Online)

- Sime Darby Property Bhd will continue its asset monetisation initiatives moving forward, which it targets to dispose its non-core lands in Kedah measuring approximately 526.1 ha. in the next two years. Sales proceeds will be used to fund future developments and pare debt. The lands in Kedah were under the low-yielding assets for the group and outside Sime Darby Property's common area of projects.

  Going forward, the group's industrial and logistics segment is expected help the group to achieve its target of reaching 10.0% recurring income by 2023. (The Star Online)