Quarterly Outlook 3Q05

Mayban Securities

Passport to better growth

July 2005

MALAYSIA

EQUITY RESEARCH

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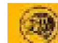
Some common terms abbreviated in this report (where they appear):

P = price
PE/PER = price earnings/ PE ratio
PEG = PE ratio to growth
FV = fair value
BV = book value
EV = enterprise value
DCF = discounted cashflow
FCF = free cashflow
DPS = dividend per share
WACC = weighted average cost of capital
PBT/PAT = Profit before tax/Profit after tax
NTA = net tangile asset
NAV = net asset value
EBIT= Earnings before interest, tax
EBITDA= EBIT, depreciation and amortisation
CY = calendar year
ROE = return on equity
ROA = return on asset
ROS = return on shareholders' funds
CAGR = compounded annual growth rate
mom= month-on-month
yoy = year-on-year
qoq = quarter-on-quarter
ytd = year-to-date
FY/FYE = financial year/ financial year end
capex = capital expenditure
adex = advertising expenditure
p.a = per annum
EPS = earnings per share


Mayban Securities

(165630-M)

MALAYSIA EQUITY RESEARCH

QUARTERLY OUTLOOK

PP 6245/7/2005

3rd Quarter 2005

5 July 2005
KLCI: 898.87

Passport to better growth

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EXECUTIVE SUMMARY

- Growth in 3Q05 is expected to accelerate to 5.0%yoy compared to 4.0% in 2Q05. The main reason is the pick up in manufacturing output and a slight rebound in public spending. Nevertheless, we are maintaining our 2005 full year GDP growth forecast of 5.1%.
- Other than domestic demand, there are no major catalysts for the upcycle - in fact there are more threats to Malaysia's external demand. Crude oil prices are still high, the US is still in an interest rate tightening cycle, global semiconductor sales have not picked up pace while regionally, Philippines is beset again with corruption allegations against the incumbent government. Nevertheless, there are some plus points as well, the US economic growth is still being supported by consumer spending, Malaysia is on track to achieve its targeted budget deficit due to the government's fiscal discipline and Malaysia's private spending and tourist arrivals continued to be strong. On the political front, the UMNO executive whips out their detractors in a show of strength, the first explicit sign of the battle ahead amidst the "wayang kulit" unity. In MCA, democracy is on the mend.
- We had said in our previous report that 2Q05 was in a downcycle and likely trough, but with plenty of opportunities for bottom fishing. In 3Q05, the upcycle has just begun, therefore, opportunities still exist for investors to pick up assets at reasonable valuations. We maintain that the ringgit peg regime is unlikely to be dismantled while interest rates will have to be kept low to support Malaysia's best bet — private spending.
- Corporate earnings growth for 2005 has been trimmed to 9.5% from 10.4% previously on account of the recent disappointing quarterly financial results. However, earnings growth for 2006 remains robust at 14.3%.
- With slower earnings expectation we have revised our KLCI target to a range of 940 to 970 on a basis of PER at 15X and accounting for further upside on possible foreign inflow of funds by year end.
- The moderate upside is accompanied by risk of a slowdown in major economies, a slide in US dollar and a yuan re-peg (forcing pressure on the ringgit), and rising oil prices.
- The only change to our sector recommendation is an upgrade of the Semiconductor sector to Neutral from an Underweight.
- Apart from being Overweight on Banking, Plantations, Oil & Gas, Telecommunications and Water, we have a bottom-up approach focusing on companies that are venturing overseas in seek of better growth. Our selection includes Ingress, CAHB, IJM, Gamuda, Genting, Astro, KNM, Scomi, Maxis, Telekom, Opcom and Ekowood.

Equity Strategy

Passport to better growth

Review 2Q05: Triple whammy kept market volatile

KLCI up 1.9% but down 2.1%YTD; small stocks battered by scare over limit downs

The KL Composite Index (KLCI) managed a 1.9% gain for 2Q05 as stocks were battered by a triple whammy — rising crude oil prices, disappointment over a ringgit re-peg, as well as a spillover from the rout in a host of lower liners — that kept the market highly volatile. However, the slight recovery on the key benchmark was in contrast to the continued poor performance of Second Board and Mesdaq which fell -13.7% and -7.3% respectively, as many small counters suffered severe declines after a few speculative stocks were traded limit-down as a result margin financing being withdrawn. For 1H05, the severe underperformance of small stocks is even more apparent as the Second Board and Mesdaq indices plummeted -20.8% and -24.0% against a decline of -2.1% on the KLCI (Table 3)

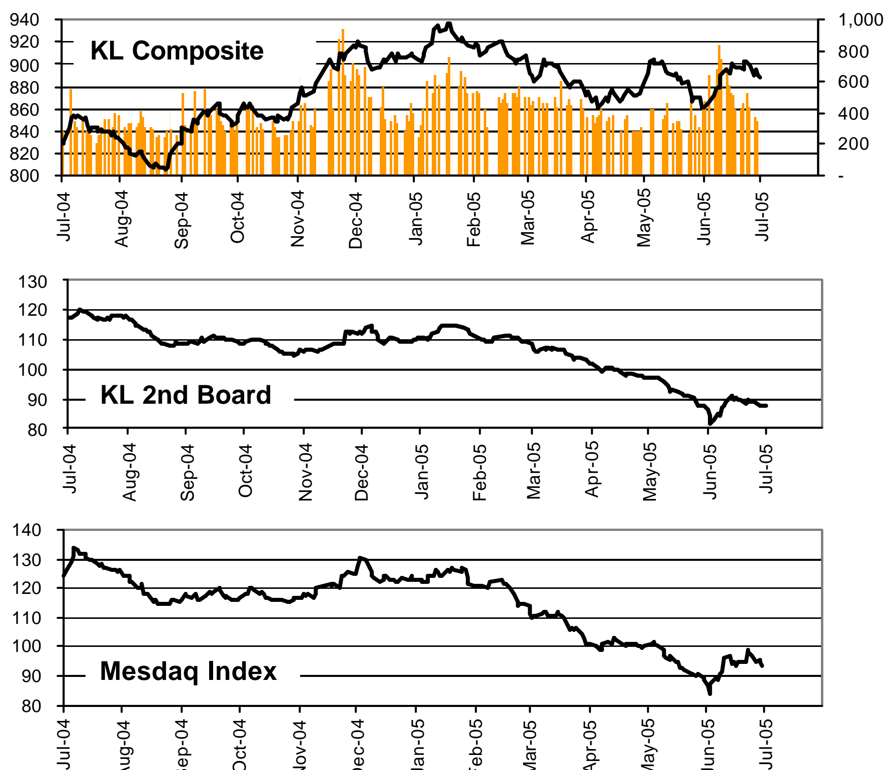
Technology, Construction and Property sectors underperform

Sector indices performance. The KLCI's -2.1% decline for 1H05 was not representative of the sectoral indices performance as practically all underperformed the benchmark. Both the Construction and Property sectors continued their decent to post 1H05 declines of -13.4% and -17.5% respectively (Table 2). However, the Technology sector remained the worst performing this year with a -24.1% loss after declining -7.2% in 2Q05. Not counting the Mining Index, the Plantation and Industrial indices were the only ones in positive territory, albeit just so, with a 1.0% and 0.5% gain in 1H05.

Malaysia is a laggard this year

Regional comparison. With a minimal gain of only 1.9% for 2Q05 while other regional markets made steady gains, Malaysia is now firmly a laggard this year as its -2.1% loss for 1H05 places it at the lower ranks of the performance table, only ahead of the US and China markets (Table 1). Ironically, regional markets seems to have shrugged off worries over high crude oil prices — which rose 30% in 1H05 — and a downturn in electronics exports, whereas Malaysia, a net oil exporter, remains a laggard.

Chart 1: KLCI, 2nd Board and Mesdaq Index: 1 July 2004 – 30 June 2005



Source : Bloomberg

Chart 2: Crude Oil – WTI Numex (USD)

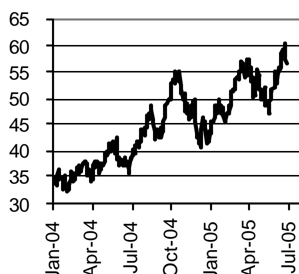


Table 1: Global Market Performance

	2004	1Q05	2Q05	1H05	Index
Korea KOSPI	10.5%	7.8%	4.4%	12.5%	1,008.16
Jakarta Comp.	44.6%	8.0%	3.9%	12.2%	1,122.38
Paris CAC	7.4%	6.5%	4.0%	10.7%	4,229.35
Frankfurt DAX	7.3%	2.2%	5.5%	7.8%	4,586.28
Singapore STI	17.1%	3.6%	3.3%	7.1%	2,212.66
London FTSE100	7.5%	1.7%	4.5%	6.2%	5,113.20
Philippines Comp.	26.4%	7.2%	-1.6%	5.6%	1,924.23
Taiwan Weighted	4.2%	-2.2%	3.9%	1.7%	6,241.94
Thailand SET	-13.5%	2.0%	-0.9%	1.1%	675.50
Tokyo Nikkei 225	7.6%	1.6%	-0.7%	0.8%	11,584.01
HK Hang Seng	13.2%	-5.0%	5.1%	-0.2%	14,201.06
S&P 500	9.0%	-2.6%	0.9%	-1.7%	1,191.33
KL Comp. Index	14.3%	-4.0%	1.9%	-2.1%	888.32
Dow Jones	3.1%	-2.6%	-2.2%	-4.7%	10,274.97
Nasdaq	8.6%	-8.1%	2.9%	-5.4%	2,056.96
Shanghai Comp.	-15.4%	-6.7%	-8.5%	-14.7%	1,080.94
Nymex WTI (USD)	33.6%	27.5%	2.0%	30.0%	55.40
Gold Spot (USD)	5.5%	-2.3%	1.7%	-0.7%	428.35

Source : Bloomberg

Table 2: Sector performance

	2004	2Q05	1H05	Index
Industrial	10.9%	3.9%	0.5%	1,974.65
Construction	-8.9%	-10.9%	-13.4%	148.34
Consumer	7.3%	-0.9%	-3.9%	223.18
Finance	15.3%	-3.2%	-5.7%	7,033.83
Plantation	9.4%	5.1%	1.0%	2,440.16
Property	-4.5%	-12.4%	-17.5%	591.54
Technology	-28.5%	-7.2%	-24.1%	32.73
Trad & Serv.	14.3%	3.3%	-1.7%	129.65
Mining	6.7%	8.1%	13.4%	409.69
Syariah Main	8.9%	0.3%	-3.9%	128.55

Source : Bloomberg

Prospects for market could improve by year end

Maintaining GDP growth at 5.1% for 2005

Our economic prognosis is that second quarter GDP growth will be the trough in the cyclical downturn and 2H05 would see an improvement as manufacturing growth begins to pick up due mainly to a recovery in the semiconductor sector, and we foresee a possible delayed rebound in the construction sector. Nevertheless, since such factors have already been taken into account since our second quarter outlook, we are maintaining our GDP growth of 5.1% for 2005 (refer to Economics: page 10). With an upcycle increasing pace next year, we are also keeping our 2006 forecast for GDP at 6.0%.

Resilient economy puts Malaysia in third place in the region

We believe that the slower economic growth expectations this year are not entirely depressing since the global economic slowdown, largely priced in by the market, is in fact affecting Malaysia to a lesser extent than its neighbours. Being ranked the third fastest growing regional economy after China and Thailand (Table 4) could serve as a safe haven, especially since the Malaysian equity market has so far underperformed this year. (Table 1).

2005 earnings growth trimmed to 9.5% from 10.4% over disappointing 1Q05 results

Nevertheless, where the market could still face resistance on the upside is the fact that corporate earnings growth has disappointed as evident by the number of companies with 1Q05 financial results coming in below expectations. We witnessed 37% of companies coming in below expectation, 42% within expectations and only 22% above expectation. By readjusting our corporate earnings forecasts, we have lowered earnings growth to 9.5% from 10.4% previously. However, with the economic scenario improving next year, our earnings growth forecast is also on the same path as we expect a 14.3% growth in 2006. Though capital gains may seem limited now, it is supported by robust gross dividend yields of 4.0% for 2005..

Table 3: Bursa Malaysia Quarterly Market Performance

	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	1H05	Index
KL Composite	13.6%	-8.8%	3.7%	6.8%	14.3%	-4.0%	1.9%	-2.1%	888.32
KL Emas	12.4%	-10.0%	2.5%	5.9%	9.6%	-4.3%	-0.6%	-4.9%	203.73
KL 2nd Board	-3.8%	-12.7%	-7.0%	1.8%	-21.2%	-8.2%	-13.7%	-20.8%	87.79
Mesdaq	-0.6%	-23.0%	-6.4%	5.8%	-19.3%	-18.0%	-7.3%	-24.0%	93.40
Ave Daily Vol (m)	651	331	339	447	437	509	520	464	—
Ave daily Val (RMm)	1,328	714	659	835	874	953	648	802	—
Ave. price/share (RM)	2.04	2.16	1.95	1.87	2.00	1.87	1.25	1.73	—

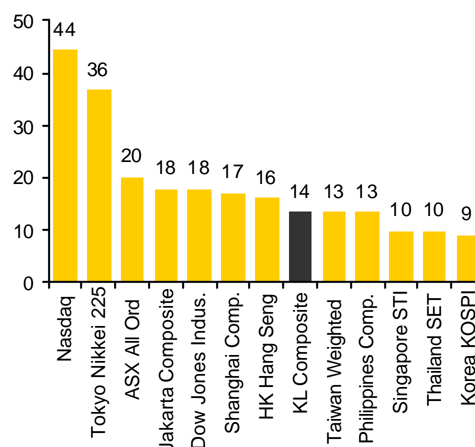
Source : Bloomberg

Table 4: GDP – regional comparison (%yoy)

Country	1Q05	4Q04	2003	2004	2005f
China	9.4	9.5	9.1	9.5	8.0
Thailand	3.3	5.0	6.6	6.1	5.6
Malaysia	5.7	5.8	5.3	7.1	5.1
Indonesia	6.4	6.7	4.1	5.1	4.9
Singapore	2.4	6.4	1.1	8.4	4.4
Philippines	4.6	5.4	4.3	6.1	4.2
Taiwan	2.5	3.3	3.3	5.7	4.2
South Korea	2.7	4.6	3.1	4.8	4.1
US	3.7	*3.9	3	*4.4	*3.4
Japan	0.0	0.6	2.1	2.7	1.8

*Source: Official statistics via Datastream, f = official forecasts except for Malaysia which is Maybansec's, * = annualised*

Chart 3: Comparative Regional market PER



Source: Bloomberg

KLCI has moderate upside for 2H05

KLCI fair value revised to 940–970

We are revising our KLCI target for this year to a range of between 940 and 970 from 960 previously. Valuation-wise, after taking into consideration the slower earnings growth, we have a fair value for the KLCI at 940, pegged to a target PER of 15 times. However, we believe that if better sentiment prevails in the second half, especially with the inflow of foreign funds, in part persuaded by bullish reports of several foreign brokers, then we believe that 970 on the KLCI is quite achievable. That gives a moderate upside of around 6% to 9% from current level and 4% to 6% for 2005. We are more optimistic for 2006 where coupled with GDP growth of 6.0% and against a backdrop of improving world economies, we expect earnings growth to accelerate to 14.3% and therefore a prospective KLCI fair value of 1,070.

Valuations are reasonable compared to regional markets

The KLCI is presently trading at a PER of 13.6X and compared to regional markets, it is not overly expensive (Chart 3) especially since it has moderated since last year due to its underperformance. Once again we reckon that, Malaysia, as in the past, attracts a slight premium because of its political stability, and its strong and resilient economy.

What we foresee as catalyst for the second half would not be a single significant event but put together we reckon several factors would bring about the modest gain that we expect:

Underperformance relative to foreign markets. We believe that market sentiment has been unfairly negative in the past two quarters considering the country's fundamentals. A re-rating could be due if foreign funds begin to take a positive view on Malaysia. In this respect, the entry of the five foreign brokers and one foreign manager could lead to greater inflow of foreign equity funds.

Renewed interest in government linked companies. Though Telekom seems to have progressed the most in the GLC revamp so far, Khazanah's more prominent role is expected to attract interest in selected GLCs. Its partnering to bid for banks in Indonesia could stir some interest in local banks. In additoion, the divestment of stakes in GLCs could see more active private investor involvement.

Ringgit peg. Though we believe that the government will not budge from the ringgit peg for as long as the real effective exchange rate is within a 10% range, speculation on the yuan and, in turn the ringgit, will still lure speculative funds into the local market.

Accommodative monetary policy. Despite rising rates in the US, we reckon local rates can remain relatively low, such that domestic consumption and the economy will still benefit and together with flush liquidity, the equity market can easily rise when sentiment changes for the better.

Upcoming Budget 2006 in September could give a glimpse of what to expect for the Ninth Malaysia Plan. Though not as sizable as the previous plan, the 9MP could re-awaken interest in the neglected construction sector.

Liberalisation of financial sectors will spur consolidation and the creation of investment banking groups. The ensuing mergers and overseas ventures is likely to maintain interest in the banking sector which as the heavyweights of the KLCI would be influential for the broader market.

Risk factors are still significant enough to spoil the fragile market

Risks are mainly external. Global economic slowdown a main concern

The main risk factor, in our view, is the pace of economic growth in the major economies, especially that of US and China, as well as the strength of their respective currencies. However, fears of a continually weakening dollar have somewhat subsided and the yuan peg issue seems only to bolster the view that the China government is not releasing the peg any time soon.

A possible funds outflow due to liberalisation of exchange controls is noted as a concern but we reckon that the process would be gradual, especially now that the ringgit peg is perceived to be due for an adjustment.

Rising crude oil prices has put the brakes on markets in the past year and such volatile price movements will still be a major influence on foreign markets, in turn the local market.

Overall, we view the downside for the market to be limited as we believe that the KLCI would not remain for long below the 860 support level if the current external factors do not deteriorate much further (refer to Technical Outlook, page 14).

Strategy and Recommendation

Number of buys dwindling as corporate earnings slows down.

In the current cyclical downturn in the economy as well as a slowdown in corporate earnings growth, the number of our buy recommendations are dwindling. Our expectation of slower corporate earnings growth of 9.5% for 2005 from an earlier 10.4% has meant that several of our buy recommendations have been downgraded and many of those that have been maintained as buys have had their fair values revised lower.

Upgraded Semiconductor sector to Neutral from Underweight

However, on a positive note, we have not downgraded any of our sector recommendations from last quarter and we have in fact upgraded Semiconductors from Underweight to Neutral.

In summary, our overweight sectors are: Banking, Plantations, Oil and Gas, Telecommunications, and Water. The sectors with Neutral weighting are Automotive, Construction, Consumer Products, Property, Retail, IT, Media, Power, Semiconductors, Timber and Transportation.

Strategy

Bottom-up approach adopted

Though on a sector basis we continue to like the Banking, Plantations, Oil and Gas, Telecommunications, and Water sectors, the dearth of fundamentally good stocks even in some sectors that we are Overweight means that our strategy is also largely on a bottom-up approach, in which we focus on a selection of dominant stocks within sectors which we have a Neutral weighting (Table 5).

Recommend companies venturing overseas for better growth

Noting that growth opportunities for many companies will be constrained due to limited resources of growth domestically as well as the emergence of foreign competition within the country, we are recommending a focus on companies that are venturing abroad to seek for better growth.

With Khazanah spurring the move for the GLCs, many cash rich companies that find limited opportunities locally, are also venturing forth. Though the passport to better growth is not guaranteed considering the additional risks, the long term benefit could be well worth the investment.

Dividend yields for defensive stance

In addition, with capital gains temporarily expected to be modest, we also advocate a defensive stance, whereby we also have a selection of dividend yield stocks (Table 5).

Table 5: Portfolio Picks for 3Q 2005

	Stock	Price (RM)	Sector	PER05 (X)	PER06 (X)	P/BV (%)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
1	Ingress *	1.18	Automotive	5.7	5.3	0.6	4.2	6.0	(5.2)
2	AIGB *	1.64	Banking	10.8	9.3	1.1	-	(6.9)	-
3	Commerce	5.05	Banking	13.0	11.6	1.6	3.0	8.1	8.3
4	Gamuda	4.14	Construction	10.6	8.8	1.6	5.1	(10.6)	(11.9)
5	IJM *	4.92	Construction	12.8	11.6	1.3	3.0	2.5	0.6
6	Genting *	18.90	Gaming	13.7	12.1	1.7	1.3	1.6	7.3
7	Astro	5.45	Media	67.3	48.2	6.7	0.5	0.6	3.9
8	Star	6.95	Media	15.8	15.0	2.8	5.0	(1.5)	0.3
9	KNM	2.55	Oil & Gas	13.8	11.5	3.3	2.0	3.2	3.4
10	Sapura Crest	1.01	Oil & Gas	8.5	8.0	2.2	-	(2.2)	(10.1)
11	Scomi	1.49	Oil & Gas	13.1	8.7	4.9	0.7	2.0	(8.8)
12	Golden Hope	3.92	Plantation	9.0	12.0	1.2	6.4	2.6	1.2
13	KL Kepong	6.85	Plantation	10.9	10.1	1.2	4.4	3.2	1.8
14	IOI Property	7.50	Property	11.0	10.0	1.5	6.0	(0.9)	(4.5)
15	SP Setia	4.08	Property	12.6	11.0	1.7	4.9	5.7	0.1
16	AEON	4.66	Retail	11.4	9.9	1.5	1.9	1.3	(6.8)
17	Maxis	9.70	Telecoms	14.0	13.2	4.5	4.8	(3.2)	0.7
18	Telekom *	10.00	Telecoms	18.4	15.2	3.0	3.0	(2.2)	0.6
19	Hubline	2.25	Transport	8.4	6.4	1.2	-	(2.7)	(1.5)
20	Maybulk*	2.23	Transport	2.9	9.6	1.3	5.4	4.0	(8.0)
21	NCB Hldg	2.40	Transport	10.1	8.9	0.7	5.0	(2.6)	(8.9)
22	Puncak Niaga	2.60	Water	14.8	3.8	0.9	-	(2.6)	7.3
23	Ranhill Utilities	1.64	Water	4.0	2.4	0.7	-	8.6	(21.9)
24	Opcom *	1.01	Indus. Prod	7.7	5.9	2.3	5.9	9.0	8.7
25	Ekowood *	1.15	Timber	7.7	7.3	1.3	2.2	(7.4)	(16.1)

Note: Prices as at 30 June 2005

Recommended stocks with foreign exposure

* Refer to company reports pages 52 to 59

Table 6: Selected dividend yield stocks for 3Q 2005

	Stock	Price (RM)	Sector	PER05 (X)	PER06 (X)	P/BV (%)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
1	Boustead Prop	3.40	Property	7.6	7.3	0.9	9.4	(2.2)	(9.6)
2	EPIC	1.76	Oil & Gas	11.3	10.5	1.1	6.8	(2.2)	4.7
3	Gamuda	4.14	Construction	10.6	8.8	1.6	5.1	(10.6)	(11.9)
4	Golden Hope	3.92	Plantation	9.0	12.0	1.2	6.4	2.6	1.2
5	Halim Mazmin	0.73	Transport	6.7	27.9	0.7	7.7	(12.7)	(9.0)
6	IOI Property	7.50	Property	11.0	10.0	1.5	6.0	(0.9)	(4.5)
7	Maybulk	2.23	Transport	2.9	9.6	1.3	5.4	4.0	(8.0)
8	NCB Hldg	2.40	Transport	10.1	8.9	0.7	5.0	(2.6)	(8.9)
9	Public Bank	6.70	Banking	15.8	13.9	2.7	13.4	0.1	(12.6)
10	Star	6.95	Media	15.8	15.0	2.8	5.0	(1.5)	0.3
11	NCB Hldg	2.40	Transport	10.1	8.9	0.7	5.0	(2.6)	(8.9)
12	SP Setia	4.08	Property	12.6	11.0	1.7	4.9	5.7	0.1

Note: Prices as at 30 June 2005

Recommendations

A host of companies venturing overseas

Among the companies that we reckon will have reasonable prospects from overseas ventures would be **Telekom** and **Opcom**, a fibre optic cable manufacturer that can tag along Telekom for overseas opportunities. **Commerce Asset** and soon-to-be-merged CIMB will be well placed to leverage on Bank Niaga and GK Goh, while **Ingress**' presence in Thailand and Indonesia bodes well for it quest to take advantage of AFTA. Construction giants **IJM** and **Gamuda** finding the cutback in local projects stifling have bid and won various overseas projects while **Genting** is betting on a stake in Singapore casino market and has presence in UK. **Astro** is also leveraging on its programming content that should find suitable audience in neighbouring Indonesia. In the Oil & Gas sector, both **KNM** and **Scomi** are notable companies with overseas presence.

Commerce our top pick for Banking

Commerce Asset-Holding. Our top pick for the banking sector is Commerce Asset-Holding (CAHB). The ongoing restructuring of the group including the integration of its two subsidiaries, Bumiputra Commerce Bhd and CIMB under the 'CIMB' brand, is expected to further fortify CAHB's position as the second largest banking group. With the impending privatisation of CIMB, CAHB will provide the sole exposure to the investment banking arm. In addition, the restructuring exercise is expected to maximise synergies between the commercial and investment banking operations, re-energise the commercial bank, and strengthen CAHB's regional platform. The group is able to leverage on its subsidiary, Bank Niaga, to capitalise on Indonesia's high growth commercial banking business. We maintain BUY on CAHB and revise upwards our fair value to RM5.90 from RM5.20 per share, as we feel that the group should command a higher PBV of 1.8x.

Astro's venture may have longer gestation

ASTRO is our top pick in the media sector in the light of strong operating fundamentals such as sustainable subscriber growth, declining churn rate and strong bargaining position to secure superior content at reasonable costs. We are positive on ASTRO's foray into the huge Indonesian pay-TV market but near term earnings could take a hit nonetheless due to start-up costs during the initial four-year gestation period.

KNM our top oil & gas pick

Our top pick remains in the oil & gas sector is **KNM**, which has successfully participated in overseas oil and gas contracts. Besides its plants in Malaysia, KNM also has plants in Dubai and China, and is set to tap into the growing oil and gas, and petrochemical industries expansion in the Middle East, Africa and China. Furthermore, KNM's strategic partnership with FBM-Hudson gives the company access to international markets.

Scomi's global presence a plus

Scomi. The oil and gas division is expected to be the group's main revenue and earnings driver. We like the group for its 1) strong position in the drilling waste management & mud engineering services, 2) global presence through OilTools, 3) strong management team and 4) attractive valuation. Scomi is trading at PER06 of 8.7X (forecast assumes completion of the acquisition of Habib in Sept 2005). Risk to our expectations that the global economic slow down may reduce demand for oil and gas. But this is a slim chance since oil and gas are used in many applications and demand is not likely to be negative.

Maxis expanding overseas through Natrindo Selular Indonesia

Maxis, adding 546,000 new subscribers in 1Q05 to achieve a subscriber base of 6.6m, is now the No.1 cellular operator in Malaysia. However, ARPU for postpaid and prepaid declined 3.7%yoy and 9.5%yoy to RM155 and RM57 respectively in 1Q05 due to a the ongoing price war. It plans to expand coverage to 86% by year end from 82% currently. The group intends to focus on rural and lower end subscribers this year, particularly in Sabah and Sarawak, which ranked among the bottom in terms of mobile penetration in the country. Maxis also expanded overseas by acquiring a 51% stake in PT Natrindo Seluler Indonesia for RM380m. This acquisition offers Maxis an opportunity to expand into the Indonesian mobile market, which currently has a low penetration rate of 13.4%.

For the other stocks which we favour for overseas exposure i.e. Ingress, IJM, Genting, Telekom, Opcom and Ekowood, please refer to the company reports on pages 52-59.

Economics

Review: 2Q05 growth lower than expected but likely lowest for the year

Manufacturing sector drags down growth: The growth of the manufacturing sector decelerated to 3.1%yoy in 2Q05, the slowest since 1Q02, dragging down GDP growth in 2Q05 to only 4.0% compared to consensus forecast of 4.6% (Consensus Economics Inc.). The slower than expected manufacturing sector growth was caused by the third quarter of inventory drawdown after the high inventory accumulation during 1Q04-3Q04.

The inventory drawdown was particularly evident among semiconductor producers. From our survey in 1Q05, at least three out of the big five local semiconductor players listed on Bursa Malaysia drew down from their inventory in 1Q05. Underpinning the inventory drawdown is the sales of the big five listed local semiconductor players which actually fell or was flat in 1Q05 compared to 4Q04.

Services sector continues to drive GDP growth: This is the third consecutive quarter that the services sector has taken over from manufacturing as the driver of Malaysia's economic growth. We believe the catalysts for Malaysia's services sector are the following factors: i) increasing entrepreneurial spirit of Malaysians and the government support for SMI businesses; ii) the increasing level of wealth of Malaysians who now elevate their lifestyle by spending more on services that were previously deemed luxury; iii) the resilient and dynamic travel business in Malaysia; and iv) advent of information technology related business.

Note: We were the most accurate house in terms of GDP forecasting for 4Q04 and 1Q05. The above fact merely reflects the current situation whereby economists are finding it difficult to forecast the economy. This is mainly due to the following factors: i) the growing dynamism of the manufacturing and services sectors; and ii) the changing dynamism of the global economy with several structural changes taking place - e.g. changing landscape of the semiconductor sector, lack of pricing power globally which makes the effect of extremely high crude oil prices less devastating than previously, emergence of China as a consuming nation, use of alternative and unconventional policy tools (e.g. fixed exchange rate regime, capital controls and use of foreign reserves as well as other sources of liquidity) which cushions the impact of a potential hard landing, value destruction of wealth, capital flight and a ballooning budget deficit. However, for the next few quarters, we admit that our forecast will be only be as good as any other houses as we are also finding it an increasingly impossible task to forecast the economic growth under this dynamic environment.

Table 1: Real Output (%yoy)

	2Q05e	3Q05f	2004	2005f
Agriculture	10.0	-0.3	5.0	2.6 (3.3)
Mining	4.5	6.5	3.9	4.6 (5.0)
Manufacturing	3.1	4.2	9.8	5.0 (4.5)
Construction	-4.3	0.4	-1.5	-0.4(-1.0)
Services	7.7	8.2	6.8	5.7 (5.7)
GDP	4.0	5.0	7.1	5.1 (5-6.0)

Source: BNM
e = Maybansec estimates, f = Maybansec forecasts, figures in parenthese were previous forecasts, figures in brackets are official numbers

Table 2: Inventories – semiconductor assemblers

	4Q04		1Q05		4q/3q		1Q05/4Q04	
	Sales RM'm	Stocks RM'm	Sales RM'm	Stocks RM'm	Sales %qoq	Stocks %qoq	Sales %qoq	Stocks %qoq
Unisem	120.7	53.6	114.3	52.8	-20.2	-10.2	-5.3	-1.5
MPI	257.3	65.5	263.2	59.8	-18.3	-10.9	2.3	-8.7
Globe	91.2	34.9	74.2	31.9	-3.8	0	-18.6	-8.6
AIC	59.1	29.6	na	na	1.2	-8.4	na	na
AKN	89.3	60.9	na	na	-9.6	-7.9	na	na

Source: Company accounts

Table 3: Real Demand (%yoy)

	2Q05e	3Q05f	2004	2005f
Consumption	7.7	14.5	9.5	9.7
Public	-6.0	0.1	6.0	-2.1
Private	13.7	14.4	10.5	11.8
Fixed capital formation	-1.8	3.0	3.1	2.3
Public	-	-	-3.5	-
Private	-	-	15.8	-
Exports	2.8	1.7	16.3	4.2
Imports	0.3	0.2	20.7	2.4
GDP	4.0	5.0	7.1	5.1

Source: BNM
e = Maybansec estimates, f = Maybansec forecasts, figures in parenthese were previous forecasts, figures in brackets are official numbers

Table 4: GDP – regional comparison (%yoy)

Country	1Q05	4Q04	2003	2004	2005f
China	9.4	9.5	9.1	9.5	8.0
Singapore	2.4	6.4	1.1	8.4	4.4
Malaysia	5.7	5.8	5.3	7.1	5.1
Thailand	3.3	5.0	6.6	6.1	5.6
Philippines	4.6	5.4	4.3	6.1	4.2
Taiwan	2.5	3.3	3.3	5.7	4.2
Indonesia	6.4	6.7	4.1	5.1	4.9
South Korea	2.7	4.6	3.1	4.8	4.1
US	3.7	*3.9	3.0	*4.4	*3.4
Japan	0.0	0.6	2.1	2.7	1.8

Source: Official statistics via Datastream, f = official forecasts except for Malaysia which is Maybansec's, e = estimates by Maybansec, * = annualised

The growth of the services sector in 2Q05 was supported by the strong tourist arrivals and port throughput despite waning nominal exports and retail sales growth. Nevertheless, the performance of the services sector was affected slightly because of the lower daily average trading value on the Bursa Malaysia which contracted by -9.4% to RM648m in 2Q05 from RM715m in 2Q04.

The ancillary sectors continued to support growth: As has been the trend the past few quarters, the GDP growth was supported by strong output from the ancillary sectors. In 2Q05, both the agriculture and mining sectors grew faster than the overall economy. The agriculture sector growth surged 8.0%yoy while the mining sector continued to perform well, growing at 4.5%. This was underpinned by CPO output which surged 20.8%yoy for April-May. Output of crude oil dropped -12.3%yoy to an average of 660 barrels per day (bpd) for April-May compared to 753 bpd last year, but output of natural gas continued to surge 14%yoy to an average of 5,731 metre square cube feet per day (mmscfd) for April-May compared to 5,035 mmscfd last year.

However, the construction sector continued to perform poorly by contracting again by another -4.3%yoy in 2Q05, due to the slow take off from the additional RM10.b development spending and the recently announced RM2.4b smaller packages construction contracts.

Private sector continues to pick up slack in public spending and external demand: The private sector consumption grew 13.7%yoy in 2Q05, accelerating from 10.1% in 1Q05 but continuing the trend in 4Q04, when it drove aggregate demand for the first time since 2000. On the expenditure side of the economy, the importance of private consumption cannot be overstated in the face of slowing external demand and contracting government spending. The easy monetary policy and falling average lending rates helped support domestic demand. This is the main reason we are not in favour of any interest rates increase despite rising inflation.

In terms of investment, gross fixed capital formation may have contracted by -1.8%yoy in 2Q05, from a growth of 2.2% in 1Q05. This is despite several big ticket investments such as Infineon's plant extension costing RM3.8b to be spent in 2005. We believe that the private sector investment was overwhelmed by the contraction in public investment which is expected to contract by -11.6% in 2005. We note that regional countries are offering fiscal stimulus during this downcycle in external demand, unlike Malaysia, which is doing the opposite.

Outlook: Growth in 2H05 may pick up after last minute public spending and recovery in manufacturing output

Manufacturing output to pick up in 2H05. We expect growth in the manufacturing sector in 2H05 to pick from the slow growth in 1H05. Our belief is based on the following:

Table 5: GDP growth forecast parameters

Selected parameters	2004	2005f
Manufacturing output index	12.6%	8.0%
Global semiconductor sales	28.8%	7.5%
Retail sales	(RM51.7b)8.0%	(RM55.1b)6.5%
Loans growth	8.5%	8-8.5%
KLSE avg daily turnover value	RM890m	RM850m
Port throughput	10.7%	12.0%
CPO output mt	4.7%	9.4%
CPO price pmt	RM1,650	RM1,500
TIV car sales	(488k)20.2%	(526k)7.8%
Electricity demand	10.7%	7.7%
Crude oil price (WTI) avg pb	USD41.0	USD51.0
Crude oil output (bpd)	763k	775k
Nominal exports (fob)	20.5%	9.0%
Tourist arrivals	15.6m	20.0m(28.2%)

Source: e & f = estimates and forecasts by Maybansec and various bodies

Table 6: GDP 1H05 vs 2H05 (%yoy)

	2Q05e	1H05f	2H05f	2005f
Real Output				
Agriculture	3.0	4.4	1.8	2.6(3.3)
Mining	8.2	5.7	3.5	4.6(5.0)
Manufacturing	3.1	4.7	5.1	5.0(4.5)
Construction	-4.3	-3.5	2.7	-0.4(-1.0)
Services	7.7	5.3	6.1	5.7(5.7)
GDP	4.0	4.8	5.3	5.1(5-6.0)
Real Demand				
Consumption	7.7	8.4	8.6	9.7
Public	-6.0	-4.3	-0.3	-2.1(4.5)
Private	13.7	11.9	11.6	11.8(8.5)
Investments	-1.8	0.0	4.6	2.3(-3.5)
Exports	2.8	6.0	2.4	4.2(8.1)
Imports	0.3	3.8	1.2	2.4(5.6)
GDP	4.0	4.8	5.3	5.1(5-6.0)

Source: BNM
e = Maybansec estimates, f = Maybansec forecasts
Figures in brackets are official forecasts

Table 7: Malaysia's exports of electronics and electrical goods (e&e) (%yoy)

	semiconductors	e&e parts	consumer e&e	industrial e&e	machinery e&e	household e&e	Total e&e
Jan04	0.1	14.2	-8.5	19.1	20.0	-11.3	7.5
Feb	-14.0	17.2	25.1	43.0	37.4	16.9	8.1
Mar	5.8	7.6	26.7	33.1	51.7	-3.3	13.4
Apr	8.2	22.1	16.2	36.0	31.6	41.8	18.5
May	5.1	25.3	20.3	42.8	34.0	78.0	19.3
Jun	7.5	21.7	11.8	14.1	34.0	15.6	14.8
Jul	14.2	23.6	40.2	28.5	33.5	102.1	23.0
Aug	4.0	34.6	14.6	15.6	18.3	78.5	18.2
Sep	10.4	25.8	19.2	34.4	20.6	66.3	20.3
Oct	-2.2	20.9	5.4	15.0	12.3	23.1	10.0
Nov	2.9	10.4	-5.9	9.9	10.3	51.1	6.3
Dec	-4.9	7.5	0.2	26.1	34.7	37.1	5.9
Jan05	2.7	-2.8	4.4	29.1	10.5	50.3	3.6
Feb	12.6	8.7	10.6	15.2	20.4	67.7	12.2
Mar	4.9	23.9	8.6	0.8	23.2	47.0	13.2
Apr	-5.4	17.6	7.7	-11.2	11.5	7.7	5.3
May	-	-	-	-	-	-	1.0

Source: BNM, Mayban Securities

- Malaysian semiconductor players will take some time to reduce their inventory to reasonable levels. The industry grouping i-Supply said that it expects global semiconductor inventory to be depleted by June 2005. If this forecast stands, then global semiconductor rebound from the trough may commence in either 3Q05 or 4Q05.
- Some Malaysian semiconductor players may shift in 2H05 to the high growth segment of the semiconductor industry which is in the "memory" product line although they informed us that capex is high and is a prohibition.

Therefore, we expect the manufacturing sector growth to accelerate to 5.1%yoy in 2H05 from 4.7% in 1H05.

Delayed rebound of the construction sector still on the cards: Although we expect the construction sector growth to decelerate to -4.3%yoy in 2Q05 (due to the high base in 2Q04) compared to a -2.4% contraction in 1Q05, we believe that the construction sector will rebound in 2H05 with a growth of 2.7%. Our earlier projections were thrown off by the slow delivery of government contracts. Basically, the government spending on the additional RM10.0b announced in May 2004 and the recently announced RM2.4b smaller construction packages has been delayed but we believe the projects will finally kick off in 2H05. The projects are as follows:

- RM2.9b brought forward from the 9th Malaysian Plan;
- RM2.5b for police housings and buildings; and
- Lumpy projects that would commence in 2H05 such as — East Coast Expressway 2 (RM1.8b) and the PLUS highway upgrade (RM1.0b).

Unlikely for public sector to drive aggregate demand in 2H05: Despite the expected flurry of government development spending in 2H05, to finish up the balance of the 8th Malaysian Plan (8MP) budget, we believe that it is unlikely that public expenditure will drive aggregate demand in 2H05. This is especially worrying if private sector expenditure did not pick up or be maintained in 2H05. The threat to a pick up in private expenditure in 2H05 is due to the high base in 2H04 (the mega sales being one less this year compared to in 2004).

External sector is not a catalyst for GDP growth on the expenditure side in 2H05: We forecast the growth of real exports of goods and services to be maintained at 6.2%yoy in 2H05 compared to 6.0% in 1H05. However, as real imports of goods and services is expected to be maintained at 6.1%yoy in 2H05, the external sector is unlikely to be a driver of growth in 2H05, similar to 1Q05, but unlike for most of 2004. The slowing down in exports was caused by the following factors:

- deteriorating external demand due to the global economy slowing down in 2005 (3% vs 4.1% in 2004);
- consequently, the single digit increase in global semiconductor sales forecasted for 2005 compared to the 28.8% surge in 2004; and
- the flat average prices of crude palm oil (CPO) and consequently the low growth in exports of CPO in 2005 (9%) compared to the surge in 2004 (20%).

Monetary policy

Is real return to savings negative? After the May CPI growth reached 3.1%yoy, several market commentators declared that real return to savings is now negative. They compared the CPI growth rate with the 3-month FD rate of 3.0%. However, it should be noted that the 3.1%yoy May CPI is a year-on-year (yoy) growth, meaning, it is the price increase in May 2005 compared to that in May 2004. Therefore, the CPI growth rate should be compared to the 12-month FD rate which is 3.7%. As such, the return to savings is still positive. We do not look at return on the savings account which is demand deposit, because the liquidity of the account tends to be less than one month.

Is Bank Negara pressured to raise interest rates? There are some compelling sounded arguments for Bank Negara to raise interest rates, which are as follows:

i) pressure on real return to savings; ii) overnight interest rate differential with the US which is currently at a discount; and iii) declining bank margins. However, if we look at each factor closely, they are not as clear cut as the market commentators had thought.

Firstly, real return to savings is still positive, as outlined above. Secondly, ringgit is non-tradeable overseas while the ringgit is still pegged. Therefore, any capital flight from Malaysia for higher overnight return in US or Singapore will not have much impact on the ringgit value in terms of wholesale wealth destroyed. The only impact would be a slight adjustment on the prices of Malaysian assets. Recently, a huge amount of foreign funds (RM30-40b) had divested from the Malaysian equities market, so that any outflow of fund from the country would not have mattered much anyway. The bond market may be slightly impacted, as some of the foreign funds divested from the equities market had went into the bonds market. In terms of declining bank margins, the objective of Bank Negara is to raise the efficiency of the local banks in order to compete globally, therefore, falling bank interest rate margins may force the local banks to be more efficient operationally.

Our view is that based on the above factors and the slowing external demand and public expenditure, it is more likely for Bank Negara to raise deposit rates rather than interest rates.

Leaving the ringgit peg alone is the best policy. Based on our matrix analysis of the possible ringgit peg strategies (Tables 9&10), we derive that the best policy is to leave the ringgit peg unchanged, even if China revalues the Yuan which it is more likely to do than float it. The compelling argument to float the ringgit is that it will attract foreign capital flow into equities, but we believe it is a double edged sword, as it will also mean loss of exchange rate competitiveness, which is more crucial to Malaysia's real economy then asset prices.

Crude oil

The stock market has again tracked the crude oil prices after sidestepping it the last few quarters. However, it should be noted that the influence of crude oil prices on the market is not as high as it was in 2004 or 2003. Based on an inflation adjusted crude oil price the last time US went into recession, the tolerable crude oil price for the US economy is USD65pb. However, taking into account that the importance of spending on gasoline among US households expenditure is currently only between 3-5% compared to 8-10% in the 1970s and early 1980s, the tolerable crude oil price for the US economy may be doubled at USD120pb. We view the US and Europe interest rate tightening cycle as a bigger threat to the world economy rather than the high crude oil prices. In fact, some European countries had even halted their interest rate tightening cycle and cut their interest rates recently, e.g. Poland, in view of the slowing external demand.

Table 8: Possible outcome of Malaysia's interest rate strategy

Raises deposit rate but leaves interest rate unchanged	• Depositors maintain positive return on their savings • Borrowers are still paying the same interest rates • Banks' margins are reduced further • The economy in general is not affected but consumers are getting more incentive to raise savings, widening the saving-investment gap
Raises the deposit and interest rates	• Depositors maintain positive return on their savings • Borrowers are paying higher interest rates • Banks' margins are maintained • The economy in general is affected but consumers are getting more incentive to raise savings

Source: Mayban Securities

Table 9: Possible outcome of China–Malaysia currency peg strategy

	China: no revaluation	**China: revaluation**
Malaysia: revaluation	• Malaysia loses exch. rate competitiveness to China. • Portfolio funds flow out of Malaysia into China. • Malaysia loses FDI further to China	• No change in exch. rate competitiveness but depends on relative revaluation. • No change in portfolio flow but depends on relative revaluation. • No change in FDI competitiveness but depends on relative revaluation
Malaysia: no revaluation	• No change to status quo • Pressure from US & foreign funds on the ringgit peg persists	• Malaysia gains exch. rate competitiveness over China. • Portfolio funds flow from China into Malaysia. • Malaysia gains FDI from China.

Source: Mayban Securities

Table 10: Possible outcome of Malaysia's ringgit peg strategy

Floats the ringgit — ringgit becomes tradeable overseas	• Ringgit may appreciate by between 10-20%. • Malaysia loses exchange rate competitiveness. • Malaysia loses FDI further. • RM10-20b foreign portfolio funds that remained after divesting from equities may exit for capital gain. • Foreign portfolio funds which have not invested in Malaysia based on the morality of the ringgit peg may now enter Malaysia - amount is difficult to forecast but may range from as low as RM5b to as high as RM20b
Pegs the ringgit to a basket of currencies — ringgit still non tradeable overseas or Revalue the ringgit peg	• Ringgit may appreciate by between 5-10%. • Malaysia loses exchange rate competitiveness. • Malaysia loses FDI further. • RM5-15b foreign portfolio funds that have remained after divesting from equities may exit for capital gain. • Foreign portfolio funds which have not invested in Malaysia based on the undervaluation of the ringgit peg may now enter Malaysia — amount is difficult to forecast but may range from as low as RM3b to as high as RM15b

Source: Mayban Securities

Technical Outlook

Table 1: Daily KLSE Composite Index Chart

Table 2: Weekly KLSE Composite Index Chart

Mid-term support : 870-880
Mid-term resistance: 950-960

KL Composite Index

Volatile trend

It was a roller coaster ride for the Composite Index (CI) during the second quarter. The CI was on an upbeat note during the April and early May period, climbing as much as 5% within a span of four weeks and rose from a support base of 859.81 to as high as 906.49. Despite being able to pierce through the 900-psychological level, selling pressure on key heavy-weights has prevented the CI from moving towards the mid-term resistance of 940. To that effect, the CI was dragged back exactly towards the previous support base of 859.81. Nonetheless, for the past one month, the CI has been on a recovery tone and has established a new uptrend channel to re-challenge the previous peak of 906.49.

Below 900 level but outlook still positive

During the later part of the second quarter, the CI has continued to put together a solid advance, getting a boost from key heavyweights as well as the lower liners amid the tumultuous events surrounding the stockmarket in May. Although the CI appears to be trading below the 900-psychological level at this juncture, movements from the weekly and monthly technical indicators are suggesting otherwise. The current consolidation phase will present investors with the opportunity to pick up shares at the support base level.

Mid-term support raised to 880-870 from 850

Despite failing to pierce through the 906.49 level recently, we believe that the CI will not be settling in and move sideways in the mid-term. As the CI is now hovering above the 30-day, 50-day, 100-day and 200-day key Exponential Moving Averages (EMAs) there is a strong possibility that the previous peak can easily be penetrated. As the CI is expected to build a stronger base at the 880-870 level, the next trajectory target for the CI will be at 950 level which is in line with our mid-term resistance.

Intermittent selling pressure should be well absorbed

On an important note, the EMAs have been providing a strong cushion to absorb major selling pressure for the past two trading weeks, an indication that the current uptrend will remain in the coming quarters. As the indices and stocks move into the positive territory, intermittent selling pressure is expected to take place but the possibility of the CI moving lower than the 859.81 remains remote. As stated earlier, major support from the 100-day and 200-day EMA as well as the rising mid-term indicators will prevent such an event from taking place or at least until the weekly and monthly MACD and Stochastic indicators becomes totally ex-hausted, a scenario which is unlikely in the next three months.

KLSE Emas Index

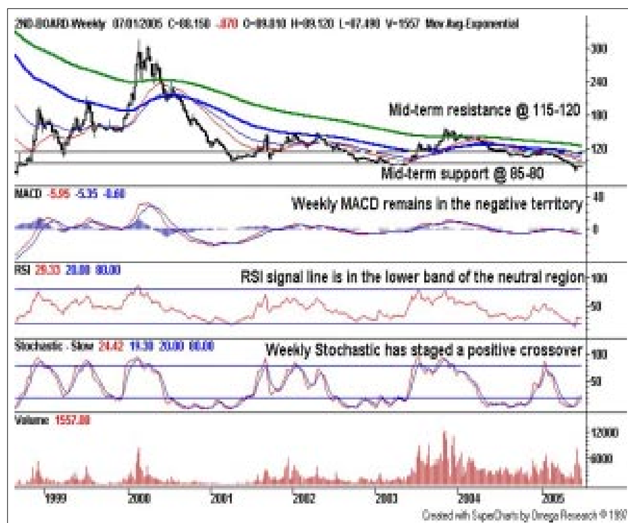
Mid-term support: 190-180
Mid-term resistance: 220-230

Ratings: Interim correction but positive outlook remains in the third quarter

Emas Index is holding steady at the 200-210 range for the past three weeks and is expected to move towards the upper band of the uptrend channel formed since 2003 or towards 230 over the next six to eight months. At this juncture, the 100-day and 200-day EMA is providing strong support to absorb any major profit-taking activities.

Over the short-term, the Emas Index is likely to ease lower towards the interim support level of 200 and form a base level at the 200-190 zone. A technical rebound is imminent after that as the weekly MACD and Stochastic indicators have staged positive crossovers and are now moving from the lower base towards the positive territory.

Second Board Index



Mid-term support: 85-80
Mid-term resistance: 115-120

Ratings: Gradual recovery expected

Over the past one month, the SBI has shown some recovery signal rising from a low of 80.37 and is now hovering above the 85 points region. At this juncture, the SBI is gathering momentum to re-challenge 30-day and 50-day EMAs and based on the performance of the weekly technical chart, SBI is expected to improve on a gradual upside basis.

Based on the chart, the weekly MACD has staged a bullish crossover despite being in the negative region. In addition, the weekly Stochastic indicator has also staged a positive crossover and is now moving from the oversold region towards the lower band of the neutral region. To that effect, we believe that the SBI will be able to pierce through the 95-100 level in the third quarter.

Mesdaq Composite Index

Mid-term support: 92-88
Mid-term resistance: 115-120

Ratings: Recovery path but on slow progress

Like the SBI, the Mesdaq Composite Index (MCI) has moved from its low base to re-challenge the key EMAs. MCI has been able to pierce through the 30-day and 50-day EMA resistance which in turn will become the support level for the index.

Investors should accumulate MCI stocks only at the support base as the short-term technical indicators are in the extreme overbought region. As such, we expect to see the MCI to succumb to selling pressure and ease back towards the 90 level before staging a prolonged recovery.

Over the longer run, MCI is not expected to be dragged back to its low of 82.65 points as the weekly and monthly technical indicators are already moving off its historical lows. MCI is expected to trend sideways with an upside bias over the next quarter as the downside risk will remain limited.

3rd quarter target is at 950-960

A feel-good factor for the CI in the third quarter will be the positive crossovers of the weekly Stochastic and MACD indicators that will prevent a major downside trend taking place in the mid-term. In addition, the MACD indicator is already trending in the positive region after a long spell in bearish territory. Based on the current indicators performance, the downside risk will remain limited. More importantly, the monthly indicators are also rising from the neutral to the positive region indicating a possible upward movement within the next six to eight months. Over the third quarter, the CI is expected to move towards the resistance target of 950-960 level whilst the downside risk is pegged at the 870 support level. On a worst case scenario, the downside retracement target for the CI will be at 855 level or at the 50% Fibonacci Retracement target.

Interim outlook for the CI

Strategy wise, we are advising investors to accumulate stocks at the support levels as the positioning of the short-term technical indicators are suggesting an intermittent correction. Nonetheless, the correction phase for the CI is expected to last within the next 10 to 15 trading days or once the short-term Stochastic and RSI indicators become extremely oversold.

Stock Yard

Some sectors are expected to provide bright spots for investors. Leadership to the upside would still be on the key heavyweights. In the third quarter, some of the leading sectors in the market have shown some recovery pattern. From a technical point of view, the technology, oil & gas and plantation sectors are the ones showing signs of a bottoming pattern.

Although the CI was off its best levels during the later part of second quarter, some stocks have shown strong resilience to absorb selling pressures. In this issue, we will feature stocks that are poised to outperform in their respective sectors as well as traditional stocks that have shown uptrend movement over the past two weeks. Equities, especially the lower liners, are expected to strengthen as buyers rally around better market sentiment but will remain volatile due to the speculative nature of these stocks. As such, traders should reduce holdings of stocks that had risen more then 30% as any volatile cycle would bring the stocks back to its lower levels in the mid-term.

Key Heavyweights	Last Price	Support	Resistance	Remarks
Maybank	11.00	10.50-10.70	11.70-11.90	Accumulate at current level as indicators have stage positive crossover
Tenaga	10.60	10.40-10.20	11.00-11.20	Accumulate at current level. MACD indicator has stage a positive crossover
Telekom	10.10	9.90-9.70	10.50-10.70	Indicators are in the middle band of the neutral region. Accumulate
Genting	18.90	18.50-18.10	19.600-19.80	Indicators are in the neutral region. Accumulate at current level
Tanjong	13.20	12.70-12.50	13.70-13.90	Accumulate at support level only as indicators are easing south
MISC	18.00	17.70-17.40	18.70-18.90	Reduce holdings. Indicators is in the extreme overbought region
Sime Darby	5.85	5.70-5.50	6.20-6.40	Indicators poised for a positive crossover. Accumulate
Com. Asset	5.10	4.90-4.70	5.40-5.50	Accumulate at support level as Stochastic has staged a negative crossover
Astro	5.45	5.30-5.20	5.70-5.90	Accumulate only at the support level as indicators are seen easing
Nestle	23.80	23.40-23.00	24.50-25.00	Accumulate at support level. Indicators are moving towards the oversold zone
Other active stocks				
Bursa Malaysia	3.84	3.75-3.70	4.10-4.20	Indicators are moving from oversold to neutral zone. Accumulate at current level
Uchi Tech	2.90	2.80-2.70	3.20-3.30	Negative crossover of the technical indicators. Accumulate at support only
Wah Seong	1.94	1.90-1.80	2.20-2.30	Indicators are seen easing. Accumulate at support level only
Scomi	1.49	1.40-1.35	1.70-1.80	Indicators are neutral to oversold. Accumulate at support zone only
KNM	2.55	2.45-2.40	2.70-2.80	Indicators have staged a negative crossover. Accumulate at support level
Maxis	9.70	9.40-9.30	10.20-10.30	Accumulate at support level as indicators are easing south
YTL Power	2.00	1.90-1.80	2.20-2.40	Stochastic signal line has staged a bearish crossover. Accumulate at support
Unisem	1.80	1.75-1.70	2.00-2.20	Indicators have staged negative crossovers. Accumulate at support level
Sapura Crest	0.99	0.95-0.90	1.20-1.40	Indicators are seen recovering from oversold to neutral level
SP Setia	4.08	3.90-3.80	4.40-4.50	Accumulate at support level as indicators are seen easing south
Lower-tier stocks				
Mems Tech	0.69	0.65-0.63	0.76-0.80	Indicators are still easing south. Accumulate at new support level only
Redtone Int.	2.27	2.15-2.10	2.40-2.50	Indicators have staged a negative crossover. Accumulate at current level
AIGB	1.68	1.60-1.55	1.85-1.95	Indicators already in the oversold zone. Accumulate at the support level
Landmarks	0.97	0.92-0.90	1.20-1.30	Indicators are in the overbought zone. Accumulate at support zone
Brem Holdings	1.31	1.20-1.15	1.45-1.55	Already overbought. Reduce holdings and accumulate at support zone
Perisai	1.28	1.20-1.15	1.45-1.55	MACD signal line poised for a negative crossover. Accumulate at support

SECTOR OUTLOOK

Automotive

Powered by new launches — NEUTRAL

- **We expect the Japan-Malaysia Economic Partnership Agreement to support the automotive components industry and raise competition for the auto market**
- **Automotive sales should pick up in 2H05 due to several new car launches**
- **Maintain our TIV projection of 526,000 units for 2005, a 7.9% increase**
- **New automotive policy to be introduced in September 2005 is likely to continue protecting the national car makers**
- **Ingress is our top pick in the auto sector due to its ability to tap overseas market**

Current Developments

JMEPA to support auto parts industry but will increase competition among non-Japanese cars

The recent Japan-Malaysia Economic Partnership Agreement (JMEPA) signed in May contained few details but in essence it gives Japanese manufacturers preferential tariffs comparable to those of ASEAN members. Upon signing of the final free trade agreement, which we believe to be year-end at the earliest, tariffs will be eliminated immediately for completely-knocked down vehicles. Tariffs for completely built-up vehicles will be eliminated by 2015. We believe the motive behind the JMEPA is to encourage greater local assembly of the Japanese marques (ie. Toyota, Honda, Nissan), which could support the ancillary automotive components industry through localisation of automotive parts. However, this would increase competition among non-Japanese car manufacturers since the Japanese cars could be more competitively priced.

Myvi and Savvy both launched with the former expected to perform better

The launch of the highly anticipated Myvi (previously referred to as the Asean Car) by Perodua as well as the long-awaited Savvy (previously referred to as the Tiara Replacement Model) portends an exciting duel. Response for Myvi, launched in late-May 2005, has been overwhelming with over 33,000 units booked in less than one month with a 5-month waiting period (for the automatic version). Perodua is also considering exporting the Myvi to increase economies of scale and counter domestic competition.

The Savvy, launched with much fanfare in early-June, is expected to compete with the Myvi due to their comparable price range and similar engine capacity. With a sporty design, the Savvy should appeal to younger generation and first-time buyers. However, we expect demand for the Myvi to lead the Savvy, which only has the manual version currently available (automatic version is expected to be ready in September 2005). Malaysian drivers generally prefer automatic transmission as shown in previous launches.

Outlook

New launches to excite market hence maintain TIV of 526,000 units

Automotive sales to May of 213,600 units is 2.5% below our average target sales of 219,170 units. However, we believe sales would pick up in 2H05 due to the delivery of cars launched in May and June such as the Toyota Innova, Perodua Myvi and Proton Savvy. Hence, we are maintaining our total industry volume (TIV) projection of 526,000 units (+7.9%yoy) for 2005.

New auto policy likely to continue protecting national cars

The new automotive policy which was to be announced in June, has been deferred to August. Hence, the deadline for the implementation of the new tax structure announced in December 2004 has likewise been postponed till end-August. It is rumoured that the delay is due to the finalisation of the JMEPA. There are indications that the national car companies would continue to be protected. It is highly possible that Proton and Perodua would continue enjoying the 50% excise rebates as opposed to our former belief that such rebates would be reduced. In addition, we believe this preferential treatment would be supplemented by other forms of tax rebates and grants.

We continue to believe that the implementation of the new tax rates in September would not cause a significant change in car prices. We have already witnessed higher prices for both national and non-national cars in 1H05, which we attribute to higher cost of sales and cost of production. We expect any price hikes in 2H05 to be minimal to avoid market share erosion as well as to encourage automotive sales.

Competition and high costs continue to pressure profit margins

We reckon profit margins will remain squeezed for the automotive players. Although the rise in steel prices has tapered off, it remains at a high level. In addition, competition for market share would continue to pressure profit margins due to heavy promotional and advertising activities, especially on new car launches.

We reiterate our **NEUTRAL** stance on the sector since we expect profit margins in the sector to remain generally thin due to high production costs and cost of sales.

Recommendation

Ingress is the top-pick due to its regional presence

Ingress remains our top pick in the automotive sector as it is poised to capitalise on the growing Asean automotive markets through its presence in Thailand and Indonesia. We do not expect Ingress to be adversely affected by being recently categorised as a Grade B Proton vendor since its dependence on Proton is diminishing. In the longer term, potential earnings could be boosted when Perodua exports the Myvi under the Daihatsu and Toyota brand to other Asean countries.

Proton continues to suffer from weak sentiments

We maintain our **HOLD** on **Proton**. Despite launching the Savvy, we believe sales would not improve significantly in the near term since the Savvy is only available in manual transmission. In addition, Perodua took the the first mover advantage by launching the Myvi model approximately 2 weeks before Savvy, and introducing an auto-transmission version with safety options (ABS and airbags). We have only factored in 4,000 unit sales for the Savvy in 2005. We believe Proton shares would continue to suffer from weak sentiment due to uncertainties on its survivability post-liberalisation.

UMW provide exposure to national and non-national segment as well as potential benefit from signing of the JMEPA

We maintain our **HOLD** recommendation on **UMW** although its 1QFY05 results came in below expectations since we expect better performance in 2HFY05 due to the new launches (Hilux and Innova) as well as higher contribution from Perodua due to Myvi sales. While we expect Myvi to cannabilise a portion of sales of Kancil and Kelisa, this would be offset by higher unit sales as well as better profit margin due to higher local content. At the same time, UMW's oil and gas segment is already contributing positively to earnings while profit margins would remain squeezed. We like UMW's prospects since it offers exposure to both the national and non-national segments in the auto industry, potential earnings growth when the JMEPA is implemented and growing contribution from its oil and gas division.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
APM	2.46	HOLD	8.1	7.3	1.1	4.5	0.3	-10.5
EON	3.88	SELL	8.4	5.6	0.8	7.2	-0.6	-25.9
Ingress	1.18	BUY	5.7	5.3	0.6	4.2	6.0	-5.2
MBM	2.47	HOLD	11.4	10.7	1.1	7.3	7.1	10.3
Oriental	4.14	HOLD	9.7	9.5	0.8	5.4	-2.2	-1.0
Proton	7.05	HOLD	6.4	7.4	0.7	2.8	-4.3	-11.6
Tan Chong	1.64	HOLD	7.9	7.3	1.0	4.3	-5.7	-12.8
UMW	4.86	HOLD	9.9	8.4	1.2	4.3	-4.6	-4.4

Banking

Keeping the faith

OVERWEIGHT

- **Moderating prospects and competitive pressures reflected in current prices**
- **Concerns over share margin financing and rising consumer debt is overblown**
- **Strategic measures undertaken over the next 6-12 months to provide catalyst**
- **Maintain OVERWEIGHT with restructuring, strategic tie-ups and M&A themes to spur performance**

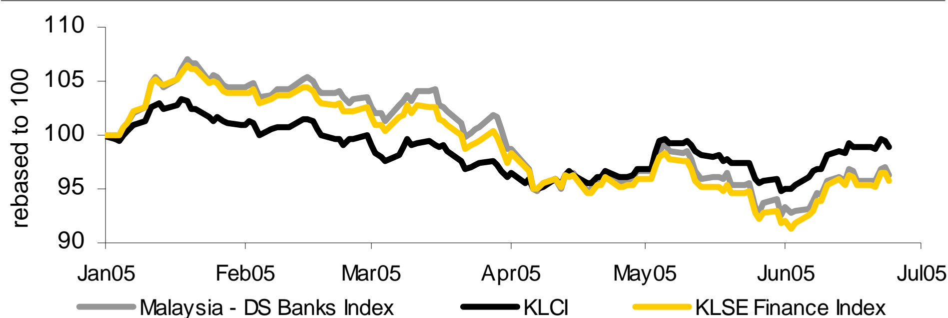
Review

Banking stocks underperformed broader market in 2005

The banking sector underperformed the broader market in the second quarter of 2005. The poor performance in the second quarter wiped out gains recorded earlier this year with the KLSE Finance Index down by 4.2% year-to-date compared to the KLCI's 1% gain (Chart 1). The dismal performance was underpinned by several developments during the quarter including:

- **Interest margins continued to be under pressure.** Despite the strong annual loan growth of 8.6%, the recent financial results of the banks indicated that average net interest margin fell to 2.39% compared to 2.61% a year ago, reflecting the increasingly competitive environment in which the banks operate.
- **Lethargic fee-based income growth.** Although banks have been aggressively trying to grow their fee-based income to help mitigate lower margins, this has yet to translate into substantial earnings growth. Fee-based income grew by an average of 7%yoy but contracted by 3% compared to the previous quarter.
- **Cost to income ratios remain high.** Average cost-to-income ratio increased to 44.9% compared to 42.2% as at end-2004 despite lower overhead expenses during the quarter. This was due to the poor overall revenue growth which contracted by 2% in the first quarter.
- **Concerns over share margin financing.** The recent sharp declines in lower liner stocks raised concerns over share margin facilities extended by the banks and the impact on earnings arising from higher loan provisions. The impact on banks' earnings is likely to be negligible given that banks have generally been reducing exposure to share margin financing since the Asian financial crisis and currently the segment accounts for only 2% of total loans outstanding. Exposure to share financing varies for each of the banks (eg. Maybank: RM350m, Hong Leong: RM350m, CIMB: RM135m) and is likely to be well-absorbed.
- **Impact of forex liberalisation measures.** The relaxation of forex controls is a short-term negative for banks given the lack of investment products and expertise by domestic financial institutions to cater for investors keen on investing abroad. However, in the long run we expect the banks to be able to expand their capabilities to meet the demand for foreign-linked investment products.

Chart 1: Performance of the banking sector vs KLCI



Source: Thomson Datastream, Mayban Securities

Maybank Securities

Chart 2: Total loans outstanding

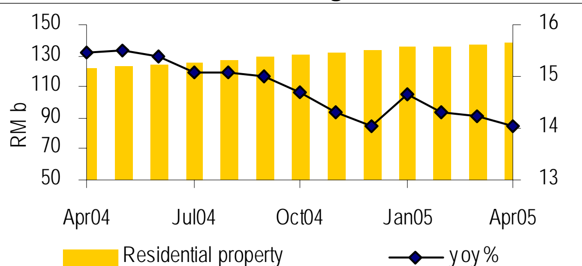


Chart 3: Consumption credit

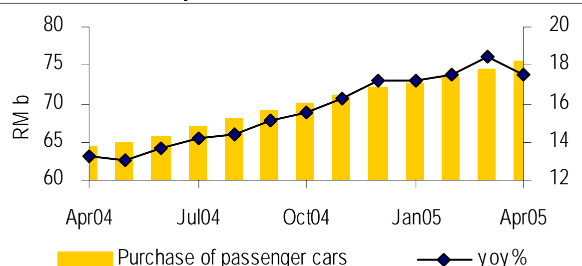


Chart 4: Residential property loans

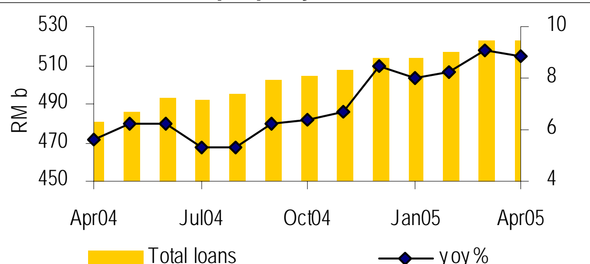
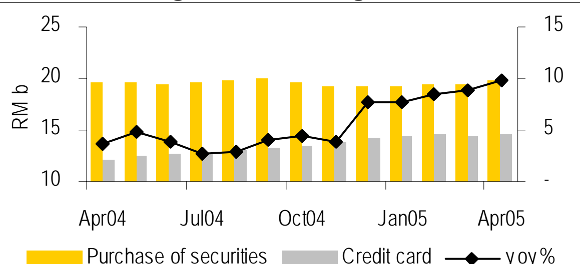


Chart 5: Passenger car financing



Source: Bank Negara, Mayban Securities

1Q05 earnings results were unexciting

On the whole, pre-tax profit for the sector grew by 5% for the quarter ended March 2005 compared to a year ago. The earnings improvement however was driven mainly by a reduction in loan loss provision by 12%yoy and 33%qoq, following the implementation of more prudent provisioning measures by the banks towards the end of 2004.

Looking beyond current weakness

Weakness priced into current stock prices

Despite the moderating prospects amid slower economic activity, we believe that current share prices reflect weaker optimism on banks earnings in the second half of 2005. The crucial element now is how the banks are positioning themselves to face the more competitive operating environment in 2006.

Loan growth strong but moderating

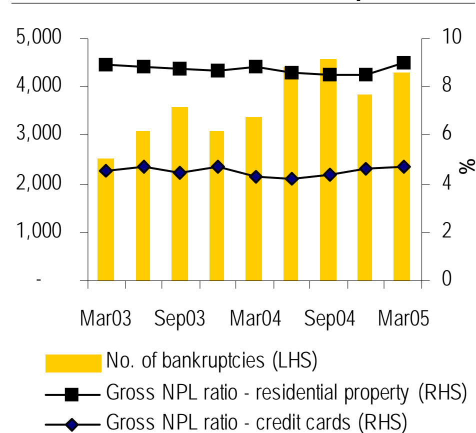
Loan growth still holding strong. Loan growth in the first half of this year was healthy at 8.6%yoy although on a moderating trend after peaking at 9.0% in March. Although we anticipate a slower loan growth momentum in 2H05, it should not be broad-based. The slower pace was mainly attributed to the easing demand for housing loans that grew by 13.8%yoy in May and accounts for 27% of total loans outstanding for the banking system.

We maintain that SME financing, car financing and credit card receivables will continue to remain robust in the months ahead while softer conditions are expected from mortgage financing, manufacturing and construction.

Concerns over property sector NPLs overblown

Concern over bad debts overblown. NPL ratio for the sector has been hovering at its lowest levels in more than seven years. However, there has been some concern of late of the potential emergence of higher NPLs from the property sector. Taking a closer look at the numbers, the net NPL ratio from residential property sector registered a slight uptick to 9% as at end of 1Q05 (4Q04: 8.5%, 1Q04: 8.8%). As the data is only released quarterly, we will need to look at the 2Q numbers for a clearer affirmation of an uptrend. We believe that the bad loans are mainly from the low cost housing loan segment and should be contained given the improvements in risk management practices of the banks.

Chart 6: Gross NPLs & bankruptcies



Source: Bank Negara

Bankruptcies on the rise but credit card defaults stable

There has been increasing concerns of rising bankruptcy rates for individuals due to credit card debts. The number of bankruptcies related to individuals has been on an increasing trend in recent years (2003: 12,351; 2004: 16,251). For the first five months of 2005, the number of bankruptcies rose by 16%yoy. We refrain from being overtly perturbed with the data, given that the default rate of credit cards is relatively stable (1Q05: 4.7%) and is generally in line with the trend over the last two years.

Focus is on investment banking and Islamic banking

Non-interest income and Islamic banking income are main drivers. The ability of the banks to counter the increasingly competitive commercial banking environment hinges predominantly on earnings diversification. In particular, we favour banks that are focused on expanding their fee-based income and Islamic banking income components, which together account for more than 60% of total income for the sector.

Higher dividend payout expected

Sound capital management. The capitalisation position of the banks have been relatively stable and strong over the past one year. The RWCR in May 2005 stood at 13.3% vs 13.5% a year ago. In particular, most banks have demonstrated sound capital management with high dividend payouts and buybacks. At least five banks are expected to provide dividend yields of above 4% in 2005.

Mergers and acquisitions on the horizon?

Liberalisation and competition is changing the landscape

Increased presence of foreign players. The recent liberalisation measures by Bank Negara in terms of foreign shareholding limits (investment banks and Islamic banks) and the entry of foreign players in Islamic banking, stockbroking and fund management is expected to add further dimension to the domestic landscape in the coming months.

Liberalisation of branching policy. Bank Negara has indicated that branching restrictions on existing foreign banks operating here will be relaxed by year-end. We expect to see greater emphasis by some of the foreign banks to aggressively grow their retail operations including Islamic banking services that can be offered through Islamic windows at their branches.

New foreign banking licences may be unlikely. Deputy governor of Bank Negara recently indicated that the central bank will review by 2007 whether there is a need to introduce new foreign banking licences. We feel that further liberalisation measures will focus on allowing interested foreign parties to take up majority stakes in local banks as well as levelling the playing field for the existing foreign banks with a presence here. The concern is that there are already many players in the banking scene with 13 foreign banks and 10 domestic banks.

Restructuring of GLCs, strategic tie-ups and M&A

Spotlight on domestic banks. Banking stocks saw a positive turnaround in June spurred partly by news of the restructuring by CAHB and CIMB to create a universal bank. We expect newsflow surrounding further restructuring and possible mergers and acquisitions to be rife in coming months due to several reasons:

- **Khazanah means business.** The restructuring of the CAHB group is evidence that Khazanah intends to make good of its intention to unlock the value of government linked companies. Khazanah also holds stakes in RHB Bank and Maybank, and has also recently increased its stake in EON Capital.
- **In search for foreign strategic partners.** As the domestic environment becomes increasingly competitive, the pressure on the banks to protect their turf is building. Bank Negara maintains that the next round of industry consolidation will be market driven and hence this should provide greater flexibility and options for the local players to fortify their positions, be it through mergers or bringing in a foreign strategic partner. While we have yet to see any leads in terms of mergers, several banking groups, such as AMMB and Affin Holdings, are considering the latter approach. Foreign parties are currently allowed to take up to a 30% stake in domestic commercial banks, and up to a 49% stake in the investment banks or Islamic banks.

Banks looking to expand abroad

Regional expansion, the buzzword

Regional expansion seems to feature as a major catalyst for banks this year, the most obvious being CAHB increasing its stake in Bank Niaga and CIMB's acquisition of GK Goh's regional stockbroking businesses. We expect the overseas businesses to contribute approximately 30% of the CAHB group earnings in FY06.

An interesting development has also been the news that Khazanah is vying for a controlling stake in Indonesia's Bank Lippo. Although details are still sketchy at this stage, we do not rule out the possibility that Khazanah may team up with a domestic banking group in its bid for Lippo.

Maybank is also expected to feature regional expansion as part of its strategy going forward and has indicated that it is keen to expand into markets within ASEAN as well as possibly to other regions such as the Middle East. Its overseas operations is expected to contribute as much as 7-10% of its earnings for the current year.

Other banking groups are showing positive signs of venturing abroad via their subsidiaries. For example, RHB Capital is looking to tap the Middle East market via its Islamic banking subsidiary, RHB Islamic Bank. AMMB has featured regional expansion as part of its future strategy to expand its investment banking business by leveraging on its stake in Singapore's Fraser Securities and Indonesia's PT AmCapital.

Recommendation

Maintain OVERWEIGHT on sector

We remain **OVERWEIGHT** on the sector on expectations that growth will be driven by M&As, restructuring and expansion themes. In particular, growth will hinge on the ability of the banking groups to grow their non-interest income and Islamic banking income components. We favour banks with good prospects in these areas as well as banks that are likely to pursue diversification abroad.

We favour Bank Negara's phased approach towards liberalisation as it provides sufficient room for the domestic banks to enhance their competitive position, strengthen capacity and improve operating efficiency. That said however, banks are at a crucial stage in the evolving landscape with only two years left before full liberalisation. Hence, strategic measures undertaken by the banks over the next six to 12 months will provide an important catalyst for the sector's outperformance.

Downward adjustment in valuation multiples

A look at valuation multiples. The recent weakness in banking stocks has also reflected downward adjustments to the banks' valuation multiples. The relaxation of forex rules and liberalisation of foreign shareholding reduces the premium commanded by the local banks due to a more open and competitive operating environment. The average price to book value multiple (PBV) for the banks (excluding Maybank) has declined from 1.7x in 1Q05 to between 1.5x at current prices. We feel that a PBV of 1.6x is about the right average multiple for Malaysian banks, given the average expected ROE05 of 12% is still quite decent.

CAHB our top pick

Our top pick for the sector is Commerce Asset-Holding (CAHB). The ongoing restructuring of the group including the integration of its two subsidiaries, Bumiputra Commerce Bhd and CIMB under the 'CIMB' brand, is expected to further fortify CAHB's position as the second largest banking group. With the impending privatisation of CIMB, CAHB will provide the sole exposure to the investment banking arm. In addition, the restructuring exercise is expected to maximise synergies between the commercial and investment banking operations, re-energise the commercial bank, and strengthen CAHB's regional platform. The group is able to leverage on its subsidiary, Bank Niaga, to capitalise on Indonesia's high growth commercial banking business. We maintain **BUY** on CAHB and revise **upwards our fair value to RM5.90** from RM5.20 per share, as we feel that the group should command a higher PBV of 1.8x.

Increasingly difficult for Public Bank

We have **lowered the fair value of Public Bank to RM7.15** from RM7.80, based on PBV of 2.8 times, which factors in the decent ROE05 of 16.7% and high dividend yield of 9.8%. We are expecting management to declare special dividend of 30 sen per share in the upcoming 2QFY05 results announcement, with full year DPS of 70 sen. Stripping away the special dividends, the stock should trade at RM6.85. We like Public Bank for its exceptional operating efficiency, strong loan growth of more than 20% and capital

management. However, with interest margins and loan growth declining, we feel that it will be increasingly difficult for the group to sustain its competitive position and justify its steep valuation. The group does not have a strong foothold in terms of its investment banking and Islamic banking operations. We are **revising our recommendation to TRADING BUY** from BUY, based on its potential as an attractive dividend play.

EON Capital a potential M&A play

We upgrade EON Capital to a TRADING BUY from a HOLD on the basis of increasing newsflow pointing to a possible restructuring and M&A theme, which could provide a catalyst for the stock. This is supported by the recent move by Khazanah to increase its stake in EON Capital. In addition, Tan Sri Syed Mokhtar Al Bukhary, via Etika Strategi Sdn Bhd, has successfully acquired a 15.8% stake in DRB Hicom, which owns a 20.2% stake in EON Capital. With these new developments, we think that a merger involving EON Capital with another bank is a distinct possibility. Our fair value of **RM5.70** translates into PBV of 1.5x.

Downgrade AMMB; switch to AIGB

We revise our recommendation on AMMB to a HOLD from a TRADING BUY given the relatively bleak ROE prospects of 8% for FY06 and low dividend yield. Instead, we favour its subsidiary, AIGB, which provides exposure to the group's sound investment banking operations. The higher growth prospects of investment banking operations compared to commercial banking augurs well for AIGB. We recommend **a BUY on AIGB** (refer to page 52).

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
Affin	1.52	HOLD	6.5	6.1	0.7	0.7	-0.2	-13.1
AIGB	1.64	BUY	10.8	9.3	1.1	-	-6.9	-
AMMB	2.51	HOLD	19.0	16.0	1.3	1.2	2.4	-12.6
CAHB	5.05	BUY	13.0	11.6	1.6	3.0	8.1	8.3
CIMB	5.80	BUY	15.1	14.5	3.1	3.2	13.8	10.7
EON Cap	5.15	TR BUY	12.4	11.3	1.4	1.7	0.8	-10.8
HL Bank	5.20	HOLD	15.1	13.3	1.9	4.6	-1.2	-1.9
Maybank	10.90	NR	15.1	14.1	2.8	5.5	-4.9	-5.5
Public Bank	6.70	TR BUY	15.8	13.9	2.7	13.4	0.1	-12.6
RHB Cap	2.10	BUY	11.3	10.3	0.9	4.8	0.7	-10.6
SBB	3.26	NR	11.8	10.7	1.4	7.1	-0.3	-4.3

Regional Comparison

Stock	Currency	PER05 (X)	PER06 (X)	P/BV (X)	ROE05 (%)	Div Yield (%)
HSBC	HKD	13.4	12.3	2.3	15.7	4.2
Standard Chartered	HKD	14.9	13.3	2.8	17.0	3.1
Bank Central Asia	IDR	11.5	9.9	3.2	24.6	3.7
Bank Rakyat Indon.	IDR	8.2	7.4	2.7	30.1	5.3
Kookmin Bank	KRW	10.5	7.3	1.6	15.8	1.1
Korea Exch. Bank	KRW	7.7	8.1	2.0	22.9	2.2
Bangkok Bank	THB	8.9	10.0	1.6	17.4	1.7
Siam Com Bank	THB	9.8	10.8	1.2	17.7	4.4
OCBC	SGD	14.0	13.2	1.7	11.5	2.7
DBS	SGD	11.6	10.6	1.3	11.2	3.6
UOB	SGD	14.0	13.3	1.6	12.3	4.2
Commonwealth Bank	AUD	14.4	13.4	2.4	16.1	7.1
National Aust. Bank	AUD	14.4	13.0	2.1	13.2	7.5
Average		**11.8**	**11.0**	**2.0**	**17.3**	**3.9**

Source: Bloomberg, Mayban Securities

Construction

Plugging the gap with a needle

NEUTRAL

- **Pace of public spending has picked up from RM4.9b allocation in the 1Q05**
- **No significant impact on the sector with key beneficiaries being small contractors**
- **Weak 1Q05 results signal more difficult operating conditions ahead**
- **Labour issues have led to cost overruns, thus increasing earnings risk going forward**
- **Overseas ventures are inevitable and no longer an option**
- **Await good news from Ninth Malaysia Plan before turning positive on the sector**
- **Reiterate NEUTRAL due to lack of near term catalyst**

Higher allocation clouded by weak 1Q05 earnings

Much needed lifeline benefits small contractors

The construction allocation of RM4.9b in the 1Q05 was quite unexpected. This comprises of RM2.4b brought forward from the Ninth Malaysia Plan and RM2.5b for Police housing and buildings, which are mostly contracts below RM250m for the benefit of the smaller contractors. We are neutral on this because: (1) smaller project size (2) thin margins (3) unlikely to benefit any of the larger companies. However, we anticipate the government to expedite awards of these projects, providing the much-needed lifeline to the small contractors in the next 12-18 months.

Table 1: First quarter earnings were dissapointing

	Current	Actual EPS								Expectations				
Company	Financial Quarter	Qtr ended Mar-05	Qtr ended Dec-04	QoQ (%)	Qtr ended Mar-04	YoY (%)	YTD Mar-05	YTD Mar-04	Chg (%)	Under	Within	Above	Call	Fair Value
Gamuda	2Q05	9.3	9.4	-1.1%	9.9	-6.1%	18.7	18.8	-0.5%	x			BUY	5.80
IJM Corp	5Q05	6.8	9.1	-25.3%	7.7	-11.7%	40.4	31.8	27.0%		x		BUY	5.60
MTD Cap	4Q05	-	5.4	-100.0%	(3.0)	-100.0%	6.2	57.7	-89.3%	x			Tr BUY	2.55
Ranhill Bhd	3Q05	0.2	1.7	-88.2%	2.1	-90.5%	4.0	5.9	-32.2%	x			HOLD	1.40
Road Builder	3Q05	3.9	5.3	-26.4%	5.2	-25.0%	13.4	15.3	-12.4%	x			HOLD	2.80
UEM Builders	1Q05	(1.5)	0.2	-100.0%	3.2	-146.9%	(1.5)	3.2	-146.9%	x			HOLD	0.90
WCT Eng	1Q05	16.7	(2.5)	>100%	14.8	12.8%	16.7	14.8	12.8%		x		HOLD	3.80

Source: Company, Mayban Securities

Earnings dissapoint as the environment grows tougher

The good news from additional construction spending was clouded by several factors, with the gravely dissapointing 1Q05 results being a key factor. Only two of the seven companies under our coverage met expectations as earnings were mainly affected by slower construction progress arising from the labour shortage. In addition, first quarter earnings was seasonally lower due to: (1) lower number of working days (2) festive season. Likewise, it is conceivable that slower order book replenishment could have inspired some of the companies to postpone profit recognition and save some for the coming years. Profit margins continue to deteriorate (except for WCT Engineering) from construction delays, rising cost and razor-thin profit margins from recently secured projects.

Overseas drive becoming more rigorous

Good track record on overseas ventures

Malaysian contractors' aggressive push into the overseas market has turned in meaningful results. Contracts worth RM19b has been secured since 2002, of which half is estimated to be in progress. Major markets are India and the Middle East taking up approximately half of the overseas projects. Malaysian companies were reported to have completed 36 projects worth RM5.7b in India and are currently undertaking 15

projects valued at RM2.7b. India would remain a key source of overseas construction projects with its tremendous highway development opportunities estimated to be worth RM45b. With a 25% market share of infrastructure jobs awarded in India, the prospects for Malaysian companies look promising. Newer markets have emerged on the radar screens of Malaysian companies, which include Indonesia, Sudan and Pakistan. We favour IJM Corporation and WCT Engineering for overseas exposure.

Table 2: Recently secured overseas projects

Project	Country	Contract value (RM m)	Contractor
300MW coal-fired thermal power plant	India	760	Tronoh
Civic Centre, New Delhi	India	474	IJM
Rajasthan highway (BOT)	India	480	IJM
Emirates Flight Catering Facility	UAE	263	IJM JV
Integrated township development, Andra Pradesh	India	321	Ho Hup
IT Corridor, Chennai	India	105	Ahmad Zaki
Palm Jumeirah Project - structural	UAE	270	PECD
South Luzon Tollway (BOT)	Phillipines	686	MTD Capital

Source: Companies, Mayban Securities

Outlook

Weak sentiment prevailed despite some flow of good news

Investor sentiment on the sector would continue to be weighed down by overhanging concerns on: (1) slower construction spending (2) cost overruns from construction delays (3) margin squeeze from stiff competition. The commencement of several large projects may be catalyst for construction growth in 2H05, apart from the RM4.9b spending for the small contractors. Among the significant projects that should kickstart soon include: (1) North South Expressway upgrading — RM1.0b (2) East Coast Expressway II — RM1.7b (3) Interstate water transfer project — RM3.8b.

Construction GDP may turn positive from higher spending

Additional construction spending in 2H05 could lead to a turnaround in construction growth in 2H05. To recap, construction growth contracted -2.4%yoy in 1Q05, the fourth consecutive quarters of contraction. This was mainly attributable to slower public spending and was recently aggravated by labour shortages. We believe that the labour problem should normalise in the coming months.

9MP should bring some cheer to the contractors

The announcement of the 9MP (2006-2010) in the 4Q05 may be a catalyst for sector re-rating. However, a key risk factor would be the eventual allocation on development spending, which is largely expected to be lower than the RM170b during the Eighth Malaysia Plan (8MP). That aside, we expect development spending from the 9MP to comprise of mostly smaller-scale projects and likewise large infrastructure jobs would likely be divided into smaller packages (as seen in the ECE II award) to include smaller contractors. Furthermore, the timing of award could be deferred as the government focuses on narrowing the budget deficit in the near term.

Recommendation

IJM stands out as the most resilient - Reiterate BUY

We continue to like **IJM** for its order book replenishment ability and its stronghold in India. The steep valuation discount justifies our **BUY** recommendation on **Gamuda**. Meanwhile, **we have raised MTD Capital and Ranhill to a TRADING BUY** due to recent positive newsflow. We remain **NEUTRAL** on the sector as prospect for re-rating in the medium term is clouded by slower domestic spending and increasingly tough operating environment.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
Gamuda	4.14	BUY	10.6	8.8	1.6	5.1	-10.6	-11.9
IJM	4.92	BUY	12.8	11.6	1.3	3.0	2.5	0.6
MTD Capital	2.32	TR BUY	9.5	7.9	1.3	-	3.2	-5.3
Road Builder	2.38	HOLD	13.2	11.5	1.0	3.4	-14.1	-13.8

Consumer Products

Lower margins prevail

NEUTRAL

- **F&B sector expected to remain unexciting but softening commodity prices may offset slower demand**
- **Tobacco industry continues to suffer margin squeeze due to competition but market share is expected to be relatively unchanged**
- **Brewery sector also facing margin squeeze due to discounting activities to stimulate consumption**
- **Tobacco industry expected to attract a small to moderate tax hike while local beer should be spared from higher taxes in Budget 2006**
- **NEUTRAL on the sector; F&N and Guinness attractive for their dividend yields**

Softer commodity prices should offset slower demand

Food & Beverage. The F&B sector is expected to be unexciting since we expect demand for consumer goods to weaken due to slower economic growth. Nevertheless, commodity prices are generally softening, which should partially offset impact from the slower demand.

While both Nestle and F&N have increased several product prices, we believe that other F&B companies are less able to do so due to their lower brand loyalty. Companies such as Hup Seng would have greater difficulty to increase selling prices despite lower profit margins.

Expect small to moderate tax hike in Budget 2006 and stricter anti-smoking measures

Tobacco. Tobacco companies have been aggressively promoting cigarette sales by offering twin packs at discounted prices which would reduce profit margins. This should support demand for cigarettes as it is necessary to protect market share. We believe taxes on cigarettes would be introduced in Budget 2006 hence, there should be considerable trade loading activities prior to the Budget announcement in September. However, we do not believe a large tax hike would be levied since lower demand for cigarettes could reduce the government's tax collection. Nevertheless, we do not rule out the imposition of stricter anti-smoking measures such as graphic description on cigarette packets. This has been enforced elsewhere, such as in Singapore.

Expect profit margins to remain thin

Brewery. The local breweries should be spared from higher consumption tax in this year's budget announcement since the industry is still recovering from the tax hike in Budget 2005. In addition, imported alcoholic drinks enjoys a comparative tax advantage due to lower excise tax imposed in Budget 2005 which should be rectified in Budget 2006. Despite the local brewers' efforts to increase brand equity and reduce price competition, discounting activities remain prevalent due to consumer sensitivity to beer prices and as a means to discourage the switch to illegal or imported drinks. We expect profit margins to remain thin.

Recommendation

F&N and Guinness attractive for dividend yield and undemanding valuation

We remain **NEUTRAL** on the sector and continue to refrain from recommending tobacco stocks due to the bleak prospect. Defensive investors may prefer F**&N and Guinness** given their relatively stable outlook and attractive dividend yields. **We have downgraded Carlsberg to a HOLD** due to lower than expected industry sales volume.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
Carlsberg	5.50	HOLD	18.5	17.8	3.4	5.4	-2.2	-5.5
F&N	5.10	HOLD	14.4	13.2	1.7	5.3	-3.2	-2.9
Guinness	5.65	HOLD	16.2	15.8	5.5	6.7	-2.2	1.7
Nestle	23.80	HOLD	23.5	22.7	12.4	4.8	-1.8	-2.8
JTI	4.24	HOLD	15.0	13.5	2.5	6.0	-2.7	-4.3
BAT	41.75	HOLD	17.6	13.8	18.6	5.7	2.2	-6.0

Gaming

Expecting greater earnings volatility ahead NEUTRAL

- **Liberalisation of the NFO sector remains at a standstill. Some NFOs continue to be plagued by corporate governance issues. NFO growth increasingly dependent on gaining market share from illegal operators**
- **Government unlikely to issue new casino license in the foreseeable future therefore, perpetuating domestic casino monopoly. Prospects boosted by upgrading of gaming and leisure facilities coupled with anticipated improvement in both domestic tourism and in-bound tourist arrivals**
- **Maintaining NEUTRAL with preference for the casino over NFO**

Review

Gaming revenue within expectations, luck factor normalised during the quarter

The country's three largest number forecast operators (NFOs) and sole casino player's recent quarterly performance met our expectations. Within the NFO segment, Tanjong's gaming unit, Pan Malaysia Pools outperformed its rivals with average ticket sales per draw day growth of 12%yoy for its first financial quarter as compared to Berjaya Sports Toto's (BToto) 6% and Magnum's near flattish growth. Domestic casino operator, Resorts World and its parent Genting reported a similarly encouraging set of 1Q05 topline growth of 11% and 13% year-on-year respectively. The luck factor for all five gaming players normalised during the quarter.

Current Developments

Lack of domestic opportunities so players look abroad

There was a lack of exciting development within the domestic NFO sector, unlike the so-called "Big Bang" in 2003 when the government standardised the gaming tax structure for NFO players and raised the first prize payout to attract punters away from illegal operators. Perhaps because of the lack of opportunities at home, the NFO players are increasingly venturing abroad as illustrated by Tanjong's joint-venture with Greek gaming company, Intralot and several Russian parties to offer the Moscow Olympics lottery from third quarter of 2005 as well as Magnum's (rather problematic) foray into Indonesia since mid-2004.

Corporate governance issues again!

Meanwhile, corporate governance issues reared its ugly head once again with concerns about the implications of Magnum's purchase of a 6.4% stake in its parent company, Multi Purpose Holdings Bhd. This, coupled with the Securities Commission's rejection of Magnum's restructuring proposal have somewhat dampened investor sentiment on the stock. Conversely, Berjaya Land's recent announcement of a partial settlement of its inter-company loan with BToto was well received by investors as seen from the positive share price reaction. However, we reckon that corporate governance issues on Berjaya Group would linger on so long as the inter-company loan remains outstanding.

Genting strengthens its position in the UK

On the casino side, the Genting group was involved in several international tie-ups, equity stake acquisitions and group reorganisations over the course of the previous quarter, aimed at strengthening its position in the highly competitive global casino industry. Most notable was the upping of its stakes in two UK casino players, London Clubs International (LCI) and joint venture partner, Stanley Leisure to 29.9% and 20.3% respectively. This was followed by a consolidation of the two equity stakes under Genting International plc, lending to market rumours that Genting may eventually seek to merge the two UK casino companies. Indeed, we reckon that a merger may not be an altogether improbable nor undesirable scenario as this would create a mega home-grown casino operator (aligned with Genting), capable of being a strong contendor to bid for the UK's first regional casino license.

Partnership with Universal Studios boost Genting's Singapore casino bid

Elsewhere, the Genting group's partnership with Universal Studios should boost their chances of participating in the Singapore Integrated Resorts and Casino (SIRC) project. This is premised on a positive remark made by Singapore's Minister Mentor, Lee Kuan Yew on the Genting-Universal bid which we reckon somewhat raises Genting's

chances of winning the license. Nonetheless, we believe that Mr Lee's compliments will definitely spur the other bidders to improve their bids, leading to even fiercer competition for the Singapore casino licenses. We reckon that Genting stands a reasonable chance of winning one of the SIRC license especially for the Sentosa site, where it has proposed a theme park resort with Universal Studios.

Outlook

NFO growth to be internally driven

Going forward, we envisage that the NFO sector will become increasingly dependent on internally generated sources of growth such as innovative marketing techniques, rebranding exercises as well as the introduction of new product variants to further whet the appetite of punters. However, we believe that it is now increasingly difficult to secure approval for the introduction of new product variants, judging by BToto's long wait to have its version of the IBox approved by the authorities. Instead, the principal growth driver for the NFO sector going forward will be centred primarily on capturing market share from illegal operators via greater efforts to eradicate illegal betting operations. We are also increasingly convinced that other government-initiated measures to liberalise the NFO sector such as allowing more betting outlets, decoupling of draw days and introduction of new games are unlikely to materialise anytime soon given the present administration's ambivalence towards the gaming sector. Other measures to drive sales could come from overseas expansion and raising of betting limits although the latter would also result in higher earnings volatility for the NFOs.

Maintaining 10% visitor growth assumption

This year should be positive for the Genting group as far as visitor arrivals is concerned. Recently, the Tourism Ministry raised its 2005 tourist arrival forecasts to 20m from an earlier projection of 16.6m, representing a 28% growth from last year's 15.6m. Despite the Tourism Ministry's bullish assessment, we are maintaining our FY05 10% visitor growth assumption for Genting. Visitor arrivals will be supported by an additional 3,000 new rooms at the First World Hotel, construction of a new bypass road to the hilltop resort as well as upgrading of hotel and recreational facilities.

Casino: Lower margins and higher volatility ahead

More importantly though is Genting's efforts to diversify its gaming business by tapping into all possible customer segments such as the young and premium segments. Indeed, attracting the high rollers is vital to elevate Genting's profile from a local, grind-market driven casino to a world renowned brandname capable of attracting the most prominent "whales", as the group embarks on an aggressive overseas expansion. The flipside of increasing high roller contribution could be lower overall gaming margins due to higher operating costs arising from rebates and commissions as well as greater earnings volatility until high roller critical mass is achieved.

Recommendation

Prefer casino over NFO

We reiterate our preference for casino stocks over the NFOs. We believe that the government's tougher stance on gaming will hurt the NFOs more by removing the catalysts for growth such as allowing more betting outlets and games. Conversely, the sole operators' monopoly of the domestic casino industry is almost guaranteed under the present conservative environment. We prefer **Genting** over Resorts due to the former's greater exposure to the group's international forays especially in the gaming and oil & gas sectors. Within the NFO segment, we like **Tanjong** for its defensive quality and good corporate governance while **BToto** is favoured for its highest dividend yield amongst the NFOs. Although based on its fair value of **RM2.60**, Magnum's stock warrants a BUY given the 20% upside potential, we caution that investors' sentiment towards Magnum remains negative due to concerns over the group's corporate governance.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
BToto	4.20	HOLD	13.0	12.5	3.3	10.7	4.9	4.1
Genting	18.90	BUY	13.7	12.1	1.7	1.3	1.6	7.3
Magnum	2.16	BUY	15.4	13.7	1.9	4.6	4.7	5.5
Resorts	9.50	BUY	11.8	10.3	2.2	2.1	-2.2	-0.3
Tanjong	13.10	HOLD	13.5	15.5	2.2	5.3	-4.4	-2.7

Information Technology

Future remains bleak

NEUTRAL

Review

Rebound in 2H05 unlikely

The first six months of 2005 was unexciting for the IT sector as no major contracts were awarded from either the public or private sector. In our 2Q05 Quarterly Outlook, we mentioned that IT companies needed to secure overseas projects to sustain growth. Since this has yet to materialise, we have a pessimistic view for the sector. Locally, competition continues to remain stiff, evident from the weakened profit margins. Overall, we believe the IT sector is unlikely to pose a rebound in 2H05.

Current Developments

Malaysia still one of the best locations for outsourcing

Malaysia, rated by consulting firm Deloitte as being one of the best location for outsourcing and offshoring activities in the region, is expected to attract more multinational companies to set up customer support operations and back-office management. Government's constructive support and the setting up of the Multimedia Super Corridor (MSC) have provided the basic infrastructure to boost investor confidence in Malaysia. The global outsourcing industry is expected to grow at 8% between 2003 and 2006, driven mainly by offshoring of call centre operations, analytical and research processes as well as procurement and supply chain management.

New technologies to drive earnings growth

Despite the competitive environment, demand for enterprise application is expected to drive a double digit growth because more service providers pursuing new technologies and delivery models, such as the implementation of RFID and virtualisation applications. Network consulting and intergration will also continue to spur growth in the market *(Source: IDC Malaysia)*

Notebooks leading desktops, pushing local PC makers for merger

Driving the local PC market is the notebook segment, which is expected to register strong growth in 2005, while the growth in desktop segment is believed to have peaked. Therefore, the consolidation of local PC makers would be a good solution to compete effectively against international brands, especially in the notebook segment which is traditionally dominated by foreign brands.

Outlook

Need to move towards high value shared services outsourcing business

Looking ahead, the local IT market is expected to be more challenging, especially with fewer government projects going forward. Nevertheless, outsourcing business will continue to remain as a global trend as corporations strive for cost effectiveness in running businesses. For instance, we may see more outsourcing by banks domestically. However, big rewards will only accrue to players that have built sufficient knowledge instrastructure to capture the high-value shared services outsourcing business, such as the analytical and research processes as well as procurement and supply chain management.

PC industry will continue to growth in 2005

We are expecting orders to shift towards mobile computing (notebook). According to the Association of the Computer and Multimedia Industry Malaysia (PIKOM), the notebook segment constitutes more than 40% of the overall PC market in terms of unit shipment. The local desktop segment and notebook segment are expected to grow by 8% and 20% respectively *(Source: Gartner)*. IDC Malaysia also forecast the local market to grow by 14% in terms of unit shipment and 11% in revenue growth for 2005.

CSA upgraded to a HOLD, Fair value RM2.46

CSA share price had plunged more than 40% since our **SELL** recommendation on 7 February 2005. At current level, we believe downside risk is limited despite competitive environment. Therefore, we have reverted to our **HOLD** recommendation on **CSA**.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
CSA	1.47	HOLD	9.4	8.8	0.7	2.0	-6.1	-26.6
Heitech Padu	2.07	HOLD	8.8	7.4	1.2	3.5	-7.7	-17.1
Mesiniaga	2.68	HOLD	9.1	8.3	1.0	4.6	-6.5	-12.6

Media

Single digit adex growth to continue — NEUTRAL

- **Broadcasting industry consolidated further in 2Q05**
- **2005 adex growth projection maintained at 9% despite weak 1Q05 growth of 5% given that adex is seasonally weaker in first few months of the year**

Review

1Q05 adex grew by 5%yoy

According to media consultant, Mindshare, Malaysia's 1Q05 advertising expenditure (adex) grew 5%yoy to RM1.03b, much lower than 1Q04's 22% growth due primarily to this year's absence of election-related advertising. However, 1Q05's adex was still commendable considering the high base effect, further boosted by strong telco ad spending in March 2005. Newspapers captured the largest share of the adex pie with 63% share or RM645m, representing a 6%yoy growth. TV ad spending grew 8%yoy to RM290m (28% market share) while radio's perfomance was disappointing, contracting 7%yoy to RM35m (3% market share). Although TV's share of total adex during the quarter declined 2 percentage points from 30% achieved in 2004, we believe that TV adex would improve towards year-end, which is seasonally the strongest.

Current Developments

Consolidation in broadcasting industry during 2Q05

The broadcasting industry consolidated further during 2Q05, as owners of Channel 9 and THR.fm sold their free-to-air (FTA) TV and radio businesses to Media Prima and ASTRO respectively. ASTRO continued its strategy of diversifying its revenue base via overseas expansion. This included a tie-up with Indonesian communications and media giant, the Lippo Group to jointly provide pay-TV services to the Indonesian market as well as Celestial's expansion into the Thai and Australian markets this year.

Outlook

Maintaining 9% adex growth for 2005

Although 1Q05's adex grew by only 5%, we are maintaining our 9% adex growth projection for 2005 given that adex is seasonally weaker in the first few months of the year. We have not seen any significant let-up in ad spending by the telco companies since its March peak as we believe that the telco industry could have raised their overall advertising and promotions budget for the year. We reckon that TV adex will remain strong with an improvement in FTA TV content, higher foreign ads following the relaxation of the Made-in-Malaysia ruling and lower discounting activities this year. Print adex growth meanwhile will be driven primarily by higher ad rates although the positive impact on newspaper publishers' bottomline will be partially offset by lower print ad volumes and higher average newsprint prices. We anticipate newsprint prices to continue trending higher, albeit at a slower pace in 2005 to around USD630/tonne before retracing.

Recommendation

Top pick: ASTRO

ASTRO is our top pick in the media sector in the light of strong operating fundamentals such as sustainable subscriber growth, declining churn rate and strong bargaining position to secure superior content at reasonable costs. Although we remain positive on ASTRO's foray into the huge Indonesian pay-TV market, near term earnings could take a hit nonetheless due to start-up costs during the initial four-year gestation period. Among the print media players, we prefer **Star** over NSTP given the former's enviable market leadership (both adex and circulation) within the English newspaper segment, more attractive valuations and respectable dividend yields of around 5%.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
Astro	5.45	BUY	67.3	48.2	6.7	0.5	0.6	3.9
Media Prima	1.65	BUY	15.7	11.3	3.5	-	-0.4	11.8
NSTP	3.08	HOLD	33.8	24.1	0.7	-	-4.7	0.7
Star	6.95	BUY	15.8	15.0	2.8	5.0	-1.5	0.3

Oil and Gas

Keep on pumping

OVERWEIGHT

- **Continued discoveries of new oil and gas fields would ensure future job opportunities for oil and gas players**
- **Demand for oil and gas as fuel source will spur exploration for new fields**
- **Global focus on deepwater fields would create greater opportunities for support services**
- **OVERWEIGHT stance maintained. Pick companies with attractive valuations, market dominance, global presence and deepwater capabilities. BUY: KNM, Scomi, SapuraCrest and EPIC**

Review

New oil and gas findings continues

New oil and gas fields are continuously being discovered. The most recent one by Murphy Oil, Kakap No. 2, located in the southern part of Block K, offshore Sabah has encountered significant oil in three reservoirs. Subsequent drill stem testing of one zone flowed high quality crude oil at 5,580 barrels of oil per day. There were two discoveries in April.

Technology advancement to spur discoveries

Technology advancement has not only helped to accelerate exploration activities but also extend the life of a reservoir. For instance, Petronas Carigali Sdn Bhd has seen a 400% rise in production at its TK-54L well in Tukau Field, offshore Sarawak, after the installation of the Stratapac Separation Tool. The new technology is designed to be set inside the well tubing for sand control purposes by separating the sand from oil in the reservoir, thus preventing the sand to be produced together when oil is flowed to the surface.

Outlook

Global demand for oil and gas remains strong, driven by transportation sector

The find for new oil and gas fields would continue not only in Malaysia but also worldwide. In March 2005, the Organization of the Petroleum Exporting Countries (OPEC) said that with world economic growth of 3.6% over the next 20 years, it has forecast oil demand to rise by 28m barrel per day (bpd) and reach 111m bpd by 2025 (or annual average growth of 1.5m bpd), as against average expansion of 2.2m bpd in 2004 and 2005 combined.

Malaysia's oil & gas discoveries

Reported discovery	Company	Well	Location	Stage
Sep 2003	Murphy Oil	Kikeh No. 1& 3	Block K	Appraisal
Mar 2004	Shell-Petronas-Conoco JV	Gumusut-1	Block J	Exploration
Apr 2004	Murphy Oil	Kikeh No. 7	Block K	Appraisal
May 2004	Murphy Oil	Kenarong No.1	Block PM311	Exploration
Jun 2004	Murphy Oil	Kakap No. 1	Block K	Appraisal
Aug 2004	Shell	M3 South	Block SK312	Appraisal
Sep 2004	Shell-Petronas	Bunga Zetung-1	Block PM301	Appraisal
Sep 2004	Murphy Oil	Senangin No. 1	Block K	Exploration
Sep 2004	Royal Dutch/Shell	Malikai-1	Block G	Exploration
Dec 2004	Petronas	F2 Attic-1	Block SK310	Exploration
Feb 2005	Shell-Petronas	Bunga Anggerik 1	Block PM301	Appraisal
Mar 2005	Murphy Oil	Rompin-1	Block SK311	Exploration
Apr 2005	Shell-Petronas	Bumi South-1	Block RM301	Exploration
Apr 2005	Murphy Oil	Kakap No. 2	Block K	Appraisal
July 2005	Murphy Oil	Endau No. 1	Block SK311	Exploration
July 2005	Murphy Oil	Kerisi No. 1	Block K	Exploration

Source: Respective companies and media reports

OPEC estimates that almost 75% of the increase in global oil demand will come from developing countries. Asian countries are expected to remain the key source of oil demand with China and India central to this expansion. There is a huge potential for growth in the transporation sector due to the low density of vehicles in these two countries. OPEC forecast that transportation will account for almost 60% of the rise in global oil demand over the next two decades.

More deepwater contracts expected to be awarded

We expect more awards of contracts for Malaysia's first deepwater find, the Kikeh deepwater block. Recall that the Kikeh deepwater filed was discovered in end-2003 with an estimated recoverable reserve base of between 400m and 700m barrels. Murphy Oil is currently developing the oil field and has so far awarded one contract each to Technip Marine (M) Sdn Bhd and Malaysia International Shipping Corporation. With oil production targeted by 2007, we expect more award of contracts to take place within the next 12 months.

Expansion in facilities continues

Petronas' plans to expand the capacity for Malaysia LNG Dua plant (in Bintulu) by 15% should create demand for process equipment, industrial gas, and mechanical and engineering jobs. The capacity of the plant is expected to increase 1.2m metric tons a year by 2007.

Recommendation

Top pick: KNM. Global presence and improving margins

The continued exploration and production activities globally is healthy for several local oil and gas companies. Our top pick remains **KNM**, which has successfully participated in overseas oil and gas contracts. Besides its plants in Malaysia, KNM also has plants in Dubai and China, and is set to tap into the growing oil and gas, and petrochemical industries expansion in the Middle East, Africa and China. Furthermore, KNM's strategic partnership with FBM-Hudson gives the company access to international markets.

Scomi: international presence too

We also like **Scomi** for its international presence. Scomi is the world's third largest drilling waste management company and its acquisition of OilTools International has helped increase the group's earnings base. Scomi is also set to emerge as the leading marine vessel operator in Southeast Asia once its acquisition of Habib Corporation is completed in September. The stock is trading at PER05 of 13.1X and our fair value of **RM1.84** is based on sum-of-parts valuation.

SapuraCrest: going big into deepwater. Right strategy.

We like **SapuraCrest**'s strategy to focus on improving margins, enhancing its deepwater capabilities while increasing its presence in the region. With its own remote operated vehicles, derrick lay vessel (to be completed in 2006) and the planned deepwater diving systems, the company is set to participate in the deepwater projects not only in Malaysia but also in the region. Owning these assets will reduce the risk of unavailability of vessels and equipment, and thus allow for enhanced project planning. In addition, SapuraCrest would be able to position itself as a "total solution" upstream operator and would be able to offer more competitive pricing for its services and products. The stock is trading at PER05 of 8.5X and our fair value of **RM1.45** is based on sum-of-parts valuation.

EPIC: Defensive oil and gas play

EPIC provides a defensive flavour for investors with less risk appetite on the oil and gas sector. The company's Kemaman Supply Base, the only gateway to offshore Kelantan and Terengganu, is expected to be full of activity given the continued oil and gas operations. EPIC earns its revenue and earnings from renting out office space and fee charges from the ships and boats that dock at its supply base. EPIC is fundamentally sound with no borrowings and strong management team. The stock is trading at PER05 of 11.3X and offer a dividend yield of 6.8%.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
EPIC	1.76	BUY	11.3	10.5	1.1	6.8	-2.2	4.7
KNM	2.55	BUY	13.8	11.5	3.3	2.0	3.2	3.4
Petronas Gas	8.05	BUY	15.2	14.9	2.4	2.5	11.2	14.7
Sapura Crest	1.01	BUY	8.5	8.0	2.2	-	-2.2	-10.1
Scomi	1.49	BUY	13.1	8.7	4.9	0.7	2.0	-8.8
Wah Seong	1.94	HOLD	35.6	33.4	6.0	0.7	3.8	1.2

Plantations

Sowing the seeds of the future

OVERWEIGHT

- **Prospects for the upcoming soybean crop in US, China and India remain threatened by adverse weather conditions**
- **Rising incomes and growing affluence is expected to drive demand for healthier edible oils**
- **High crude oil prices are forcing various countries to ramp up biofuel initiatives and this bodes well for the palm oil industry**
- **Ringgit revaluation will not derail prospects for the sector**
- **Maintain OVERWEIGHT on the sector**

Sector Overview

Drier weather threatens upcoming soybean harvest

After the disappointing showing of the South American soybean harvest that just ended, attention is now focused on the upcoming soybean harvest in US, China and India due in 4Q05 as adverse weather conditions threaten to reduce crop yields. Expectations of lower crop yields and production growth are buoying soybean prices which have risen by 10% since early June. As palm oil prices are still lagging, we expect palm oil prices to firm up further in 2H05. We are maintaining our revised RM1,500 per tonne average CPO price for 2005.

Renewed interest in biofuel spurred by high oil prices

High crude oil prices have renewed worldwide interest in biofuel and other clean energy sources, and this may help eliminate edible oil stock excesses. While few countries have set mandatory targets for biofuel use, incentives accorded through the Kyoto Protocol which aims at reducing greenhouse gas emission should continue to spur biofuel development. We expect biofuel initiatives, which the EU countries are taking the lead, to be the next wave that drives demand for palm oil.

Increase consumption of 'healthier' oils to buoy demand

Continued trans-fat (TFA) and genetically modified food aversion is expected to gather greater pace worldwide. In the US, food manufacturers are gradually switching to TFA-free oils ahead of the US Food and Drug Adminstration (FDA) imposition of TFA food labelling which takes effect 1 January 2006, while in the EU, GMO-food aversion takes greater precedence.

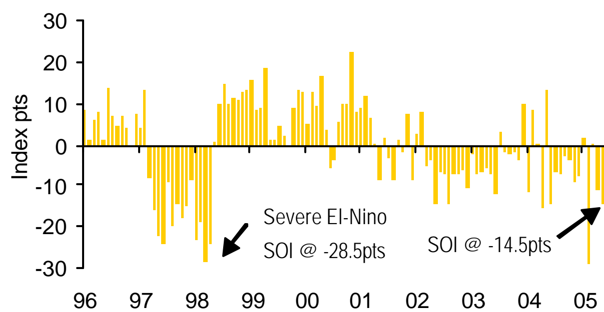
El-Nino could still resurface this year

Weather concerns continue to linger, with the possibilty of an El-Nino event resurfacing this year (Chart 1). While impact on production is not expected to be felt immediately, price reaction is almost instantaneous as observed in the last El-Nino episode in 1997/98 where palm oil prices traded above the RM2,500 per tonne mark.

Tight world edible oil supplies persists against growing demand

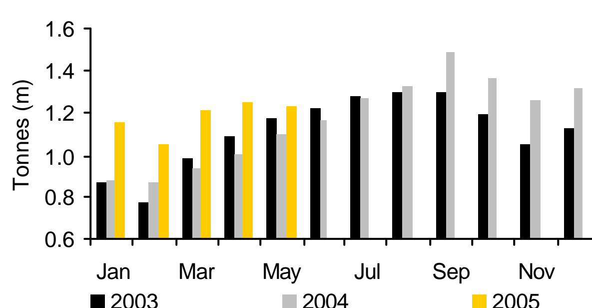
Prospects for the plantation sector remains encouraging amidst tight world edible oil supplies and growing demand for palm oil, which contributes to firmer prices. While the Ringgit revaluation may adversely affect earnings of the industry, we believe it will not derail the long-term prospects of the sector.

Chart 1: Southern Oscillation Index (SOI)



Source: Australian Bureau of Meteorology, Mayban Securities

Chart 2: Malaysian Palm Oil Production



Source: MPOB, Mayban Securities

Supply Factors Update

Palm oil production heading into peak season in 3Q05

Palm oil production is heading towards the peak in 3Q05 (Chart 2). Up to May 2005, production has surpassed MPOB's estimates by about 14% and most likely would exceed the Board's production estimate for 2005 of 14.2m tonnes. Oil World has tagged Malaysia's 2005 palm oil production at 14.7m tonnes while USDA forecasted 15.2m tonnes. While increasing production may potentially cap upside on palm oil prices this year, we believe palm oil prices should recover strongly in 2006 in anticipation of slower production growth due possibly to 'tree stress' conditions. Palm oil production growth usually slows after a season of strong yields. For example, production growth slowed to 4.6% in 2004 after a 12.1% production growth in 2003.

Adverse weather threatens soybean crop in major soybean producing nations

The US soybean crop due this year could be under threat as adverse dry weather conditions affect planting and crop development. At at 20 June 2004, USDA reported that only 63% of the US soybean crop was rated good compared to 67% the same period last year. At the same time, as much as 850,000 acres (or 344,000 hectares) of soybean may not be planted in the Northern belt as the crops may not mature before the first frosts in September or October.

Weather concerns have also spread to China and India, where drier than normal weather conditions, and a delay in monsoon season for the latter, are expected to affect crop yields this harvest season which is due in 4Q05. In India, due to the delay in the arrival of the monsoon, only 907,000 acres (or 367,000 hectares) have been planted this season, which is 62% lower than the 962,000 acres planted the same period last year. China is currently the world's fourth largest soybean producer and is expected to produce 18m tonnes this season (a 17% increase from last year), while India (fifth largest) is estimated to produce about 6m tonnes of soybean this season.

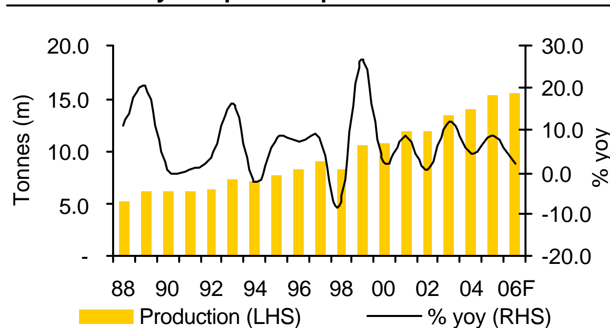
Brazil crops looking to turn around next year?

South American soybean production is expected to recover in the 2005/06 season from the drought-damaged crop this year. However, rising production costs (due significantly to increased disease prevention measures) against moderating international prices, coupled with the strenghtening of the domestic currency have seriously eroded farmer's earnings in recent times. Furthermore, given the scale of financial losses, credit availability from both public and private sources may be affected, thus limiting the scope of new plantings. As such, soybean production growth may not be as impressive as before. Brazilian soybean area for 2005/06 is forecasted at 23m hectares, flat against last season's harvested area of 22.8m tonnes, while production is tagged at 62m tonnes (against 53m tonnes in 2004/05). Note that the estimates are based on normal growing conditions and adequate control of the Asian Rust. Recall that USDA shaved a total of 9m tonnes from its 2004/05 estimates (from 62m tonnes to 53m tonnes) due to the severe drought that struck Brazil.

Anticipating slower production growth in 2006

World soybean production for 2005/06 is tagged at 219.7m tonnes (+1.6%), while global oilseed production is expected to be growing significantly less than the 12% estimated for 2004/05. In summary, we are anticipating slower production growth for soybean and palm oil in 2006 after the record harvest last season. Table 1 summarises the production growth for soybean and palm oil.

Chart 3: Malaysian palm oil production trend



Source: MPOB, Mayban Securities

Table 1: Production growth for soy and palm oil (%)

	Soybean			Soybean Oil			Palm Oil		
	04	05E	06F	04	05E	06F	04	05E	06F
US	-11.0	28.0	-7.8	-7.3	11.5	-0.5	-	-	-
Argentina	-7.0	18.2	0.0	3.0	5.3	5.7	-	-	-
Brazil	-2.9	5.0	17.0	10.4	0.2	6.9	-	-	-
China	-6.7	16.9	-5.6	-4.0	14.1	35.5	-	-	-
EU	-29.2	25.4	7.6	-12.1	0.4	1.6	-	-	-
Malaysia	-	-	-	-	-	-	5.5	9.4	2.0
Indonesia	-	-	-	-	-	-	8.2	9.0	5.0
Total	**-5.5**	**16.1**	**1.6**	**-1.4**	**6.7**	**5.4**	**5.4**	**9.1**	**3.2**

Source: USDA, Mayban Securities

Demand Factors Update

EU steals the limelight

Palm oil exports grew by 19.3% as at end May 2005, lagging by only 4 percentage points to the 23.1% increase in production, suggesting sustained demand, and marked increase in exports to the major palm oil markets consuming nations (Table 2). EU particularly saw a significant jump in palm oil imports (+59.2% YTD), which is believed to be largely used in non-food applications such as biodiesel. European power plants burn various forms of palm oil for electricity generation. Oil World estimates that palm oil exports to EU is expected to increase by between 600k and 800k tonnes in 2005 due to biofuel needs. Historically, rapeseed oil has been the main biofuel source, but this is expected to change significantly in the coming years as concerns have been raised over its potential threat to food needs.

EU biofuel initiatives to spur demand for edible oils

The EU government is ramping up efforts to promote the use of biofuel, especially from vegetable oils and ethanol, to reduce dependence on fossil fuel imports and to cut greenhouse emissions. The existing laws stipulate a minimum level of 2.0% fossil fuel to be replaced by biofuel and this will be increased by 0.75% annually to reach 5.75% by 2010.

Demand from China expected to remain strong

Demand for palm oil in China is expected to remain strong, buoyed by increasing urbanisation (resulting in increase in fast food intake), growing affluence and rising incomes. Palm oil consumption in China is expected to increase by 11.3% to 4.1m tonnes this year. The per capita consumption of edible oil in China (estimated at 15.7kg per capita for 2005), though significantly lower than in developed nations (between 40kg to 50kg per capita), is expected to grow between 18kg to 20kg in the next five years. In addition, China is also scheduled to phase out its quota for edible oil imports by 2006, which will enable it to bring in unrestricted amounts of edible oil to meet the nation's growing demand. Currently, China has already breached its edible oil import quotas, clearly demonstrating the strength of the demand for vegetable oil given the growing affluence of its people.

US market holds vast opportunities

The US market for palm oil holds great prospects, especially with the imposition of trans-fat food labelling by the US FDA which takes effect 1 Jan 2006. Trans-fat is fast becoming a serious issue in the US, since scientific evidence has proven that consumption of trans-fat raises the level of low-density lipoprotein (LDL) or 'bad' cholesterol, which increases the risk of coronary heart disease. McDonald's had recently agreed to pay USD8.5m to settle a lawsuit for delaying plans to lower trans-fats in its food processes. This follows the lawsuit against Kraft on the trans-fat issue two years ago. At present, palm oil consumption in the US is still very low, accounting for only 5% of total edible oil and fats consumed. With growing awareness of health issues promoted by various health authorities, as well as greater disclosure through stricter food labelling, we anticipate sustained growth in palm oil consumption in the US.

EU's GMO-food aversion and biofuel initiatives to drive demand for palm oil

Consumer aversion to GMO-food products in the EU and the imposition of strict GMO labelling will continue to drive demand for food oils that are GMO-free. About 90% of the soybean from South America and close to 80% from the US are from GMO crops. The greater use of costlier rapeseed oil for food needs in place of soybean is evidence of the EU's stance towards GMO products.

Table 2: Palm oil exports to major countries (tonnes)

	YTD May 05	YTD May 04	% chg
China PR	1,102,231	998,725	10.4
EU	992,676	623,682	59.2
India	412,188	343,520	20.0
Pakistan	334,934	341,013	-1.8
USA	221,350	161,564	37.0
Egypt	213,644	134,287	59.1
Bangladesh	203,863	144,570	41.0
Japan	197,508	203,750	-3.1
Singapore	146,442	160,322	-8.7
Turkey	122,194	41,543	>100.0
Others	1,744,041	1,657,585	5.2
Total	**5,544,629**	**4,650,239**	**19.2**

Source: MPOB, Mayban Securities

Table 3: Summary for soybean and palm oil (%)

	Production			Usage			Stock/Usage		
	04	05E	06F	04	05E	06F	04	05E	06F
Soybean	-5.5	16.1	1.6	-0.2	6.9	5.3	18.4	23.2	24.3
Soy Meal	-1.0	6.6	5.1	-0.5	6.2	5.1	2.9	2.8	2.8
Soy Oil	-1.4	6.7	5.4	-2.1	5.2	6.4	5.2	5.6	5.3
Palm Oil	5.4	9.1	3.2	2.1	8.2	8.3	13.9	14.7	11.5

Source: USDA, Mayban Securities

Recovery in palm oil exports to India

We had earlier anticipated a recovery in palm oil exports to India, which have risen 20%ytd, due to the significant reduction in domestic oilseed production which forces the country to import more. Despite approximately 80% of the edible oil imports consisting of palm oil, the discriminatory tarriff in favour of crude over refined palm oil will cap demand for Malaysia's palm oil which is mostly refined. Recall that palm oil exports to India fell by 41.1% in 2004, though the decline was more than offset by increase in exports to non-traditional markets.

Biofuel close to commercial reality in Malaysia

Malaysia is close to realising the commercial benefits of palm diesel. MPOB has recently allocated RM40m to set up a methyl ester production plant in Labu, Negri Sembilan. The plant will have a production capacity of 60,000 tonnes a year, and is expected to be operational by mid-2006. Palm diesel can be made available in petrol stations for as low as 85 sen per litre. With the recent price hike, pump prices for diesel is now 20 sen higher. If subsidies for petroleum diesel were completely removed, the switch to biodiesel is almost inevitable. To illustrate, if 5% of palm oil was blended into the petroleum diesel stock, it will remove about 500,000 tonnes from the national palm oil stock based on an annual diesel consumption of 10m tonnes. In addition, because of its lower carbon emission, the production of palm diesel could be entitled to carbon credits under the Clean Development Mechanism (CDM) of the Kyoto Protocol, giving greater financial incentives to the industry.

Overhanging concern: Ringgit revaluation

Ringgit revaluation causes near-term concerns

The Ringgit revaluation factor had resulted in less-than-encouraging palm oil price performance. As palm products are internationally sold in USD, an upward revaluation would naturally result in lower Ringgit receivables. As such, local producers will enter into more sell hedges to protect themselves from lower earnings in the event of a repeg. However, a stronger Ringgit would also reduce 'imported' costs such as fertilisers, which is estimated to make up for 20-30% of production costs, and imported machinery and equipment, as well as reduce foreign borrowing costs.

Higher Chinese spending via Yuan revaluation

A revaluation of the Yuan would translate to higher spending power for the Chinese. We are already seeing increased consumption of snacks and fast food due to rising income and increasing urban population. Currently, palm oil is widely used in China's food manufacturing processing, especially in the production of instant noodles.

Recommendation

PPB Oil palms downgraded to a HOLD

Our top pick for the plantation sector has been **PPB Oil Palms**, as its young plantation, which translates into higher FFB and CPO production, should defend lower prices. However, given the recent surge in its share price (+16% since early June) and limited upside to our fair value of **RM4.00**, we are inclined to downgrade our recommendation on PPB Oil Palms to a **HOLD**. Dividends yield of 4.0% is still attractive.

Reverting to HOLD call on IOI Corp

We are reverting back to our **HOLD** call on **IOI Corp** as its share price has reached our fair value of **RM10.20**. Nevertheless, IOI Corp still offers investors one of the best exposures to the plantation sector given its well-integrated business.

BUY on KL Kepong

We maintain our **BUY** recommendation on **KL Kepong**, with a target price of **RM7.60**. Earnings should be boosted by its oleochemical plant in China coming onstream.

Trading BUY on G Hope

Golden Hope shares remain a **TRADING BUY** with a fair value of **RM3.90** (RM4.50 cum I&P distribution).

HOLD on Kump Guthrie

Kumpulan Guthrie remains a **HOLD** with a fair value of **RM2.45**.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
Golden Hope	3.92	TR BUY	9.0	12.0	1.2	6.4	2.6	1.2
IOI Corp	10.50	HOLD	13.4	13.5	2.8	2.4	12.5	15.4
Kump Guthrie	2.25	HOLD	19.4	16.8	0.8	3.6	1.5	2.2
KL Kepong	6.85	BUY	10.9	10.1	1.2	4.4	3.2	1.8
PPB Oil Palms	3.78	HOLD	11.2	10.3	1.3	4.2	9.6	11.2

Power

Limited domestic growth — NEUTRAL

- **2005 electricity demand to grow at 7.5%. No electricity tariff increase expected this year. A 1% tariff hike will increase TNB's bottomline by 7.5%**
- **Malakoff and YTL Power may venture overseas to grow earnings base**

Electricity demand remained strong in 1H05

Apart from the major two-hour blackout across Selangor, Melaka, Negeri Sembilan and Johor in January, it was a relatively uneventful period for the power sector in the first six months of the year. Electricity demand remained strong with peak demand hitting a new high of 12,375MW on 12 April 2005.

Government proposals: bid for contracts and review of tariff structure

The Ministry of Energy, Water and Communications has stipulated that Tenaga and independent power producers (IPPs) now have to bid for new power generation and distribution contracts instead of by direct appointment. This will enable Tenaga to obtain better rates for its power purchase agreements and maintain reliability of power supply. In addition, the government may review the electricity tariff structure to ensure responsible use of power. The rate may be worked out based on the efficiency of the IPPs and Tenaga, and will be benchmarked against international standards.

Outlook

No tariff adjustment expected this year. Tariff increase likely in 2006.

We maintain our forecast for electricity demand to grow at 7.5% on the back of a 5.1% GDP growth this year. Furthermore, we believe there will be no electricity tariff adjustment this year. Any adjustment is expected to only take place in early 2006 after Tenaga renews its gas supply agreement with Petronas. Currently, Tenaga pays RM6.40/mmbtu, significantly below the market price of RM11-12/mmbtu for 1,350m standard cubic feet per day of gas. Given the relatively lower gas price compared to coal, Tenaga may request for a higher volume of gas from Petronas and we do not discount the possibility that Petronas may also seek to increase its gas price to be in line with international price. The additional cost may be passed on to consumers. We estimate that a 1% increase in electricity tariff rate would enhance Tenaga's bottomline by 7.5%.

Budget 2006 to focus on rural electrification

Rural electricity supply projects are expected to remain the government's top priority in the coming Budget 2006 announcement. Last year, RM130m was allocated for rural electricity supply programme. Under the Ninth Malaysia Plan, we expect various energy efficiency measures would be introduced.

Recommendation

HOLD: Tenaga, Malakoff and YTL Power. All fairly valued.

The participation of Tenaga and Malakoff in Saudi's water desalination and power plant project has failed to excite the market. Earnings contribution is not expected to be significant in the next few years. **Tenaga** remains a **HOLD** given the unattractive valuation. The stock is trading at PER05 of 27.2X, which is at par to its five year average PER of 28X. **Malakoff** has also fully reflected the earnings enhancement from Kapar in FY05 and Tanjung Bin in FY07. Given the limited growth opportunity in Malaysia, we expect Malakoff to venture in power plant projects overseas. Our fair value of **RM7.20** per share is based on a sum-of-parts valuation.

YTL Power remains a **HOLD** despite the year-on-year earnings enhancement coming from the inclusion of its investment Jawa Power and impact from the increase in Wessex Water's tariff. The stock is trading at PER05 of 11.7X. Nevertheless, Singapore's Temasek's plans to scout for investment opportunities in the energy sector in Malaysia may spur some interest in power stocks.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
Malakoff	7.60	HOLD	12.6	12.7	2.2	2.9	2.6	-1.3
Tenaga	10.50	HOLD	27.2	16.6	2.4	1.0	-3.2	1.0
YTL Power	2.00	HOLD	11.7	10.4	2.1	5.0	-0.7	2.2

Property

Crouching market, hidden value

NEUTRAL

- **Companies will turn to REIT to revitalise the property market**
- **Listing of REITs may create some excitement for defensive investors**
- **Softening demand is more evident as loan growth eases further**
- **First quarter earnings hit by construction delays and fewer launches**
- **Sharp drop in new property launches to meet softer demand**
- **Maintain Neutral on property developers due to slower earnings expectation on the back of lower property launches**

Upcoming listing of several REITs set to excite

A few REIT listings in the pipeline

Recent newsflow on domestic REIT suggest growing investors interest for the expected listing of several REITs before end-2005. Malaysia's first REIT will be Axis-REIT, expected to be listed on the Main Board by July 2005. Axis-REIT would allow investor exposure to prime office and industrial buildings in the Klang Valley with an open market value of RM300m and a gross yield of an estimated 6-8%. Landmarks Bhd's REIT should be the next to float, unlocking the value of its retail flagship, the Sungei Wang Plaza, Kuala Lumpur which is valued at RM550m and has an estimated yield of approximately 6-7%. Likewise, YTL Corporation is believed to be finalising details on the proposed injection of its prized commercial assets in Bukit Bintang into a REIT with an eventual listing on Bursa perhaps by early next year. With an estimated market capitalisation of RM1.5b and expected yield of 7-8%, YTL's REIT would be keenly awaited.

Table 1: Relative yield spread over 10-year bond and 3-month FD rates

	Total listed REIT	REIT yield (%)	10-year bond (%)	*Spread (Bps)*	3-month FD (%)	*Spread (Bps)*
Japan	15.0	3.8	1.5	*230*	0.0	*380*
Singapore	5.0	5.3	2.6	*270*	1.0	*430*
Canada	26.0	7.1	4.3	*280*	2.9	*420*
US	146.0	5.1	4.3	*80*	3.4	*170*
Australia	50.0	8.8	5.6	*320*	5.7	*310*
Malaysia	**na**	**6.0-8.0**	**4.2**	***180-380***	**3.0**	***300-500***

Source: www.oecd.com, bloomberg, Mayban Securities

Investor confidence most crucial for REIT to succeed

The success of the first few REIT listings is crucial to instill investor confidence and act as a catalyst to more Malaysian corporates taking similar steps. The key concern for the success of REIT in Malaysia are: (1) over-regulation (2) tax transparency and (3) educating the investing public. We believe that the third factor is the most evident as Malaysia's REIT market is still at a nascent stage. Regulative issues have partly been addressed with the introduction of new guidelines early this year, although we believe there is room for improvement.

The key factors to look out for in assessing the prospects of a particular REIT are:

1. Quality of assets

Property assets should be located in strategic desirable locations with healthy current occupancy rates of ideally not less than 70%.

2. Dividend payout policy

The absence of a minimum dividend payout in the new REIT guidelines has placed more attention on a company's visible dividend payout policy since this would give investors greater certainty of income. REITs in the region are compelled to pay out between 90%-100% of earnings.

3. Strength and experience of property managers

Good track record in property management to enhance the value of the properties for the unit holders in the long term.

REIT outperforms in a market downturn

Malaysia's REIT market has huge potential given the large number of investment-grade properties currently generating healthy yields. Listing of REITs has the potential to contribute substantially to Bursa's market capitalisation as evident in Singapore (2-3%) and Australia (8-9%). The huge demand for listed-REIT across Asia Pacific is conspicuous as 75% of the 24 Asian REITs with market values of more than US$1b have outperformed Morgan Stanley Capital International's Asia-Pacific Index this year, according to data compiled by Bloomberg. MSCI's regional benchmark has fallen 4%.

Loan growth easing south

Demand for residential properties has weakened

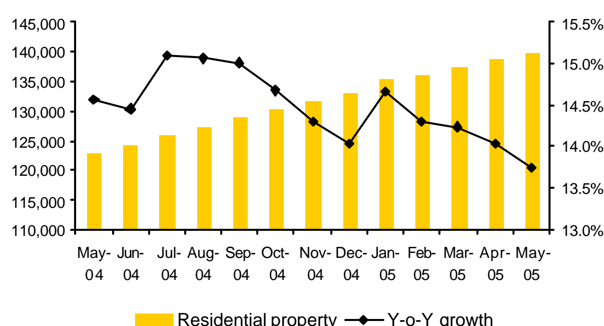
Loan indicators for the purchase of residential properties has reflected some weakness in recent months as demand eased further. Loan growth for the purchase of residential properties declined for the fourth consecutive month to 13.8% in May 2005 (Chart 1). Though some may argue that growth remains double digit, the downtrend points to an imminent slowdown in take-up rates in the coming months. The average take-up rate of 48% in 2004 implies that developers could only sell 1 of every 2 units launched during the year. This is consistent with the slower topline growth in the recent first quarter 2005 results and anecdotal evidence from developers. However, non-residential properties are still registering healthy demand as lending grew by 9.9%yoy, but this may be confined to office units or shop lots in strategic locations (Chart 2).

Slower construction progress stalled earnings growth

First quarter results was disappointing

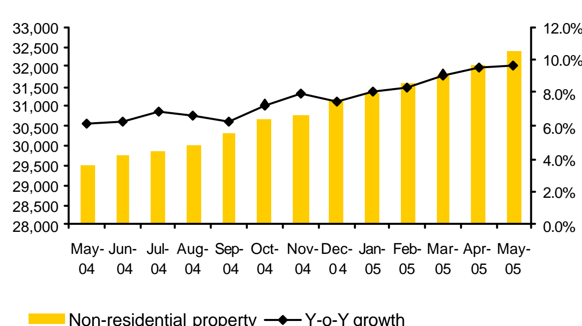
Result of property companies in the first quarter was uninspiring with half of the 6 property companies under our coverage reporting lower-than-expected earnings. This was mainly due to slower progress billings as construction progress was affected by labour shortage and lower property launches due to moderating demand. New property launches declined to 7,349 units in 4Q04 from 22,171 units in 3Q04. In addition, topline sales growth was moderated by the lower take-up rates in recent months, as consumer sentiment was dampened by the slower economy. Delays in construction could give rise to liquidated ascertained damages (LADs) claims, with MK Land bearing the highest risk. Results of two big names in the property sector, SP Setia and IOI Properties, were in line with expectation. Their strong branding, innovative marketing and value-for-money products sets these companies apart from the rest. A surprise outperformance came from Sime UEP, which benefited from land sale.

Chart 1: Loans to residential properties



Source: BNM Monthly Bulletin April 05

Chart 2: Loans to non-residential prop.



Source: BNM Monthly Bulletin April 05

Outlook

REIT provides hedge for market uncertainties

Investors' focus has now shifted on the eventual listing of several property REITs on Bursa, as the near-term outlook for property development companies has become unexciting. Low interest rates and the high liquidity makes REIT an attractive investment in times of uncertainty on the external front. Its key attraction is the relatively high yields of estimated 6-8% against 3-month FD rates of 3% and the KLCI average of 4%.

The going gets tough for property developers

For property development companies, the longer-term outlook remains healthy against the backdrop of low interest rates, young population age profile, rising disposable income and flush liquidity. However, short-term demand could be dampened by concerns over construction delays (due to labour crunch) and the current weak market condition. Another overhanging concern is the rising number of unsold properties, as the demand-supply mismatch has caused property overhang to widen to 15,558 units in 4Q04, +67% from a year ago.

Recommendation

Klang Valley developers as a safe haven

Our top pick for the sector is still SP Setia, which has time and again delivered in line with expectations. **IOI Properties** remains on our **BUY** list due to the privatisation speculation and attractive dividends. Excitement would stem from the listing of several REITs: Axis-REIT in July 2005 and Landmarks in the 1Q06. The strategy is to have an early entry (from the IPO) to maximise future yields. We remain **NEUTRAL** on the sector as demand has moderated and earnings risk has risen due to slower progress billings.

Table 2: Regional peers

	Country	Currency (Local)	Mkt cap	PER (X)	P/NTA (X)	DY (%)
Property developers						
CapitaLand	Sing	SGD	6,257	17.8	1.1	2.5
City Developments	Sing	SGD	6,784	32.2	1.3	1.0
Land & Houses Plc	Thai	THB	61,573	10.2	2.6	8.0
Asian Property Dev.	Thai	THB	8,996	8.1	2.1	5.0
Summarecon Agung TBK	Indo	IDR	1.99Tri	13.6	3.1	1.4
Ciputra Surya PT	Indo	IDR	1.35Tri	21.9	1.6	1.8
Cheung Kong Holdings	HK	HKD	174,870	14.1	1.0	2.4
Hang Lung Properties	HK	HKD	41,435	16.4	1.2	4.1
Average				**16.8**	**1.7**	**3.3**
S P Setia	Mal	MYR	2,660	14.1	1.6	4.9
IOI Properties	Mal	MYR	2,495	10.2	1.5	6.9
Sime UEP	Mal	MYR	1,715	11.9	1.4	4.9
REIT						
CapitalMall Trust	Sing	SGD	2,867	26.7	1.8	4.1
Ascendas REIT	Sing	SGD	2,430	24.1	1.7	5.2
Suntec REIT	Sing	SGD	1,586	na	1.3	6.0
Japan Real Estate	Japan	JPY	316,041	30.9	1.7	3.5
Tokyu REIT	Japan	JPY	109,198	28.1	1.4	3.5
Westfield Group	Aus	AUD	29,646	35.2	1.6	3.0
General Property Trust	Aus	AUD	7,361	16.6	1.2	6.3
Average				**26.9**	**1.5**	**4.5**

Source: Bloomberg, Mayban Securities Research

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
IOI Property	7.50	BUY	11.0	10.0	1.5	6.0	-0.9	-4.5
SP Setia	4.08	BUY	12.6	11.0	1.7	4.9	5.7	0.1
Boustead Prop	3.40	BUY	7.6	7.3	0.9	9.4	-2.2	-9.6
Sime UEP	4.22	HOLD	13.9	12.4	1.4	5.0	-2.2	-1.5

Retail

The Mega Sales Carnival is back! NEUTRAL

- **Intense competition resulting in margin erosion for retailers**
- **2005 retail sales growth forecast trimmed to 6.5% from 6.7% previously**

Review

1Q05 retail sales growth weaker than expected at 4.8%

According to Retail Group Malaysia (RGM), 1Q05 retail sales expanded by 4.8%, lower than the 5.9%yoy growth posted in 1Q04 and way below RGM's earlier projection of 8.4%. The Malaysian Retailers' Association (MRA) attributed the weaker-than-expected 1Q05 retail sales growth numbers to a relatively quiet Chinese New Year festive shopping period as well as the absence of the Mega Sale Carnival in March this year. The fashion and fashion accessories as well as the specialty stores sub-sectors fared the worst with both registering year-on-year decline of 0.5% and 0.9% respectively although the department stores cum supermarket and department stores sub-sectors saved the day with double digit sales growth of 10.7% and 15.8% respectively. Meanwhile, the Malaysian Institute of Economic Research (MIER)'s consumer sentiment index surprisingly surged by 11.6 points to 120.9 in 1Q05.

Current Developments

Foreign hypermarkets continue to proliferate despite new MDTCA guidelines

Despite the guidelines issued by the Domestic Trade and Consumer Affairs Ministry (MDTCA) on 1 December 2004 to curb the growth of foreign hypermarkets in the country, foreign hypermarket players, Carrefour and Dairy Farm Giant announced plans to set up new stores in Kepong and Penang respectively by end-2005. Meanwhile, retailers will continue to face cut-throat competition and margin erosion as players embark on aggressive store expansion plans, engage in price discounting and increase the level of advertising and promotion (A&P) expenses.

Outlook

Trimming retail sales growth for 2005 to 6.5%

Due to weaker-than-expected 1Q05 sales growth, RGM has slashed 2005 retail sales growth forecast to 6.5% from 7.0% previously. We are trimming our retail sales growth forecast slightly to 6.5% from 6.7% on the back of 2005 GDP growth forecast of 5.1% as we reckon that record high oil prices of USD60/barrel and rising domestic inflation could affect consumer sentiment and spending for the rest of the year. However, retail sales in 2H05 could be boosted by the 6-week Mega Sale Carnival from 23 July to 3 September, year-end festive sales and expected strong tourist arrivals this year.

Recommendation

BUY: Aeon and The Store

We have a **BUY** call on **AEON Co** and **The Store**. We prefer AEON's business model and strategy of targeting the fast growing middle income suburban population. Despite its foreign roots, AEON, with its departmental store format, may be less affected by the new MDTCA guidelines places restrictions on foreign-owned hypermarkets and superstores. Valuation-wise however, the Store is trading at a more compelling PER06 of 5.5x compared to AEON's PER06 of 11.4x. **Amway** continues to attract investors' interest as a dividend play although operationally, its earnings prospects remain unexciting with flattish core distributor force growth and rising advertising and promotion expenses. **Courts Mammoth** meanwhile continues to spook investors with weak financial results due to higher bad debt provisions as well as stiff competition especially in the electrical products segment.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
AEON	4.66	BUY	11.4	9.9	1.5	1.9	1.3	-6.8
Amway	6.70	SELL	19.8	19.3	5.3	7.5	-1.5	-1.9
Courts	1.37	HOLD	7.6	6.7	0.7	9.9	2.4	-13.6
Store	2.41	BUY	5.5	5.2	0.7	2.5	-5.4	-7.4

Semiconductor

Out of the woods

Upgrade to NEUTRAL

- **We are upgrading our call on semiconductor sector to NEUTRAL as a result of improving newsflow**
- **SIA revised upwards its worldwide semiconductor sales growth in 2005 to 6% from flat growth previously. SEMI's book-to-bill ratio is recovering from trough**
- **Demand from mobile phones, PCs, digital televisions and digital cameras are the key growth drivers for the semiconductor industry going forward**

Review

SIA revised upward semiconductor sales forecast. The Semiconductor Industry Association (SIA) revised upward its forecast for worldwide semiconductor sales growth in 2005 to 6% to USD226b from flat growth due to lesser concerns over high energy prices and excess inventories in a few product segments. The latest forecast also projects sales to grow at a CAGR of 9.8% through 2008, with global chip sales rising to USD309b by then.

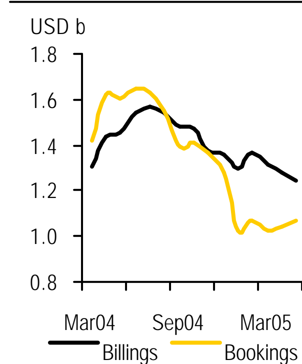
Stronger demand in 1Q05 boosted chip sales. The revision was prompted by stronger-than-expected worldwide sales of semiconductors through the first quarter of 2005 driven by increased demand for PCs and wireless handsets.

Lower inventories and high capacity utilisation ensure pricing power. On the supply side, improved inventory management, better control of capacity expansion and greater ability to switch manufacturing processes to cater for different products are factors leading to the moderation of boom-bust cycles in the semiconductor industry. Industry players responded quickly in dealing with excess inventories in the supply chain in 3Q04 to avoid a repeat of the catastrophe in 2000, where it took 3 years to clear excess inventories. Capacity utilisation is expected to remain relatively high as manufacturers kept capacity expansions in check. After peaking at about 90% in 2Q04, it has now fallen to 85%, which is far better than the 60% registered in the last down-cycle. Lower inventories and high capacity utilisation would also support chip prices.

Consumer electronics to spur industry growth. Demand for mobile phones, PCs, digital televisions and digital cameras, which are projected to grow at 13%, 10%, 65% and 15% respectively, are the key growth drivers for the semiconductor industry in 2005. Asia Pacific will continue to be the fastest-growing market where it is projected to command 46% of worldwide market share by 2008.

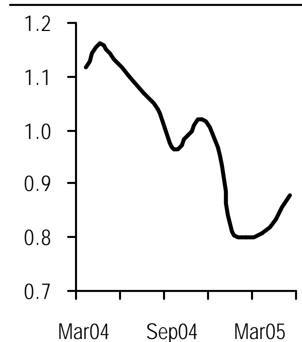
Improving book-to-bill ratio further reinforces our view. Meanwhile, SEMI's book-to-bill ratio strengthened to 0.85 in May (preliminary) from 0.81 in April 2005. This further reinforces our view that the semiconductor industry is now poised to turn around.

Bookings and billings



Source: SEMI

Book-to-bill ratio (x)



Source: SEMI

Recommendation

Upgrade sector to NEUTRAL. We are upgrading our call on semiconductor sector to NEUTRAL as we believe that sector is now poised for a steady recovery. Our call is premised on the 1) resilient world economy despite high oil prices, 2) seasonally stronger growth in the second half due to higher demand for consumer electronics arising from festivities, and 3) expectation of a cyclical upturn in 2006.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
Globetronics	0.41	HOLD	15.6	13.9	2.6	1.5	7.1	3.2
MPI	11.80	HOLD	72.4	18.1	3.6	3.4	3.1	-7.5
Unisem	1.80	HOLD	27.3	12.0	1.3	0.3	4.3	0.9

Telecommunication

Expanding overseas to drive future growth **OVERWEIGHT**

- **Mobile penetration rate hit 60% in 1Q05 as a result of aggressive marketing moves by celcos. We expect domestic mobile market to mature in 2007**
- **In view of limited domestic market size (26.13m population at 1Q05 growing at 1.8% p.a. and mobile penetration rate is expected to hit 75% in 2007), telcos like Telekom and Maxis are looking into overseas markets to sustain future growth**
- **We are maintaining OVERWEIGHT on the telecommunication sector as we believe growth in telecommunication sector is sustainable as penetration rate is still below saturation level for the local market and overseas ventures are expected to drive future earnings**

Review

Subscriber surge aided by aggressive price cutting

Cellular. Mobile phone penetration rate hit 60% in 1Q05 after growing an astonishing 33.8%yoy. Total mobile subscribers reached 14.5m *(Source: MCMC)*. The strong growth was underpinned by aggressive price cutting amongst mobile operators in the country, with sharp declines in starter pack, call rates as well as short messaging services (SMS).

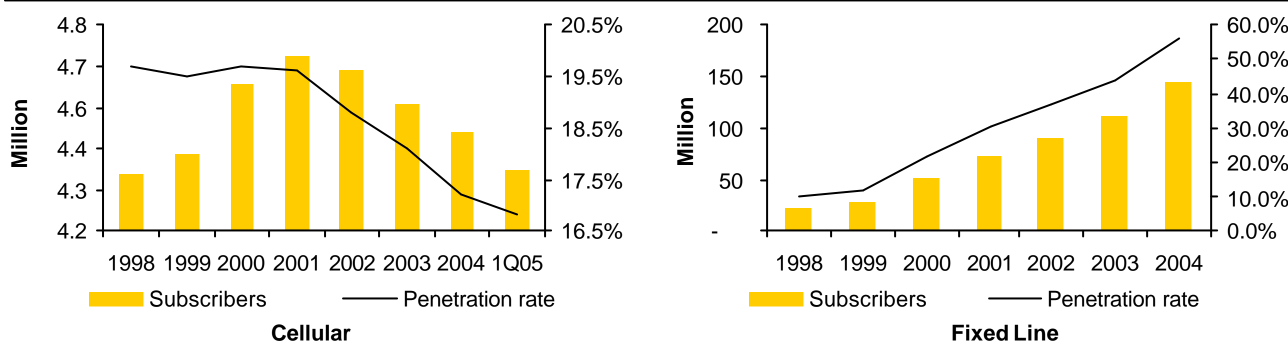
Price war now in postpaid segment started

The battlefield shifted to the postpaid segment in early March when Digi launched a zero monthly access fee plan (for monthly call usage is above RM100) to lure subscribers. This triggered a retaliation by Maxis and Celcom, which introduced similar plans. As a result of aggressive pricing by cellular operators, we anticipate a net increase in postpaid subscribers, who generate higher ARPU compared to prepaid subscribers. However, we expect a declining trend for postpaid ARPU going forward due to stiff competition.

Persistent decline in fixed line

Fixed line. Fixed line subscription shrunk by a further 2.6%qoq or 3.9%yoy in 1Q05 to 4.38m direct exchange lines (DELs), translating into a penetration rate of 16.8% *(Source: MCMC)*. The persistent decline since 1997 is mainly due to consumers switching to mobile communications. We expect fixed line penetration to remain in a downtrend for the long run. Notwithstanding the persistent decline, we believe Telekom Malaysia (TM) is refocusing its DEL network towards higher value-added data transmission (such as Streamyx broadband) instead of voice communication.

Mobile and fixed line subscribers and penetration rate



Source: MCMC

Outlook

Going forward, growth in mobile telecommunication depends on several factors:

100% coverage will push saturation point forward

1. Domestic growth. With a population size of 26.1m as at 1Q05, growing at 1.8%p.a. *(Source: Department of Statistics),* and cellular adoption rate expanding at 20%p.a., we foresee mobile penetration rate to reach the saturation level of 75% in 2007. The Ministry of Energy, Water and Communications has set the target to have 100% nationwide coverage (populated) in 1Q06. With the improved network coverage, cellular operators are able to extend their market reach to remote areas, so the saturation level of 75% could be stretched further.

Foreign expansion to underpin future growth

2. Growth through expansion. In view of the limited domestic market size, telcos are also looking out for investment opportunities abroad. For instance, TM, apart of its existing investments in India, Indonesia, Sri Lanka, Bangladesh and Cambodia, is now eyeing India and Pakistan after disposing its stake in Telkom SA in South Africa. Maxis, on the other hand, ventured into the populous Indonesia market by subscribing to 51% of PT Natrindo Seluler and gaining management control. These ventures, though likely to require substantial investment in the early stage, will be the next source of growth when domestic market matures.

3G is a wild card

3. Data traffic. SMS rates have fallen sharply but at the same time, we are seeing robust growth in SMS traffic, which has been growing at a CAGR of 62.6% between 2002-2004, from 3.6b in 2001 to 9.5b in 2004. 3G services have recently been commercially rolled-out. Celcom launched its 3G service in May and Maxis introduced the service in July. We do not foresee 3G taking off in big way during the initial stages due to prohibitive rates, limited coverage and affordable 3G handsets. Nevertheless, we do not discount the possibility of the rise in popularity given the aggressive pricing strategies and availability of affordable 3G phones later.

Recommendation

Telekom: Growth through overseas expansion

Telekom, now rebranded as TM, has been busy transforming itself this year. A voluntary separation scheme (VSS) in February as part of its rationalisation exercise, should improve cost efficiency. TM expects to trim 10% of its 30,500 workforce and organised its operations into five operating units, namely 1) fixed-line voice and data, 2) mobile, 3) multimedia, 4) international and, 5) facilities management. TM's CEO recently announced plans to float its Indonesian mobile phone unit, PT Excelcomindo Pratama by the end of this year. The listing process is ongoing and TM hopes to offer 9.6% of its stake for sale. For the purchase of India's Idea Cellular stake, TM is reviewing all options, including making a solo bid for the stake, after the agreement to jointly acquire a 47% stake in Idea Cellular with Singapore Technologies Telemedia lapsed. Meanwhile, TM has been shortlisted as one of the nine foreign companies by the Pakistan government to bid for a 26% stake in state-owned Pakistan Telecommunications Co Ltd. TM's aggressive move to venture overseas is understandable, given the 1) imminent maturity of the domestic market, and 2) huge potential in regional companies given the low mobile penetration rates and huge population. Maintain **BUY** on **TM** with a fair value of **RM12.20**.

Maxis: from strength to strength

Maxis, adding 546,000 new subscribers in 1Q05 to achieve a subscriber base of 6.6m, is now the No.1 cellular operator in Malaysia. However, ARPU for postpaid and prepaid declined 3.7%yoy and 9.5%yoy to RM155 and RM57 respectively in 1Q05 due to a the ongoing price war. It plans to expand coverage to 86% by year end from 82% currently. The group intends to focus on rural and lower end subscribers this year, particularly in Sabah and Sarawak, which ranked among the bottom in terms of mobile penetration in the country. Maxis also expanded overseas by acquiring a 51% stake in PT Natrindo Seluler Indonesia for RM380m. This acquisition offers Maxis an opportunity to expand into the Indonesian mobile market, which currently has a low penetration rate of 13.4%. Maintain **BUY** on **Maxis** with a fair value of **RM12.20**.

Digi: small but mighty

Digi remains as a formidable player despite being the country's smallest cellular operator. It attracted 222,000 new subscribers in 1Q05, raising its subscriber base to 3.5m. Digi confirmed last year that it is applying for one of the two blocks of 3G spectrums available from government. With its hands-on, innovative yet aggressive management team, we believe **Digi** will be able to carve a niche and defend its market share going forward. Maintain **BUY** with a fair value of **RM6.48**.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
DiGi	5.10	BUY	11.4	11.2	2.2	-	-4.1	-5.7
Maxis	9.70	BUY	14.0	13.2	4.5	4.8	-3.2	0.7
Telekom	10.00	BUY	18.4	15.2	3.0	3.0	-2.2	0.6

Transportation

Rising oil prices fuel unrest

NEUTRAL

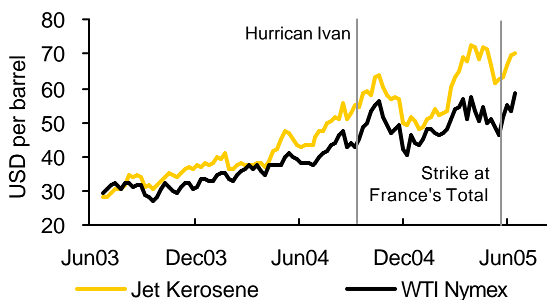
- **Airlines (Neutral) continue to be plagued by high fuel costs; we prefer MAHB.**
- **Shipping (Neutral) will not see a repeat of 2004; bulk rates may recover in 2H05.**
- **OVERWEIGHT on Ports; provides defensive exposure to buoyant regional trade.**

AVIATION: Neutral

Refinery contrains keep oil prices at record levels

The performance of both domestic and regional airline stocks remains unappealing with crude oil prices flirting around USD60 per barrel (Chart 1). Tight refining capacity has been cited as the main reason for the high prices, and given the constricted capacity, minor glitches can cause significant price impacts. There are already talks of refinery snags in California, including the outage at Shell's Martinez plant. Essentially, fears of a supply shortfall due to the rapidly rising energy consumption in the US, where refiners are straining to meet this coming summer's gasoline demand and to store enough supplies for the Northern hemisphere winter, and China's demand showing no sign of slacking off, continue to keep oil prices at record levels.

Chart 1: Jet fuel vs WTI Nymex



Source: Bloomberg, EIA, Mayban Securities

Table 1: IATA 1Q05 Industry Statistics

(%yoy growth)	RPK	ASK	PLF	FTK	ATK
Africa	12.8	7.1	71.2	11.0	9.2
Asia/Pacific	8.2	7.5	72.4	4.5	7.7
Europe	6.6	5.1	73.3	2.7	6.0
Latin America	14.9	13.4	74.0	- 2.7	9.9
Middle East	12.6	12.4	72.4	13.7	12.9
North America	14.1	12.0	77.5	3.1	9.6
Industry	**9.4**	**8.0**	**73.7**	**4.2**	**8.0**

Source: IATA, Mayban Securities

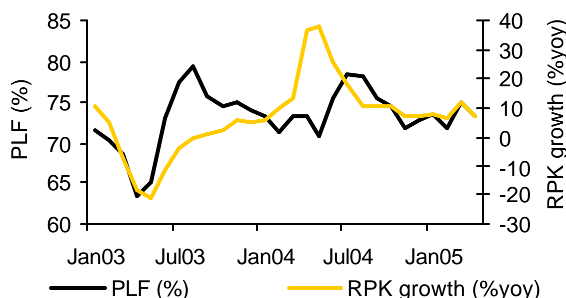
Industry set to lose USD6b in 2005

With the rise in oil prices, global airlines are set to lose another USD6b in 2005, according to IATA (losses between 2001 and 2004 have exceeded USD36b). However, performance of different markets were mixed. North American carriers, currently wrestling with high labour costs and proliferation of low-cost carriers, lost USD9b in 2004, while European and Asian carriers posted USD1.4b and USD2.6b profits respectively. The consolidation of the airline industry in Europe helped capacity management, while the strong profitability in Asia was due by rising travellers in China and low labour costs.

Asia recovers from Tsunami impact

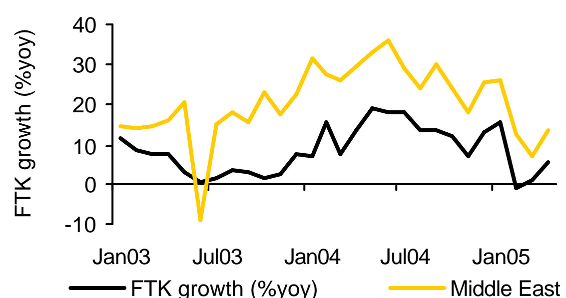
Load factors for Asian carriers returned to normal levels (also partly boosted by Chinese New Year travel) post-Asian Tsunami. Passenger traffic growth however moderated to 7.5%yoy in April 2005, while passenger load factor (PLF) was 73.4%. The main reason for the high load factors was that traffic growth outpaced capacity expansion in all regions. Freight traffic recovered in April 2005 (Chart 3) with the Middle East sector registering the highest growth. Table 1 contains IATA's 1Q05 industry statistics.

Chart 2: Passenger traffic and load factor



Source: IATA, Mayban Securities

Chart 3: Freight traffic growth



Source: IATA, Mayban Securities

Double-digit passenger growth expected in China and India

Traffic growth is expected to moderate further in 2005, but double-digit growth is likely to continue in several markets, particularly India and China. Asia's short haul market will show the highest growth levels, as liberalisation and entry of low cost carriers accelerate.

Fuel cost worries not over yet

Despite the anticipation of healthy growth in passenger and freight traffic, airlines continue to be plagued by high fuel prices. Fuel costs now comprise of 34% of MAS' operating expenditure compared to 27% the previous year, while AirAsia's fuel costs constitute about 53% of its expenditures. While both airlines have in place fuel hedges, earnings will remain affected as oil prices show no signs of a major decline.

MAS' exisiting fuel hedge may not be adequate

MAS has indicated that it has hedged between 50% and 60% of fuel requirements for the next three quarters of FY05 (ending 31 Dec) at USD61.50 per barrel. While the airline has raised its fuel surcharge on international flights by more than 50% percent to RM76 effective 1 May 2005, we do not believe it to be adequate. MAS is also currently in discussions with the Ministry of Transport to get clearance for a formula-based fuel surcharge to partially offset the higher fuel prices.

Can AirAsia's 'New Age' hedging strategy work?

AirAsia on the other hand had indicated that it has hedged fully its fuel requirement for 1HFY06 and 25% for the second half of the financial year. The group has used a combination of a swap on the WTI crude (rather than a jet fuel hedge), fixed at USD40 and capped at USD52, and a 'protective' call option for 50% of its fuel requirement with a strike of USD70. Effectively, should crude oil prices stay below the cap of USD52, it will be paying fixed USD40 per barrel of crude oil (plus a crack margin to arrive at the fuel price), and if prices exceed the cap, it will be entitled to a USD12 discount on the crude. The call option serves as an 'insurance' to protect the airline against any unexpected sharp rise in crude above USD70 per barrel. The rationale behind utilising a crude oil hedge as opposed to a jet fuel hedge is that management expects current crack spreads of about USD10 (touched USD14.50 in April) to be unsustainable, where the average crack spread over the last 5 years was estimated to be USD6pb (Chart 4)

Higher airfares inevitable if oil prices remain high

Given the situation above, we expect both MAS and AirAsia to raise airfares through the imposition (or increase) of fuel surcharges. Nevertheless, we maintain that fuel surcharge will only serve to mitigate slightly the rise in fuel costs. In addition, falling fuel prices may not necessarily translate into gains for airlines since they can be disadvantaged if prices are locked-in only to fall later. Furthermore, exotic fuel hedges can be costly. The essence of a fuel hedge is to smooth out short-term fluctuations in fuel prices, which allows for better cost management for the airline.

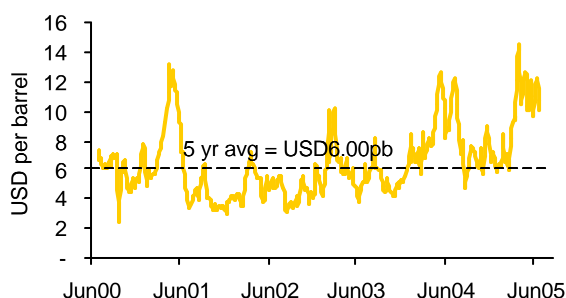
Maintain HOLD on MAS

Given the susceptibility of MAS' earnings to fuel cost volatility (USD1 = RM50m earnings), we maintain our **HOLD** recommendation on **MAS** with a DCF fair value of **RM4.40**.

Prefer MAHB being the prime beneficiary of the increase in air travel

We reiterate our preference towards airports as the prime and ultimate beneficiaries of healthy air travel growth since airlines (both full service and low-cost carriers) add more flights to cater for growing passenger numbers. As Malaysia Airport's (MAHB) share prices have reached our fair value of **RM1.85**, we are inclined to revert to a **HOLD** recommendation. We look forward to the reorganisation that is expected to take place at MAHB, spurred by Khazanah's goal to hasten the revitalisation of the GLCs. MAHB's passenger and aircraft traffic trends are illustrated in Table 2.

Chart 4: Nymex Crack spread



Source: Bloomberg, Mayban Securities

Table 2: MAHB Traffic Statistics (5 years)

	2000	2001	2002	2003	2004
Passenger (m)	32.7	32.4	33.7	33.5	39.4
Aircraft ('000)	362.0	372.7	388.8	578.6	521.9
Cargo (m kg)	773.9	702.1	816.5	957.1	868.7
% chg					
Passenger	11.7	- 0.9	4.2	- 0.7	17.7
Aircraft	- 1.1	2.9	4.3	48.8	- 9.8
Cargo	- 9.7	- 9.3	16.3	17.2	- 9.2

Source: Bloomberg, Mayban Securities

Shipping: Neutral

Shipping rates moderated further in 2Q05

Shipping rates continued to moderate further, with the greatest decline seen in the dry bulk segment (Chart 5). Dry bulk rates are expected to moderate further as new shipbuilding increases vessel supplies and capacity, while demand for commodities such as iron ore and coal are expected to slow. Tanker rates, though moderately lower in 2Q05, remained firm on the back of rising crude oil shipments driven by high oil prices.

Falling steel prices the culprit for the plummeting bulk rates

The plunge in dry bulk rates, which has more than halved of that recorded in the peak month of December 2004, was a result of falling steel prices as China slows its iron ore imports. The slowdown was in line with the Chinese government's recent decision to restrict iron ore import licenses to only 118 companies, down from an estimated 500 companies previously engaged in iron ore imports. Hot-rolled coil that was commanding almost USD700 per tonne a few months ago is now going for USD450 per tonne.

New capacity worsened the situation

The situation was further exacerbated by the influx of new capacity, where the dry bulk fleet was estimated to have expanded by 3% over the past six months while old-vessel scrapping remains negligible. According to Paris-based shipbroker Barry Rogliano Salles, about a third of the dry bulk vessels (124 of 343 vessels) scheduled for delivery from shipyards this year have been delivered.

Dry bulk rates could recover in winter

However, the end is not near for dry bulk shipping as demand for bulk shipping remains strong. A Chinese government official was recently cited saying that the country's dry bulk trade would grow from 4.0b tonnes a year to 6.0b tonnes by 2010. At the same time, China's steel production has yet to show any signs of slowing. Oslo-based shipbroker Fearnleys expects that dry bulk rates may recover strongly once steel inventories, which is currently double that of 'normal' levels are gradually used up.

Tanker rates dwindles with added capacity

Tanker rates continue to be buoyed by strong crude oil shipping, but rising tanker capacity will cap upside. Tanker fleet capacity was estimated to have risen by about 1.2% to 331.9m DWT in 2Q05, and about 3% since December. While an estimated 50m DWT is due for scrapping this year, 87m DWT is ready to be added. VLCC, Suezmax and Aframax rates have slipped between 10% and 15% in the month of June alone.

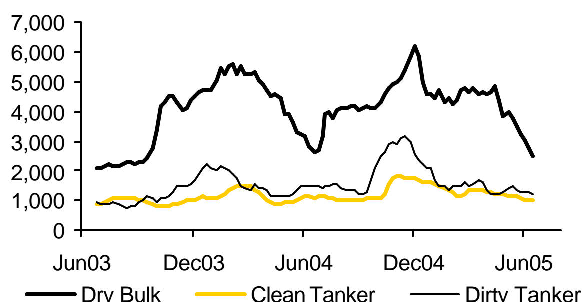
Capacity contrained by scrapping and constricted shipbuilding capacity

Nevertheless, with leading yards worldwide at full capacity until 2008, vessel capacity may not expand as quickly. In addition, the rise in vessel capacity may also be constrained by the scrapping of old vessels and the phase out of single-hulled vesels. Therefore, we do not expect the downward correction on shipping rates to be severe.

Shipowners capitalise on high vessel prices

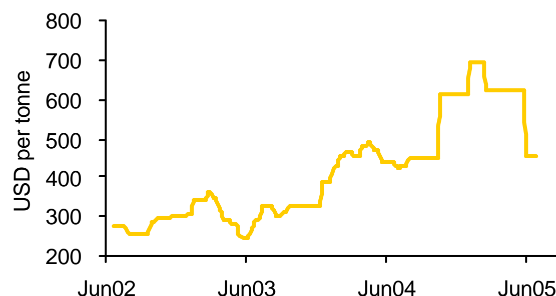
Due to the meteoric rise in rates last year, prices of vessels, both newbuilds and second-hand, have shot up considerably. For instance, a new panamax vessel was available for USD25m three years ago, but today, a 10-year old second-hand panamax vessel is being sold for USD40m. New vessels being built today are going for twice the amount. MISC's purchase of its VLCCs was secured between USD60 and USD70m, while the current price stands at about USD130m. Halim Mazmin and Malaysian Bulk Carriers (Maybulk) were quick to capitalise on this development. Halim Mazmin gained RM33.2m from the disposal of 4 of its vessels comprising 2 container vessels, 1 tanker and 1 bulker, while Maybulk gained about RM455m from the recent sale of 4 Panamax tankers and 3 bulk carriers. We like **Maybulk** (see pg. 57) for its ability to realise gains from vessel sales to counter declining shipping rates going forward.

Chart 5: Baltic Tanker Indices



Source: Bloomberg, Mayban Securities

Chart 6: China hot-rolled coil steel prices



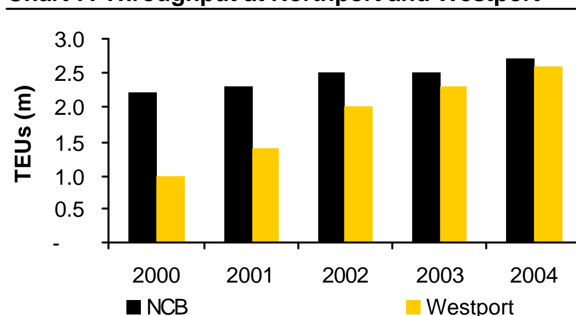
Source: Datastrream, Mayban Securities

Table 3: Container throughput highlights

('000 TEUs)	1Q05	1Q04	% chg	2004	2003	% chg
Johor Port	199	191	4.6	806	753	7.0
NCB	629	644	- 2.3	2,688	2,540	5.8
Bintulu Port	33	33	1.7	144	146	- 1.3
PTP (via MMC)	1,005	958	5.0	4,020	3,487	15.3
Westport	671	619	8.4	2,512	2,260	11.2
Penang Port	195	175	11.0	772	688	12.2
Kuantan Port	28	33	- 15.5	123	108	13.5
Others	61	50	23.4	435	418	4.2
Total	**2,822**	**2,702**	**4.4**	**11,500**	**10,400**	**10.6**

Source: Company, Mayban Securities estimates

Chart 7: Throughput at Northport and Westport



Source: Bloomberg, Mayban Securities

Container rates expected to moderate

Container rates have remained firm given the lack of prompt tonnage and increase in charter fixing post-2005. Recently, major shipping lines calling Dubai ports have also announced to hike rates by USD300 per TEU to USD600 per FEU due to a surge in cargo traffic to the Middle East region from the Far East and South East Asia. However, with box capacity being added this year, rates may not revisit the highs of 2004.

Smaller niche shippers relatively buffered

Smaller niche intra-Asian shipping companies, like **Hubline (BUY, FV: RM3.10)**, will be relatively buffered from capacity increase due to supply contraints in the smaller segment (<2,000 TEU), as most of the new vessels will be within 3,000 to 6,000 TEU sizes.

Shipping sector remains buoyant

Outlook for the shipping industry remains robust driven by the buoyant regional trade and growth in Asian exports. However, as shipping rates are expected to moderate going forward, rates unlikely to revisit the levels seen in 2004. As such, we are maintaining our **Neutral** stance on the shipping sector.

PORTS: Overweight

Ports provides defensive exposure to buoyant regional trade

The ports sub-sector remains our preferred sector as it provides a relatively defensive exposure to rising regional trade and growing intra-Asian transshipment. Despite the antipicated slowdown in regional economies which is expected to dampen trade activities, demand for port services is likely to be sustained given the increase in transshipment traffic due to the rise in outsourcing.

Positive container throughput growth in 1Q05

Malaysian ports continue to register positive container throughput growth in 1Q05, handling 2.8m TEUs, a 4.4% increase compared to the same period last year. Transshipment containers contributed 60% (or 1.7m TEUs) of the total containers handled, while inbound (534k TEUs; 19%) and outbound (592k; 21%) cargos make up for the rest (Table 3). The Ministry of Transport estimates a 13% increase in TEUs handled in 2005.

Northport poised for re-rating

NCB (BUY, FV: RM3.10) is poised for re-rating with the merger with Westport underway. The merger is viewed positively as both parties stand to gain from economies of scale. Container throughput at Port Klang has grown encouraging over the years (Chart 7).

Overhanging concerns at Johor Port

Maintain **BUY** on **Johor Port (FV: RM2.78)** as it is expected to benefit from an increase in liquid bulk throughput and rates restoration. Nevertheless, negative sentiments surrounding Johor Port concerning the injection of Seaport Worldwide still lingers.

Maintain BUY on Integrax

Integrax will stand to benefit from the anticipated increase in coal, construction materials and commodities shipments in the region. Maintain **BUY** with fair value of **RM1.52**.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
MAHB	1.83	HOLD	14.3	13.1	0.8	1.6	16.6	5.7
MAS	3.50	HOLD	15.4	14.1	1.3	0.7	-10.6	-9.8
Halim Mazmin	0.73	BUY	6.7	27.9	0.7	7.7	-12.7	-9.0
Hubline	2.25	BUY	8.4	6.4	1.2	-	-2.7	-1.5
Maybulk	2.23	BUY	2.9	9.6	1.3	5.4	4.0	-8.0
Integrax	0.70	BUY	5.0	4.7	0.5	-	-2.2	-12.8
Johor Port	1.70	BUY	5.8	5.3	0.7	2.9	-7.2	-10.1
NCB Hldg	2.40	BUY	10.1	8.9	0.7	5.0	-2.6	-8.9

Water

Watch out for the regulator

OVERWEIGHT

- **Tabling of the Water Industry Bill and a bill to establish the National Water Services Commission will take place in September**
- **Government, via NWSC, would be the regulator and watchdog**
- **Corporatisation of state water departments expected next year**
- **Opportunities for pipemakers to grow earnings base as pipe replacement programmes are implemented**
- **Maintain BUY: Puncak Niaga (fair value: RM4.62) and Ranhill Utilities (fair value: RM3.30)**

Review

Two water bills to be passed in September parliament seating

The water sector had its fair share of controversy in the second quarter. Firstly, tabling of the Water Industry Bill and a bill to establish the National Water Services Commission (NWSC) were delayed from April to September 2005, thus slowing down the government's plan to set up the regulatory commission and the launch of the National Water Policy.

Still no end to Syabas' pipe replacement contract saga

Secondly, Syabas' award of Selangor's RM275m pipe replacement contracts to Laksana Wibawa Sdn Bhd (as the approved supplier of mild steel and ductile iron pipes), and Musa & Rahman Plastic Industries (as the supplier of high-density polyethylene pipes), has been objected by the Minister of Water, Energy and Communications, who said that Syabas breached the concession agreement by using imported pipes from Indonesia instead of sourcing them locally. The government is believed to have served a show cause letter to Syabas *(Source: Business Times, 7 June 2005).*

Malaysia-Japan loan agreement signed for interstate water transfer

On 31 March 2005, the government signed a Y82.04b loan agreement with the Japan Bank for International Cooperation (JBIC) for the construction of the Pahang-Selangor water transfer tunnel, the dam, related works and consulting services.

Current developments

The watchdog and water finance company poised to be established this quarter

We expect to see the setting up of NWSC (the industry regulator), and Water Assets Holding Company (WAHCo) (an asset management company), once the two bills are passed. The NWSC will regulate tariffs and ensure accountability among the water operators, while WAHCo will provide fund-raising solutions for capital expenditure. WAHCo will likely raise RM10b over the next three years and will eventually raise a total of RM30b from the capital markets at very low rates over 10 years. WAHCo will acquire water assets, such as treatment plants and pipes, and lease them to operators.

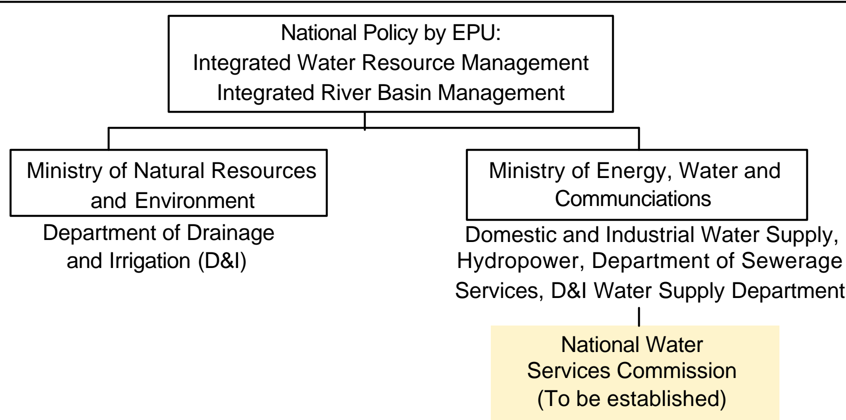
One bill for water and sewerage under holistic approach

We reiterate our opinion that the Ministry will take a holistic approach (from extraction to treatment of raw water, to distribution of treated water and billing) in the form of public-private partnerships. As part of the holistic approach and since water would fall under the Federal Government's jurisdiction, we do not discount the likelihood that consumers can no longer avoid paying for sewerage services. The holistic approach is in line with the United Nation's emphasis in linking social and economic development with protection of natural ecosystems.

The question: When will the water transfer project start?

Though the interstate water transfer project seems to be progressing well with the loan agreement already signed, there is no definite timeline for the project. We believe the project would only start end-2005 or early 2006 once the National Water Policy is established. Furthermore, according to media reports, the grand scale of the Pahang-Selangor interstate project and the government's aim to maximise its returns, has created interest in several construction companies. The Edge reported that seven engineering and design firms, local and foreign, have proposed alternative solutions for water transfer from Pahang to Selangor.

Malaysia's regulatory water industry structure



Source: Mayban Securities

Recommendation

PBA: Likely to get tariff hike, but may need to pay for raw water

PBA Holdings may obtain a tariff hike since we have seen erosion of PBA's EBITDA margins in its 1Q05 results. The company has cited an increase in production costs as the main factor and has thus proposed for a tariff review. Furthermore, the last water tariff hike for Penang was in 2001. In addition, PBA has proved itself to be an efficient water operator. We estimate that a 1% tariff hike would enhance PBA's bottomline by 2.1%. However, the company is likely to pay for the raw water it draws from Kedah once NWSC is formed. If so, PBA expects operating expenditure to increase by 18.8% to 57sen/m^3. We estimate that the a 2% tariff hike would be able to offset the additional cost. The stock is trading at PER05 of 10.1x. Our fair value of **RM1.90** is derived from a discounted cash flow basis. Maintain **HOLD**.

Top pick: Ranhill Utilities

We continue to like **Ranhill Utilities** for its stable and predictable cashflow, healthy financial standing, excellent operational records and strong management team. We are also optimistic about the company's plan to acquire a 70% stake in KWI Far East Sdn Bhd. KWI is the world leader in potable water treatment, biological treatment and industrial waste water treatment and recycling. In Malaysia, Ranhill Utilities has submitted proposals to take over the water supply management in Sabah, Melaka and Pahang. However, the outcome is only expected once the NWSC has been established. Ranhill Utilities is trading at PER05 of 4x, based on EPS05 of 29.9 sen. **BUY**.

Puncak Niaga: driven by sentiment again

Puncak Niaga's 1Q05 numbers incorporated for the first time the operations of Syabas as the acquisition of the 70% stake was completed on 1 January 2005. We have also consolidated Syabas into Puncak Niaga's forecast. In addition, as part of the privatisation exercise, we have imputed a 15% tariff increase to take effect in January 2006 and assumed further increases every three years until the end of the concession in 2030. We have also imputed improvement in non-revenue water to 34% by 1 Jan 2006 and 25% by 2009. Our forecast EPS05 of 17.5 sen translates to PER05 of 14.8x. Based on a discounted cash flow basis, we arrive at a fair value of **RM4.62** per share. However, the fiasco regarding Syabas' award of the pipe replacement projects could dampen sentiment on the stock.

There is still light at the end of the pipe

Following this development, we expect trading in pipemakers such as **YLI**, **Engtex** and **Hiap Teck** to soften. Upside for these stocks would depend on the Government's response to Puncak Niaga's reply to the show cause letter. Otherwise, we see potential for the pipemakers to participate in Puncak's Phase 2 pipe replacement programme.

Stock Valuation

Stock	Price (RM)	Recom.	PER05 (X)	PER06 (X)	P/BV (X)	DY04 (%)	Relative to KLCI 1-mth (%)	Relative to KLCI 3-mth (%)
PBA Holdings	1.41	HOLD	10.1	9.7	0.9	1.1	0.7	-12.1
Puncak Niaga	2.60	BUY	14.8	3.8	0.9	-	-2.6	7.3
Ranhill Utilities	1.64	BUY	4.0	2.4	0.7	-	8.6	-21.9

MAIN BOARD
Finance

AmInvestment Group Bhd

RM1.64

A formidable investment banker

BUY

Fair Value: RM2.15

Largest investment bank in terms of asset size

AmInvestment Group Bhd (AIGB), listed on 18 May 2005, is the largest investment bank in terms of asset size and shareholders funds, and provides investors exposure to the Malaysian investment banking landscape and capital market.

Leader in the primary debt and equity market

Its merchant banking arm, AmMerchant Bank, is the main earnings driver which contributed more than 73% of pre-tax profit in FY05. It leads in terms of bond issuance (market share of 21% by issuance size) and is also prominent in terms of equity issuance (market share of 12% by amount raised).

Strong in stockbroking and fund management. Dominates Islamic capital market

Its stockbroking business commands a 5% market share while its fund management operations is among the top three largest players. AIGB's dominance in Islamic products and services is among the group's competitive strengths, characterised by its leading role in terms of innovative product structures.

Strong franchise name and market presence to counter competition

Outlook. The impending emergence of investment banking groups (under BNM's framework) and the entry of foreign stockbroking companies and fund management companies is expected increase competitive pressures in the industry. However, with AIGB's strong franchise name and market presence, we expect it to maintain its stronghold in the debt and equity markets. AIGB is also focused on expanding new products and services offerings especially in the area of structured products such as asset-backed securities (ABS) and real estate investment trusts (REITs), as well as offshore funds management, private equity funds and Islamic products.

Higher ROEs compared to commercial banks

Despite the current subdued equity market and slower economic growth this year, we favour investment banks over commercial banks, which are under increasing competitive pressure amid thinner interest margins. The growth in fee-based income is likely to drive industry growth in view of the increasingly challenging commercial banking landscape.

Strong deal flow in the pipeline, growing interest in structured products

For AIGB, deal flow remains strong for bond issuance and M&A activity while equity issuance could remain slow pending improvement in market volumes. Several large transactions in the pipeline include Islamic debt offerings by DRB-HICOM Bhd (RM1b), Putrajaya Holdings (RM3b) and Jimah Energy Ventures (RM405m), the listing of Landmarks' REITS (RM550m), and YTL Cement's ICULS (RM490m). The increasing interest in structured products such as REITs and asset securitisation as well as Islamic bonds bodes well for the group.

Regional expansion and potential for strategic partner

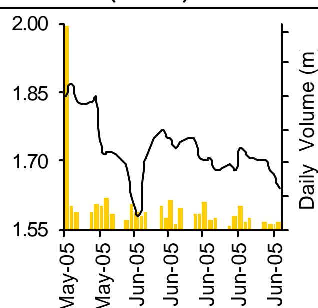
While focus is currently on its domestic franchise, a potential catalyst for AIGB is its intention to expand regional presence through its stakes in Singapore's Frasers Securities and Indonesia's PT AmCapital. AIGB is also amicable to having a foreign strategic partner to further strengthen its competitive position.

Management has indicated a target ROE of 15% for AIGB compared to 12% in FY05. An indicated dividend payout of 50% of net profit is expected to translate into yield of 5.8% based on our FY06 earnings forecast.

Will be the only listed investment bank when CIMB is delisted

Valuation. AIGB is priced at lower valuation multiples compared to CIMB due to its weaker operational efficiency and lower ROE. Our **fair value for AIGB of RM2.15** translates into PER06 of 12x compared to CIMB at 16x. With the delisting of CIMB, investors may shift their focus to AIGB as the only listed investment bank.

Price Chart (RM1.64)



Earnings Forecast

FYE Mar	2003A	2004A	2005A	2006F	2007F
Turnover (RM m)	603.8	518.3	502.9	536.6	571.8
Net profit (RM m)	130.7	179.2	201.1	233.1	261.4
EPS (sen)	9.9	13.6	15.2	17.7	19.8
DPS (sen)	-	-	-	10.0	10.0
P/E ratio (X)	16.6	12.1	10.8	9.2	8.3
Div Yield (%)	-	-	-	6.1	6.1
ROE (%)	-	-	12.2	11.7	12.1
P/BV (X)	-	-	1.1	1.1	1.0

Shares Issued (m)	1,320
Par Value (RM)	1.00
Market Capitalisation (RM m)	2,165.0
2005 NTA/share (RM)	1.41
2005 ROE (%)	12.2

Major Shareholders	%
AMMB Holdings	51.0
AmCorp	11.4
Tan Sri Dato' Azman Hashim	9.0

MAIN BOARD
Consumer Products

Ekowood International Bhd

RM1.15

Solid Wood

Fair Value: RM1.34

Niche in timber-related industry

Ekowood, listed in November 2004, is a niche player in engineered solid hardwood flooring (ESHF). 93% of its production is exported to more than 27 countries worldwide, such as US, Europe and China. Locally, the company also serves the consumer market besides securing housing projects from distinguished developers, such as IOI Development Bhd and Island & Peninsular Bhd.

Exports driving future earnings

The expected rise in global demand for ESHF, mainly supported by western markets, argurs well for the company. Consumer preference for 'back to nature' and 'do-it-yourself (DIY)' is driving industry growth, with demand for ESHF growing by approximately 47% annually between 1998-2003. Rising popularity of DIY products in Asia is another growth prospect going forward.

Technology barrier

Ekowood was the first in South East Asia to introduce a glueless mechanical wood lock system (known as EkoLoc System) which allows easy installation, thereby enabling the company to better serve the DIY population, which is on a rising trend. Between 1996 and 2000, US consumer expenditure on DIY increased 51.2% to USD13.6b, and is forecast to reach USD17b by 2005 *(Source: US SDepartment of Commerce)*.

Profitability a selling point

ESHF is a high-end wood flooring. Besides a longer average life span of more than 30 years, ESHF has no specific lifecycle as it derives a multi-faceted stream of revenue from the construction, retail and housing industry in both local and international markets. In addition, its mid-teens profit margins are attractive compared to other timber players.

Expansion to meet higher demand

Prospects for Ekowood remain bright due to rising demand for ESHF from western markets. To cater to such demand, management plans to invest RM15m to expand production capacity, which is scheduled for completion by the second quarter of next year.

Holding company, TSH Resources, ensures continuous supply

Production of ESHF is subject to the availability of timber logs using renewable resources. In this respect, Ekowood is well-placed to obtain a continous supply since its parent company, TSH Resources Bhd, is managing a Forest Management Unit in Sabah for approximately 100 years. Its good relationship with other suppliers from all over the world also enables it to source for other timber species easily.

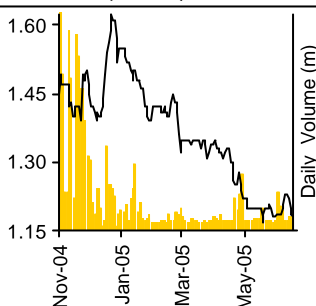
Environmental issues well managed

Environmental issues such as air pollution and disposal of waste products from wood processing are always subject to criticism from environmental conservationists, but we believe with the implementation of environmentally sound business practices, the impact is largely mitigated.

Ekowood fairly valued at RM1.34, assuming Ringgit stays put

We have imputed a tax rate of 16.5% in our FY05 forecast due to the utilisation of unabsorbed previous tax losses to derive our FY05 net profit of RM24.9m, or EPS05 of 14.9 sen, assuming no change in the Ringgit peg. For comparison, we peg Ekowood against a sample of downstream wood furnishing players, which is trading at an average PER of 9x. Based on Ekowood's EPS05 of 14.9 sen and a target PER of 9x, the company is fairly valued at **RM1.34**, representing a 16.5% upside potential.

Price Chart (RM1.15)



Earnings Forecast

FYE Dec	2001A	2002A	2003A	2004A	2005F
Turnover (RM m)	81.1	91.1	110.7	127.5	144.6
Net profit (RM m)	6.0	8.5	14.8	21.0	24.9
EPS (sen)	3.6	5.1	8.8	12.5	14.9
DPS (sen)	-	-	-	2.5	2.5
P/E ratio (X)	31.9	22.5	13.1	9.2	7.7
Div Yield (%)	-	-	-	2.2	2.2
ROE (%)	9.5	12.2	19.0	17.1	16.9
P/BV (X)	3.0	2.8	2.5	1.6	1.3

Shares Issued (m)	168.0
Par Value (RM)	0.50
Market Capitalisation (RM m)	201.6
2004 NTA/share (RM)	0.73
2004 ROE (%)	17.1
2004 Net Debt/Equity (X)	0.1
Major Shareholders	**%**
TSH Resources Bhd	65.1
Lembaga Tabung Haji	7.5
L.T.A.T.	3.4

MAIN BOARD
Trading/Services

Genting Bhd

RM18.90

Good prospects, attractive valuations

BUY

Fair Value: RM22.90

Genting positions itself for opening of new gaming markets

Like most other international casino players, the Genting group has been getting into the thick of action over the past several months, positioning itself to carve a slice of what could turn out to be the decade's biggest bonanza — the opening up of lucrative new gaming markets worth billions of dollars.

Global casino stocks hit by gambling fever

The global investment community has obviously taken heed of the industry's potential and little wonder then that financial markets around the world have been struck by gambling fever. In fact, casino-related stocks in the US, Australia, the UK, Hong Kong and even neighbouring Singapore have surged over the past year, significantly outperforming their respective market indices with Malaysia's casino stocks, Genting and Resorts being notable exceptions.

Genting's grind market should not be hit by regional casinos

We believe that this could have stemmed from lingering concerns about the impact that new casinos in the region will have on the Genting Highlands resort casino. However, we opine that such fears are unjustified given that the hilltop resort earns more than 75% of revenue from domestic customers, mainly day-trippers. On the contrary, we believe that Genting has an enviable position vis-a-vis its global peers, in so far as maintaining its monopoly of the domestic grind market is concerned.

Management has proven track record

An important factor which endears us to the Genting group is its management's proven track record and promptness in seizing opportunities. For instance, in the 1990s, the Genting group invested heavily on non-gaming attractions and infrastructure in an effort to transform the hilltop resort's image from being merely a casino resort into a glitzy family-friendly entertainment city. The result was record-breaking visitor arrivals last year including a sizeable contingent of non-gambling holidaymakers.

Positive on Genting's focus on premium segment despite short term pains

It is for the same reason that we are looking at Genting's initiatives to grow the high roller segment in a somewhat positive light notwithstanding that this could lead to "short term pains" in the form of margin erosion and more volatile gaming revenues. We opine that, apart from the obvious objective of endeavouring to tap into the rapidly growing number of high net worth individuals in Asia, this strategy of strengthening the premium segment is also necessary to promote the Genting brandname, thus enabling the group to compete more effectively against the big boys in the industry going forward.

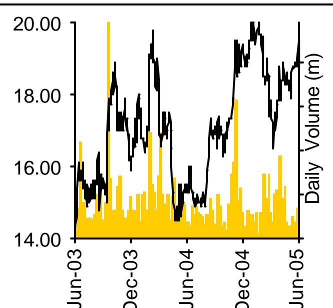
Overseas expansion to continue

Outlook. With a huge net cash pile of more than RM1b, we believe that Genting will continue to pursue its aggressive expansion plans especially in overseas gaming and leisure ventures, oil and gas exploration and possibly further acquisitions of power assets.

Inexpensive on both historical and peer comparison

Valuation. We find value in Genting's shares at its current price considering that the stock is still trading at the lower end of its 3-year historical band of 9-22x. Furthermore, Genting is also trading at a steep discount to its international peers as given by the average consensus PER06 of 21.4x for a sample of five overseas casino players comprising Tabcorp, Publishing and Broadcasting, Melco International, Harrah's Entertainment and MGM Mirage. We are therefore maintaining our **BUY** call on **Genting** with fair value of **RM22.90**.

Price Chart (RM18.90)



Earnings Forecast

FYE Dec	2003A	2004A	2005F	2006F	2007F
Turnover (RM m)	4,237.1	4,647.0	5,000.2	5,350.2	5,671.3
Net profit (RM m)	713.8	928.0	975.0	1,098.8	1,219.3
EPS (sen)	101.3	131.3	138.4	155.9	173.0
DPS (sen)	21.5	24.0	25.0	27.0	29.0
P/E ratio (X)	18.6	14.3	13.9	12.1	10.9
Div Yield (%)	1.1	1.3	1.3	1.4	1.5
ROE (%)	10.1	11.8	12.4	12.7	12.7
P/BV (X)	1.9	1.7	1.5	1.4	1.3

Shares Issued (m)	704.4
Par Value (RM)	0.5
Market Capitalisation (RM m)	13,242.7
2004 NTA/share (RM)	11.15
2004 ROE (%)	11.8
2004 Net Debt/Equity (X)	-
Major Shareholders	**%**
Kien Huat Realty	41.6

MAIN BOARD
Construction

IJM Corporation Bhd

RM4.92

A stronger base for the long run

BUY

Fair Value: RM5.60

Positive on KEB and KASEH acquisition

IJM Corporation Bhd (IJM)'s winning streak in its quest for growth does not appear to be slowing down. Its rapid order book expansion was soon followed by a significant corporate maneuver to acquire a 25% stake in Kumpulan Europlus Bhd (KEB). IJM also proposed to acquire a stake in the Kajang-Seremban (KASEH) highway concession. We are positive on IJM's move to acquire distressed assets cheaply during a construction downturn, a move seen as the management's strategy to ensure sustainable long-term growth. Valuation remains compelling at calendarised PER06 of 12X.

KEB's price was a steal

Inexpensive KEB acquisition limits downside risk. IJM announced that it is acquiring a 25% stake in KEB for RM33.1m, representing a cheap P/NTA of 0.25x. This reflects the management's ability to identify and negotiate attractive deals, which could prove beneficial as IJM's entry would be value-enhancing to KEB. IJM is expected to take the driver's seat in KEB when it turns into the largest shareholder after Chan Ah Chye.

Key attraction: WCE and Canal City

KEB's acquisition is long-term value accretive. The stake in KEB allows IJM access to KEB's two key assets — the RM2.3b West Coast Expressway (WCE) and 5,400 acres Canal City development. In addition, KEB holds a 50% stake in Talam Corporation Bhd which owns 10,000 acres of property landbank. The WCE is pending finalisation of the concession agreement while Canal City development could be launched in the 1Q06. Although these assets may not contribute to earnings immediately, we see it as IJM's trump card to sustain growth in the long-term.

Outperforms in order book replenishment

Flow of construction awards continue. IJM secured 2 more awards in 2Q05 — the new Civic Centre, New Delhi (RM474m) and the KLCC super condominium project (RM116.5m), to lift its outstanding order book to RM3.0b (including Rajasthan highway). IJM's ability to replenish order book remain unmatched by its peers and its current order book size could last the group for the next 2 to 3 years.

Long-gestation assets as earnings stabiliser

Shift of focus towards long-term assets. After securing a stake in the WCE (via KEB), IJM announced that it is negotiating to acquire a stake in the 48km KASEH highway linking Kajang and Seremban. IJM had prior involvement in the project when it was appointed turnkey contractor by the concession holder in August 2004. These two highways (WCE and KASEH) are running on the same alignment as PLUS' North South Expressway (NSE), and this could place traffic growth projections at risk, especially with PLUS embarking on widening works at the NSE. In any case, IJM's interest in these assets provide secured earnings source for the group to hedge slower construction earnings.

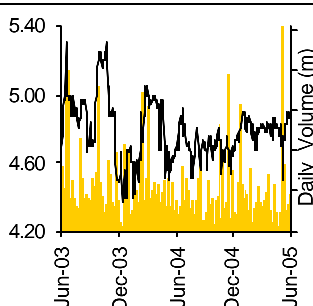
Best overseas bet

Outlook: We are positive on IJM's move to capitalise on the current market downturn to strengthen its asset base via acquisitions. Construction would remain a key driver and the overseas market will remain a key source for order book replenishment. IJM could also increase its exposure on the Indian property market after the recent success of its Hyderabad township.

Attractive valuations

Valuations: Stock is trading at undemanding valuation with calendarised PER06 of 12x, a premium to the sector of 11x but below its 5-year historical average of 14x. Our fair value is based on PER06 of 13.5x.

Price Chart (RM4.92)



Earnings Forecast

FYE Mar	2003A	2005A^	2006F	2007F	2008F
Turnover (RM m)	1,363.9	1,802.3	1,526.6	1,648.8	1,836.3
Net profit (RM m)	145.7	185.5	178.1	195.9	211.5
EPS (sen)	39.2	43.0	38.5	42.3	45.7
DPS (sen)	15.0	15.0	15.0	15.0	15.0
P/E ratio (X)	12.6	11.4	12.8	11.6	10.8
Div Yield (%)	3.0	3.0	3.0	3.0	3.0
ROE (%)	9.7	10.1	9.2	9.7	9.7
P/BV (X)	1.3	1.3	1.2	1.1	1.0

^ Change financial year end to March from December

Shares Issued (m)	458.6
Market Capitalisation (RM m)	2,256.6
NTA/share (RM)	3.85
2005 ROE (%)	10.1
2005 Net Debt/Equity (X)	0.3

Major Shareholders	%
Tronoh Mines	15.7
EPF	12.7
Capital Intl. Inc.	3.6

MAIN BOARD
Industrial Products

Ingress Corporation Bhd

RM1.18

Myvi giving a boost

BUY

Fair Value: RM1.45

Automotive Component Manufacturing division drives revenue

Ingress has two core divisions, namely Automotive Component Manufacturing (ACM) and Power Engineering & Rail Electrification (PER). The ACM division, which is an Original Equipment Manufacturer (OEM), is the main revenue driver, contributing approximately 89% of Ingress' FY05 revenue.

Diminishing dependence on Proton for contracts

Ingress is a Tier 1 supplier to both Proton and Perodua. However, a recent audit conducted by Proton has classified it as a Grade B vendor, but Proton has also given time for its vendors to improve quality. Nevertheless, dependence on Proton is expected to diminish since Ingress is actively seeking to expand its clientele, with ACM now operating in Thailand and Indonesia.

Ingress continues to be a Tier 1 vendor to Perodua. It should also benefit from Perodua, which holds 30% equity in Ingress Technologies Sdn Bhd (70% owned by Ingress).

Poised to capture industry growth in Asean through presence in Thailand and Indonesia

Outlook. We believe Ingress is poised to capture the robust automotive sales growth in the ASEAN region through its presence in Thailand and Indonesia. It boasts prestigious clients such as Honda and Isuzu/General Motors for its Thai operations while in Indonesia, Mitsubishi and Suzuki are its clients. We expect contribution from Thailand to increase 9.3%yoy on the back of higher export sales to the Asean region.

Thailand's status as an automotive production hub will benefit Ingress

The Thai operations would remain a significant contributor to Ingress since Thailand's liberalisation of the automotive sector has attracted auto companies to centralise production in Thailand for export to the Asean region. In addition, Ingress has cornered the pick-up truck segment in Thailand by supplying some automotive parts to all the pick-up truck manufacturers there except Toyota. Indonesia is also attractive for automotive production due to low cost of production.

While we believe the Indonesian operations would lag the local and Thai operations due to lower production in Indonesia, contribution from Indonesia should increase if Ingress secures more contracts. Industry sales growth in Indonesia has surpassed Malaysia due to improving economic performance and declining interest rates. In addition, Ingress' client, Suzuki, is poised to secure export sales to Malaysia since DRB-Hicom has clinched the local distributorship and could promote Suzuki sales as it does for Chevrolet.

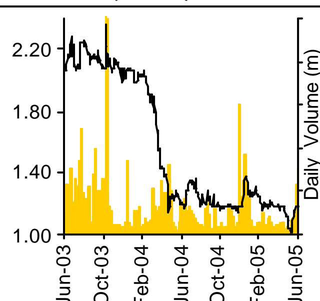
Increased contribution from Perodua due to launch of Myvi

Domestically, we believe impressive demand for Perodua's Myvi would increase revenue for Ingress. In FY05, Perodua's contribution was only 32%. We expect this to increase 4% points to 36% in FY06 since Myvi is a high value project. We have excluded potential contribution from the export of Myvi at this juncture pending greater clarity of Perodua's plan. However, given the long waiting period for Myvi, export is unlikely to proceed until 2006.

Recommend BUY with fair value of RM1.45

Valuation. We project net profit to improve 6.2%yoy. Pegging EPS06 of 20.8 sen against industry PER of 7x, we derive a fair value of **RM1.45** which gives an upside of 22.9%. In addition, we believe Ingress' share price would be supported by an expected dividend of 5 sen, translating to a decent dividend yield of approximately 4%. Hence, we recommend a **BUY** on Ingress.

Price Chart (RM1.18)



Earnings Forecast

FYE Jan	2004A	2005A	2006F	2007F	2008F
Turnover (RM m)	155.5	213.2	224.7	246.5	256.1
Net profit (RM m)	11.7	15.0	16.0	17.1	18.0
EPS (sen)	15.2	19.6	20.8	22.3	23.5
DPS (sen)	5.0	5.0	5.0	5.0	5.0
P/E ratio (X)	7.8	6.0	5.7	5.3	5.0
Div Yield (%)	4.2	4.2	4.2	4.2	4.2
ROE (%)	7.4	8.9	8.9	8.9	8.8
P/BV (X)	0.5	0.5	0.5	0.5	0.4

Shares Issued (m)	76.8
Par Value (RM)	1.0
Market Capitalisation (RM m)	90.6
2005 NTA/share (RM)	2.25
2005 ROE (%)	8.9
2005 Net Debt/Equity (X)	1.0
Major Shareholders	**%**
Ramdawi Sdn Bhd	20.0
Rameli bin Musa	11.2
EPF	8.2

MAIN BOARD
Trading/Services

Malaysian Bulk Carriers

RM2.32

Surviving the stormy seas

BUY

Fair Value: RM2.80

Long-term charters and vessel trading to weather declining shipping rates

While the performance of the shipping sector is unlikely to revisit the stellar year of 2004, we continue to like Malaysian Bulk Carriers (Maybulk) for its ability to lock in quality charters and the potential to realise gains from vessel trading activities in order to counter declining freight rates going forward.

Excellent market timing in vessel sales

Maybulk continues to demonstrate an acute sense of market timing with its bold decision to sell three bulk carriers early this year before the collapse in dry bulk rates, together with four Panamax tankers, registering a total gain of RM454.3m, which will be included in FY05 earnings.

Ability to lock in quality charters

Another strength of the group lies in its ability to lock in quality charters. In April, the group was awarded a 3-year contract by Tenaga Nasional to ship coal to Malaysian ports. The contract involves carrying about 2m tonnes of coal each year for use in power plants. While no contract value has been disclosed, we believe Maybulk would have secured attractive charter rates for its vessels since the contract was signed before the dry bulk rates took a nosedive.

To commit vessels to medium to long-term charters

The shipper is also commiting a higher percentage of its fleet to medium to long-term charters to insulate itself from declining shipping rates. We understand that previously, Maybulk trades about 57% of its fleet on the spot market and has fixed about 43% on period charters with varying durations up to a maximum of three years. While long-term charter rates would be a discount to current spot rates, we believe that high vessel utilisation is key to sustained profitability.

Ability to buy vessels given its strong cash surplus

Maybulk is also in the position to capitalise on the eventual drop in vessel prices as a result of easing shipping rates given a cash horde of almost RM600m which was boosted significantly by the recent vessel disposals. Its books can also support higher levels of borrowings given its net cash position. The group's lease financing of USD140m with Lloyds TSB Leasing Ltd for its three post-Panamax bulk carriers and two medium-range product tankers (currently under construction) is expected to raise its net debt-to-equity to 0.15x.

More deliveries of bulk carriers and tankers

The group is expected to take delivery of another three bulk carriers this year and will have a total fleet of 16 vessels (13 bulk carriers and 3 tankers) by year end, with a total deadweight of 855,493 tonnes (35% higher than 2004). About half of the capacity of the new deliveries (between 2 to 2.5 post-Panamax bulk carriers) will be utilised for Tenaga's coal shipment. New-built tankers will be delivered in 2006/07.

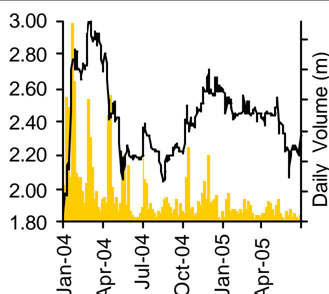
Secured medium-range tankers at considerably lower cost

Maybulk also managed to invest early in its fleet of medium-ranged tankers, where costs were about 60% to 70% lower than today's prices. Therefore, apart from operating tankers that are modern and double-hulled, the ability to deploy vessels promptly and to secure vessels at much lower cost places the group at a considerable advantage over its competitors.

Maintain BUY with fair value of RM2.80

Valuation. Based on our 3-year cashflow projection, we arrive at a fair value of RM2.80 for Maybulk shares, which implies a PER06 of 12.1x and a P/BV of 1.6x. In addition, its high dividend yield of 5.2% makes Maybulk shares an attractive dividend play. Hence, we maintain our **BUY** recommendation on the stock.

Price Chart (RM2.32)



Earnings Forecast

FYE Dec	2004A	2005E	2006F	2007F	2008F
Turnover (RM m)	382.3	276.9	306.9	354.7	346.1
Net profit (RM m)	274.0	607.1	185.2	213.5	192.6
EPS (sen)	34.2	75.9	23.1	26.7	24.1
DPS (sen)	12.0	12.0	12.0	12.0	12.0
PER (X)	6.8	3.1	10.0	8.7	9.4
Div Yield (%)	5.2	5.2	5.2	5.2	5.2
ROE (%)	29.9	42.5	12.2	13.1	11.1
P/BV (X)	2.0	1.3	1.2	1.1	1.0

Shares Issued (m)	800.0
Market Capitalisation (RM m)	1,856.0
NTA/share (RM)	1.15
2004 ROE (%)	29.9
2004 Net Debt/Equity (X)	0.2
Major Shareholders	**%**
Pacific Carriers Ltd	34.5
PPB Group	14.0
Global Maritime Ventures	21.5

MESDAQ

Opcom Holdings Bhd

RM1.01

Connecting past to the future

BUY

Fair Value: RM1.50

Leading fiber optic cable manufacturer in Malaysia

Opcom Holdings Berhad (OHB) has four subsidiaries which are involved in manufacturing, processing, trading, and marketing of fibre optic cables, systems and related accessories. Opcom Cables Sdn Bhd is the manufacturing arm for the group. It is a 70:30 joint venture (JV) between OHB and Ericsson Network Technologies AS. OHB and Leader Universal Berhad are the only two fibre optic manufacturers in Malaysia, of which OHB commands about 80% of the market share. Telekom Malaysia (TM) sources almost all of its fibre optic requirements from OHB.

Fiber optic cable is gaining popularity

In recent years, fibre optic cables are steadily replacing copper wires in the communication signal transmission. It is used over long distance between phone systems as well as providing the backbone for various networks. Advantages of fibre optics over metal wires are 1) higher speed and capacity, 2) better efficiency and very low signal loss rate, 3) lighter in weight, and 4) low signal degradation.

Catalysts for growth

Currently OHB's entire output is used domestically with TM being its largest client, accounting for more than 95% of the group's turnover. Demand for fibre optic cables in the country is expected to be fuelled by 1) demand from TM, 2) deregulation in the telco industry, 3) new products offerings and 4) new services and applications that require high speed data transmission such as 3G and fibre-to-home.

Dependence on Telekom for contracts

One main concern is OHB's overdependence on TM contracts. Currently, more than 90% of the group's revenue is derived from TM contracts. Nevertheless, we believe OHB will be able to maintain its relationship with TM given the good track record and business relationship over the years. In fact, OHB's affiliate Opcom Sdn Bhd has secured an extension contract to supply fibre optic cables worth RM214.2m to TM. This contract is expected to generate an annual sales of RM60m (or RM25m in annual pretax earnings assuming a 40% margin) for OHB until FY07.

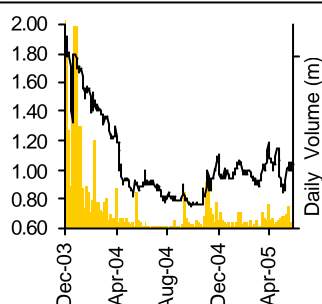
Overseas expansion to diversify earnings base and drive future growth

Going forward, OHB has plans to reduce its dependance on the local market by leveraging on its partnership with TM in the latter's overseas expansion. Currently, TM has investments in Sri Lanka, Indonesia, Bangladesh and Pakistan, all of which are developing countries with relatively low usage of communication technology. We therefore see huge opportunities for OHB to expand into these markets given the need for substantial capital investments to upgrade their communication infrastructure. This will therefore enable OHB to achieve greater diversification of its earnings base.

Fair value at RM1.50

We forecast OHB's revenue to breach the RM100m mark by FY06 underpinned by continuous demand from TM. In addition, we expect the group to slowly diversify its earnings base to new markets as a result of the liberalisation of the telco sector as well as the introduction of new products targeting new markets segments. Balance sheet remains healthy with a net cash position of RM48.4m as at 31 March 2005 (4QFY05) or 37.5 sen per share. Pegging our estimated EPS06 of 16.5 sen to a PER of 9.0x, we arrive a fair value of **RM1.50**.

Price Chart (RM1.01)



Earnings Forecast

FYE March	2002A	2003A	2004A	2005A	2006F
Turnover (RM m)	39.8	46.0	58.1	78.3	100.6
Net profit (RM m)	4.5	6.8	10.6	17.2	22.2
EPS (sen)	3.5	5.3	8.2	13.3	17.2
DPS (sen)	-	-	6.0	11.0	6.0
P/E ratio (X)	28.9	19.1	12.3	7.6	5.8
Div Yield (%)	-	-	5.8	10.9	5.8
ROE (%)	-	33.9	23.0	22.4	28.6
P/BV (X)	-	6.6	2.9	2.4	1.8

Shares Issued (m)	129.0
Par Value (RM)	0.20
Market Capitalisation (RM m)	130.3
FY05 NTA/share (RM)	0.60
FY05 ROE (%)	22.4
FY05 Net Debt/Equity (X)	Net cash
Major Shareholders	**%**
Dato' Mukhriz Mahathir	50.4
Rezeki Tegas	20.9

MAIN BOARD
Trading/Services

Telekom Malaysia Bhd

RM10.00

Calling on regional expansion

BUY

Fair Value: RM12.20

Fixed line growth depends on broadband demand

The increasingly saturated cellular market and declining demand for fixed line services may eventually limit Telekom's earnings growth. Demand for fixed line continues to trend downwards (1Q05: -4%yoy). Nevertheless, Telekom will continue to invest in fixed line as it believes there is strong demand, particularly for broadband, in new residential areas.

Cellular market: keen competition and margin squezze

Meanwhile, the local cellular market is facing aggressive price competition and this has put pressure on margins. More value-added product and services have also been introduced as cellular operators aim to maintain market share and acquire new subscribers. Cellular subscriber base stood at an estimated 15.8m as at 1Q05 (Celcom is No. 2 with 37% share), which translates to a high penetration rate of 68%. Although there is room for growth, we believe competition for new subscribers would continue to remain fierce.

Strategy: expand overseas markets. Target: Asian region

With the limited opportunity to grow earnings base in Malaysia, Telekom plans to make further inroads overseas. We believe Telekom's strategy is to have presence in emerging markets especially within the Asian region. The pull factors would be improving economies, low penetration rate (especially cellular segment), liberalisation of the sector and perhaps incentives from the overseas governments.

Plans to enter India alone

In India, Telekom plans to make a solo bid for the 47% stake in Idea Cellular, after the agreement to jointly (with Singapore Technologies Telemedia) acquire the stake lapsed in June 2005. Idea Cellular has 5.36m subscribers (as at May 2005) and commands 12.37% share of the cellular market in India. Besides Idea, there are eight other cellular operators in the country, which Telekom could have the opportunity to invest in.

May still eye investments in Pakistan

After losing its bid for Pakistan Telecommunications, we do not discount the possibility of Telekom entering the Pakistan market in the future since there is huge potential in Pakistan. As at January 2005, Pakistan's cellular and fixed line penetration rate stood at 5% and 2.9% respectively. Telekom has presence in Pakistan via its 78% stake in Multinet, which is the largest broadband provider in the country. The company plans to lay a very high capacity fiber optic backbone throughout the length and breadth of Pakistan, spanning over 4,000km. The project is expected to be completed in about eighteen to twenty-four months.

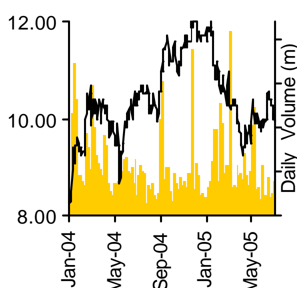
Reaping the benefits in Indonesia: listing by end-2005

Telekom also plans to list its Indonesian mobile phone unit, PT Excelcomindo Pratama, by the end of this year. The listing process is ongoing and Telekom hopes to offer up to 9.6% of the overall equity of the company for sale. Excelcomindo is the third mobile operator in Indonesia, after Telkomsel and Indosat. With subscriber base of 4.2m (99% prepaid users), the company has a market share of 15.5%.

Maintain BUY with fair value of RM12.20

Our optimism on Telekom hinges on the following factors: 1) management efforts to improve profitability, 2) better cost management (post VSS and continued operational improvement), 3) growth in data revenue (from Celcom 3G), and 4) closer-to-home international expansion strategy. We reiterate our BUY recommendation with a fair value of RM12.20 (based on average PER of 22.5x).

Price Chart (RM10.00)



Earnings Forecast

FYE Dec	2003A	2004A	2005F	2006F	2007F
Turnover (RM m)	11,796	13,250	13,814	14,403	15,002
Net profit (RM m)	1,390	2,612*	1,839	2,230	2,585
EPS (sen)	42.8	77.2	54.4	65.9	76.4
DPS (sen)	20.0	30.0	30.0	30.0	30.0
P/E ratio (X)	23.4	12.9	18.4	15.2	13.1
Div Yield (%)	1.9	2.9	2.9	2.9	2.9
ROE (%)	8.3	13.4	8.6	9.5	9.7
P/BV (X)	1.9	2.3	3.4	2.4	2.6

** Includes RM1.5b exceptional item (sale of Telkom SA)*

Shares Issued (m)	3,382.4
Par Value (RM)	1.00
Market Capitalisation (RM m)	33,824.0
2004 NTA/share (RM)	4.55
2004 ROE (%)	13.4
2004 Net Debt/Equity (X)	0.1

Major Shareholders	**%**
Khazanah Nasional Bhd	35.2
Employees Provident Fund	11.7
Bank Negara Malaysia	7.4

MAYBAN SECURITIES RESEARCH STOCK UNIVERSE

Bloomberg Code	Company	FYE	Price 30 Jun 2005	Mkt Cap (RMm)	EPS (sen) A	EPS (sen) F1	EPS (sen) F2	EPS (sen) F3	EPS CAGR (%)	PER (X) F1	PER (X) F2	PER (X) F3	PEG (X)	P/BV (X)	DY (%)	Price Change (%) 1 mth	Price Change (%) 3 mths	Price Change (%) 1 yr	Price Change (%) YTD	Recom
KLCI Index			888.32													2.2	1.9	7.3	-2.1	
Automotive																				
APM MK Equity	APM	Dec-04	2.46	495.9	29.1	30.3	33.8	35.7	7.0	8.1	7.3	6.9	1.2	1.1	4.5	2.5	-8.6	-2.4	-3.5	HOLD
EOL MK Equity	EON	Dec-04	3.88	966.1	59.4	46.3	68.7	61.2	1.0	8.4	5.6	6.3	8.7	0.8	7.2	1.6	-23.9	34.6	9.6	SELL
INGC MK Equity	Ingress	Jan-04	1.18	90.6	19.5	20.8	22.3	23.4	6.3	5.7	5.3	5.0	0.9	0.6	4.2	8.3	-3.3	1.7	0.9	BUY
MBM MK Equity	MBM	Dec-04	2.47	579.9	19.6	21.7	23.1	30.3	15.6	11.4	10.7	8.1	0.7	1.1	7.3	9.3	12.3	0.4	11.8	HOLD
ORH MK Equity	Oriental	Dec-04	4.14	2,140.4	46.2	42.6	43.6	37.1	- 7.0	9.7	9.5	11.1	- 1.4	0.8	5.4	0.0	1.0	1.0	0.0	HOLD
PROH MK Equity	Proton Hldg	Mar-04	7.05	3,872.0	147.5	109.3	94.7	102.3	- 11.5	6.4	7.4	6.9	- 0.6	0.7	2.8	-2.1	-9.6	-11.3	-21.7	HOLD
TCM MK Equity	Tan Chong	Dec-04	1.64	1,102.1	18.9	20.8	22.4	24.8	9.5	7.9	7.3	6.6	0.8	1.0	4.3	-3.5	-10.9	29.1	-1.2	HOLD
UMWH MK Equity	UMW	Dec-04	4.86	2,462.3	31.0	48.9	58.0	73.3	33.2	9.9	8.4	6.6	0.3	1.2	4.3	-2.4	-2.4	-5.6	-4.7	HOLD
Conglomerate																				
MMC MK Equity	MMC	Jan-04	1.93	2,174.3	25.8	43.2	35.8	32.8	8.3	4.5	5.4	5.9	0.5	0.7	2.6	-3.0	-3.0	0.5	-4.9	BUY
SDY MK Equity	Sime Darby	Jun-04	5.80	6,926.4	38.5	30.7	44.3	46.9	6.8	18.9	13.1	12.4	2.8	1.6	4.5	0.9	-2.5	4.5	-3.3	HOLD
YTL MK Equity	YTL Corp	Jun-04	5.35	7,892.2	43.8	39.4	53.1	67.7	15.6	13.6	10.1	7.9	0.9	4.4	1.4	3.9	-5.3	20.4	6.7	HOLD
Construction																				
GAM MK Equity	Gamuda	Jul-04	4.14	3,050.3	38.6	39.2	47.1	47.9	7.5	10.6	8.8	8.6	1.4	1.6	5.1	-8.4	-10.0	-24.7	-21.9	BUY
IJM MK Equity	IJM	Mar-05	4.92	2,224.8	40.1	38.5	42.3	45.7	4.5	12.8	11.6	10.8	2.9	1.3	3.0	4.7	2.5	5.1	3.8	BUY
MTD MK Equity	MTD Capital	Mar-05	2.32	670.5	6.5	24.5	29.4	34.8	75.2	9.5	7.9	6.7	0.1	1.3	-	5.5	-3.3	-24.7	-15.6	TR BUY
RANH MK Equity	Ranhill	Jun-04	1.26	753.5	40.9	4.9	12.5	13.3	- 31.3	25.9	10.1	9.5	- 0.8	0.5	7.9	-10.6	-30.0	-40.0	-44.8	TR BUY
RBH MK Equity	Road Builder	Jun-04	2.38	1,254.5	17.6	18.1	20.8	23.8	10.4	13.2	11.5	10.0	1.3	1.0	3.4	-11.9	-11.9	-13.1	-5.2	HOLD
UEMB MK Equity	UEM Builders	Dec-04	0.69	665.1	7.4	9.0	12.1	14.7	25.4	7.6	5.7	4.7	0.3	0.8	3.6	-2.1	-24.6	-40.5	-34.9	HOLD
WCT MK Equity	WCT Eng	Dec-04	2.99	418.0	18.0	53.9	63.4	74.0	60.2	5.5	4.7	4.0	0.1	0.9	5.0	-5.4	-13.1	-42.5	-33.6	HOLD
Consumer Products																				
CAB MK Equity	Carlsberg	Dec-04	5.50	1,694.4	28.8	29.8	31.0	31.6	3.2	18.5	17.8	17.4	5.8	3.4	5.4	0.0	-3.5	0.0	3.8	HOLD
FNH MK Equity	F&N	Sep-04	5.10	1,818.1	32.7	35.3	38.6	46.2	12.2	14.4	13.2	11.0	1.2	1.7	5.3	-1.0	-1.0	22.6	2.0	HOLD
GUIN MK Equity	Guinness	Jun-04	5.65	1,706.9	32.6	34.9	35.7	36.1	3.5	16.2	15.8	15.6	4.6	5.5	6.7	0.0	3.7	17.7	9.7	HOLD
NESZ MK Equity	Nestle	Dec-04	23.80	5,581.1	94.0	101.1	105.0	104.1	3.4	23.5	22.7	22.9	6.8	12.4	4.8	0.4	-0.8	8.2	3.0	HOLD
RJR MK Equity	JTI	Dec-04	4.24	1,108.9	32.0	28.2	31.4	35.1	3.1	15.0	13.5	12.1	4.8	2.5	6.0	-0.5	-2.3	-0.9	-4.1	HOLD
ROTH MK Equity	BAT	Dec-04	41.75	11,920.9	273.9	237.4	303.5	313.9	4.6	17.6	13.8	13.3	3.8	18.6	5.7	4.4	-4.0	-17.3	-8.7	HOLD
Education																				
IUH MK Equity	Inti	Dec-04	0.97	226.0	3.0	5.5	11.0	13.8	66.3	17.7	8.8	7.0	0.3	0.9	3.1	-6.7	-14.2	-52.2	-22.4	BUY
SYS MK Equity	SEGi	Dec-04	1.23	109.6	11.1	10.5	13.9	16.2	13.4	11.7	8.8	7.6	0.9	0.7	4.7	-14.6	-43.3	-50.0	-56.1	HOLD
Financials																				
AHB MK Equity	Affin	Dec-05	1.52	1,831.7	22.5	23.4	25.1	27.9	7.5	6.5	6.1	5.4	0.9	0.7	0.7	2.0	-11.1	17.8	-10.1	HOLD
AIGB MK Equity	AIGB	Mar-06	1.64	2,164.8	15.2	17.7	19.8	22.6	14.0	9.3	8.3	7.3	0.7	1.1	-	-4.7	-	-	-	BUY
AMM MK Equity	AMMB	Mar-06	2.51	5,347.6	13.2	15.7	18.1	19.9	14.7	16.0	13.9	12.6	1.1	1.3	1.6	4.6	-10.7	-25.7	-23.0	HOLD
CAHB MK Equity	Commerce	Dec-05	5.05	13,677.3	27.0	38.8	43.4	47.1	20.4	13.0	11.6	10.7	0.6	1.6	3.0	10.3	10.3	4.3	7.4	BUY
CBB MK Equity	CIMB	Dec-05	5.80	4,977.0	33.5	38.5	40.0	46.0	11.1	15.1	14.5	12.6	1.4	3.1	3.2	16.0	12.6	9.4	8.4	BUY
EON MK Equity	EON Cap	Dec-05	5.15	3,570.0	40.7	41.4	45.6	59.9	13.7	12.4	11.3	8.6	0.9	1.4	1.7	3.0	-8.8	12.0	-11.2	TR BUY
HLBK MK Equity	H L Bank	Jun-05	5.20	8,216.6	24.5	34.4	39.0	44.0	21.6	15.1	13.3	11.8	0.7	1.9	4.6	1.0	0.0	7.0	-5.5	HOLD
MAY MK Equity	Maybank	Jun-05	10.90	40,456.8	67.3	72.0	77.1	84.0	7.7	15.1	14.1	13.0	2.0	2.8	5.5	-2.7	-3.5	7.9	-7.6	NR
PBK MK Equity	Public Bank	Dec-05	6.70	22,763.5	38.7	42.5	48.1	55.7	12.9	15.8	13.9	12.0	1.2	2.7	13.4	2.3	-10.7	8.9	-5.6	TR BUY
RHBC MK Equity	RHB Cap	Jun-05	2.10	3,829.3	16.7	18.6	20.5	22.5	10.4	11.3	10.3	9.3	1.1	0.9	4.8	2.9	-8.7	11.1	-10.3	BUY
SBK MK Equity	SBB	Dec-05	3.26	4,731.9	26.3	27.7	30.6	34.6	9.6	11.8	10.7	9.4	1.2	1.4	7.1	1.9	-2.4	16.0	-1.8	NR
Gaming																				
BST MK Equity	BToto	Apr-05	4.20	5,095.2	30.3	32.3	33.7	35.6	5.6	13.0	12.5	11.8	2.3	3.3	10.7	7.1	6.1	9.9	3.4	HOLD
GENT MK Equity	Genting	Dec-04	18.90	13,315.1	131.7	138.4	156.0	173.1	9.5	13.7	12.1	10.9	1.4	1.7	1.3	3.8	9.2	21.2	-0.5	BUY
MNM MK Equity	Magnum	Dec-04	2.16	3,385.2	4.1	14.0	15.7	17.0	60.0	15.4	13.7	12.7	0.3	1.9	4.6	6.9	7.5	-10.0	-10.7	BUY
RNB MK Equity	Resorts	Dec-04	9.50	10,372.1	69.0	80.5	92.1	104.1	14.7	11.8	10.3	9.1	0.8	2.2	2.1	0.0	1.6	8.0	-5.0	BUY
TJN MK Equity	Tanjong	Jan-05	13.10	5,282.7	97.3	84.5	109.3	120.8	7.5	15.5	12.0	10.8	2.1	2.2	5.3	-2.2	-0.8	4.8	-7.1	HOLD
Healthcare																				
DUOP MK Equity	Duopharma	Dec-04	2.54	335.3	17.4	17.3	20.8	25.0	12.8	14.6	12.2	10.2	1.1	3.7	3.5	2.4	6.7	10.7	16.5	HOLD
KPJ MK Equity	KPJ Healthcare	Dec-04	1.50	301.5	15.9	15.2	16.0	16.8	1.7	9.9	9.4	8.9	5.7	0.9	4.7	2.7	3.4	1.4	-6.8	BUY
PHRM MK Equity	Pharmaniaga	Dec-04	4.98	507.6	49.8	59.7	68.9	79.2	16.7	8.3	7.2	6.3	0.5	1.8	3.0	-5.1	-6.0	-6.0	-14.1	BUY
Information Technology																				
CPSA MK Equity	CSA	Mar-05	1.47	148.8	10.0	15.6	16.8	18.0	21.6	9.4	8.8	8.2	0.4	0.7	2.0	-3.9	-24.6	-56.8	-46.5	HOLD
HEIT MK Equity	Heitech Padu	Dec-04	2.07	207.0	12.2	23.6	27.9	28.9	33.2	8.8	7.4	7.2	0.3	1.2	3.5	-5.5	-15.2	-18.2	-21.9	HOLD
MESI MK Equity	Mesiniaga	Dec-04	2.68	161.9	26.6	29.3	32.1	36.7	11.4	9.1	8.3	7.3	0.8	1.0	4.6	-4.3	-10.7	-29.8	-24.3	HOLD
Infrastructure																				
PLUS MK Equity	PLUS	Dec-04	3.28	4,100.0	15.4	16.9	18.3	19.2	7.7	19.4	18.0	17.1	2.5	5.5	2.3	3.1	15.1	43.2	17.1	HOLD
Media																				
ASTR MK Equity	Astro All Asia	Jan-05	5.45	10,481.1	8.1	11.3	16.8	25.7	47.1	48.2	32.4	21.2	1.0	6.7	0.5	2.8	5.8	19.5	0.9	BUY
MPR MK Equity	Media Prima	Dec-04	1.65	892.2	7.0	10.5	14.6	15.5	30.6	15.7	11.3	10.6	0.5	3.5	-	1.9	13.8	5.8	-3.5	BUY
NST MK Equity	NSTP	Dec-04	3.08	669.0	1.0	9.1	12.8	15.4	147.9	33.8	24.2	20.0	0.2	0.7	-	-2.5	2.7	-20.2	-22.6	HOLD
STAR MK Equity	Star	Dec-04	6.95	2,388.3	41.1	44.0	46.2	47.5	4.9	15.8	15.0	14.6	3.2	2.8	5.0	0.7	2.2	6.9	2.2	BUY

MAYBAN SECURITIES RESEARCH STOCK UNIVERSE

Bloomberg Code	Company	FY E	Price 30 Jun 2005	Mkt Cap (RMm)	EPS (sen) A	F1	F2	F3	EPS CAGR (%)	PER (X) F1	F2	F3	PEG (X)	P/BV (X)	DY (%)	Price Change (%) 1 mth	3 mths	1 yr	YTD	Recom
Oil and Gas																				
EPIC MK Equity	Eastern Pacific	Dec-04	1.76	285.9	14.3	15.5	16.8	17.2	6.3	11.3	10.5	10.2	1.8	1.1	6.8	0.0	6.7	6.7	0.6	BUY
KNMG MK Equity	KNM Group	Dec-04	2.55	372.0	10.3	18.5	22.2	29.7	42.3	13.8	11.5	8.6	0.3	3.3	2.0	5.4	5.4	69.2	-10.5	BUY
PTG MK Equity	Petronas Gas	Mar-05	8.05	15,928.5	41.6	52.9	54.2	55.4	10.0	15.2	14.9	14.5	1.5	2.4	2.5	13.4	16.7	16.7	13.4	BUY
SCRES MK Equity	Sapura Crest	Jan-05	1.01	887.8	8.5	11.9	12.6	15.2	- 21.2	8.5	8.0	6.7	- 0.4	2.2	-	0.0	-8.2	-9.0	-10.6	BUY
SGB MK Equity	Scomi	Dec-04	1.49	1,320.0	6.9	11.4	17.0	19.3	40.7	13.1	8.7	7.7	0.3	4.9	0.7	4.2	-6.9	13.7	-10.2	BUY
WSC MK Equity	Wah Seong	Dec-04	1.94	1,340.6	3.7	5.5	5.8	11.3	45.0	35.6	33.4	17.2	0.8	6.0	0.7	6.0	3.2	14.1	-4.9	HOLD
Plantation																				
GHP MK Equity	Golden Hope	Jun-04	3.92	5,580.2	24.0	43.6	32.7	36.5	15.0	9.0	12.0	10.7	0.6	1.2	6.4	4.8	3.2	18.1	1.0	TR BUY
IOI MK Equity	IOI Corp	Jun-04	10.50	5,864.9	62.8	78.3	77.6	79.8	8.3	13.4	13.5	13.2	1.6	2.8	2.4	14.8	17.3	27.3	10.5	HOLD
KGB MK Equity	Guthrie	Dec-04	2.25	2,262.2	16.0	11.6	13.4	15.2	- 1.7	19.4	16.8	14.8	- 11.6	0.8	3.6	3.7	4.2	3.7	-4.3	HOLD
KLK MK Equity	KL Kepong	Sep-04	6.85	4,880.7	60.4	63.1	67.6	64.3	2.1	10.9	10.1	10.7	5.2	1.2	4.4	5.4	3.8	6.2	-0.7	BUY
PBOB MK Equity	PPB Oil Palms	Dec-04	3.78	1,683.7	42.0	33.6	36.6	40.0	- 6.6	11.2	10.3	9.5	- 1.7	1.3	4.2	11.8	13.2	25.2	12.5	HOLD
Power																				
MAL MK Equity	Malakoff	Aug-04	7.60	6,733.6	50.0	60.2	59.7	79.2	16.6	12.6	12.7	9.6	0.8	2.2	2.9	4.8	0.7	24.6	5.6	HOLD
TNB MK Equity	Tenaga	Aug-04	10.50	35,107.8	24.2	38.6	63.1	85.2	52.2	27.2	16.6	12.3	0.5	2.4	1.0	-0.9	2.9	1.9	-3.7	HOLD
YTLP MK Equity	YTL Power	Jun-04	2.00	9,416.2	13.0	17.1	19.2	22.5	19.9	11.7	10.4	8.9	0.6	2.1	5.0	1.5	4.2	14.9	15.5	HOLD
Property																				
BPB MK Equity	Boustead	Dec-04	3.40	936.7	42.4	44.5	46.8	50.8	6.2	7.6	7.3	6.7	1.2	0.9	9.4	0.0	-7.6	-5.6	-8.1	BUY
IAP MK Equity	I&P	Jan-05	1.48	1,386.0	8.6	9.2	10.8	11.7	11.0	19.9	17.0	15.6	1.8	0.4	-	5.7	4.2	6.6	1.5	HOLD
IOIP MK Equity	IOI Prop	Jun-04	7.50	2,720.3	62.9	68.0	74.8	82.2	9.3	11.0	10.0	9.1	1.2	1.5	6.0	1.4	-2.6	0.7	0.0	BUY
MKL MK Equity	MK Land	Jun-04	1.10	1,327.5	15.6	9.3	12.3	14.7	- 1.9	11.9	8.9	7.5	- 6.3	1.3	3.6	-12.0	-29.0	-54.9	-37.9	HOLD
SPSB MK Equity	SP Setia	Oct-04	4.08	2,444.3	26.9	32.3	37.1	41.6	15.6	12.6	11.0	9.8	0.8	1.7	4.9	7.9	2.0	3.6	-5.6	BUY
SU MK Equity	Sime UEP	Jun-04	4.22	1,707.0	32.0	30.4	34.1	37.5	5.4	13.9	12.4	11.3	2.6	1.4	5.0	0.0	0.5	0.5	0.5	HOLD
Retail																				
AEON MK Equity	AEON	Feb-05	4.66	817.8	36.6	41.0	47.2	50.4	11.3	11.4	9.9	9.2	1.0	1.5	1.9	3.6	-4.9	-15.3	-6.4	BUY
AMW MK Equity	Amway	Aug-04	6.70	1,101.5	32.6	33.9	34.7	36.6	3.9	19.8	19.3	18.3	5.0	5.3	7.5	0.8	0.0	-2.2	2.3	SELL
CRTM MK Equity	Courts	Mar-05	1.37	386.3	11.3	18.0	20.6	22.0	24.9	7.6	6.7	6.2	0.3	0.7	9.9	4.6	-11.6	-29.7	-0.7	HOLD
STORE MK Equity	Store	Mar-05	2.41	165.1	39.8	43.8	46.6	48.5	6.8	5.5	5.2	5.0	0.8	0.7	2.5	-3.2	-5.5	-7.3	-5.5	BUY
Semiconductor																				
GTB MK Equity	Globetronics	Dec-04	0.41	537.2	2.3	2.6	2.9	3.4	13.2	15.6	13.9	12.1	1.2	2.6	1.5	9.3	5.1	-18.0	-14.6	HOLD
MPI MK Equity	MPI	Jun-04	11.80	2,476.6	62.5	16.3	65.3	101.5	17.5	72.4	18.1	11.6	4.1	3.6	3.4	5.4	-5.6	-23.9	-21.3	HOLD
UNI MK Equity	Unisem	Dec-04	1.80	804.5	7.7	6.6	15.0	16.8	29.8	27.3	12.0	10.7	0.9	1.3	0.3	6.5	2.9	-32.1	-22.8	HOLD
Telecomunication																				
DIGI MK Equity	DiGi	Dec-04	5.10	3,825.0	42.3	44.9	45.7	53.8	8.3	11.4	11.2	9.5	1.4	2.2	-	-1.9	-3.8	10.4	-17.7	BUY
MAXIS MK Equity	Maxis	Dec-04	9.70	24,058.5	62.8	69.5	73.5	75.4	6.3	14.0	13.2	12.9	2.2	4.5	4.8	-1.0	2.6	9.0	3.7	BUY
T MK Equity	Telekom	Dec-04	10.00	33,866.3	77.1	54.3	65.8	76.3	- 0.4	18.4	15.2	13.1	- 51.5	3.0	3.0	0.0	2.6	-4.8	-13.8	BUY
Transport																				
HLM Mk Equity	Halim Mazmin	Dec-04	0.73	116.5	21.5	10.8	2.6	1.6	- 57.7	6.7	27.9	44.6	- 0.1	0.7	7.7	-10.5	-7.1	-10.0	-11.6	BUY
HUBL MK Equity	Hubline	Sep-04	2.25	318.1	20.4	26.9	35.1	44.5	29.6	8.4	6.4	5.1	0.3	1.2	-	-0.4	0.4	-5.5	-3.4	BUY
INTEG MK Equity	Integrax	Dec-04	0.70	188.9	8.7	14.1	14.9	15.3	20.9	5.0	4.7	4.6	0.2	0.5	-	0.0	-10.8	-43.1	-32.0	BUY
JPB MK EQUITY	Johor Port	Dec-04	1.70	561.0	25.4	29.5	31.9	34.5	10.7	5.8	5.3	4.9	0.5	0.7	2.9	-5.0	-8.1	-27.7	-22.7	BUY
MAHB MK Equity	MAHB	Dec-04	1.83	2,013.0	11.6	12.8	14.0	15.1	9.4	14.3	13.1	12.1	1.5	0.8	1.6	18.8	7.6	35.6	13.7	HOLD
MAS MK Equity	M'sian Airline	Mar-05	3.50	4,386.4	26.0	22.8	24.9	32.0	7.2	15.4	14.1	10.9	2.1	1.3	0.7	-8.4	-7.9	-26.5	-20.8	HOLD
MBC MK Equity	Maybulk	Dec-04	2.32	1,856.0	34.2	75.9	23.1	26.7	- 8.0	6.8	3.1	10.0	8.7	1.3	5.2	7.9	- 11.2	7.6	- 12.1	BUY
NCB MK Equity	NCB Hldg	Dec-04	2.40	1,128.3	21.0	23.8	26.9	30.9	13.6	10.1	8.9	7.8	0.7	0.7	5.0	-0.4	-7.0	6.2	-9.4	BUY
Water																				
PBAH MK Equity	PBA Holdings	Dec-04	1.41	466.7	12.0	14.0	14.6	18.6	15.6	10.1	9.7	7.6	0.6	0.9	1.1	2.9	-10.2	-6.0	-22.5	HOLD
PNH MK Equity	Puncak Niaga	Dec-04	2.60	1,192.1	10.1	17.6	69.2	70.2	90.7	14.8	3.8	3.7	0.2	0.9	-	-0.4	9.2	-6.1	-21.2	BUY
RANU MK Equity	Ranhill Utilities	Dec-04	1.64	483.0	27.0	41.2	67.1	70.1	37.5	4.0	2.4	2.3	0.1	0.7	-	10.8	-20.0	-31.7	-32.8	BUY

DEFINITIONS

BUY	Price appreciation in excess of 10% expected in the next 12 months
SELL	Price depreciation in excess of 10% expected in the next 12 months
Trading BUY/SELL	Significant price movement expected in the next 3-months arising from positive/negative newsflow. Eg:- Mergers and acquisition, corporate restructuring, and potential of obtaining new projects.
Avoid	Uncertainty in newsflow.

SELECTED ECONOMIC INDICATORS

	1Q05	2Q05e	3Q05f	2003	2004	2005f revised (Jun 30)	2006f
Domestic production							
Real GDP (% YoY)	5.7	4.0	5.0	5.3	6.6	5.1 (5-6.0)	6.0
Agriculture sector (% YoY)	6.0	10.0	-0.3	5.7	2.9	2.6 (3.3)	4.7
Mining (%YoY)	3.3	9.9	9.9	5.9	3.4	4.6 (5.0)	1.9
Manufacturing (%YoY)	5.6	3.1	4.2	8.3	10.1	5.0 (4.5)	5.7
Construction (%YoY)	-2.4	-4.3	0.4	2.0	1.5	-0.4 (-1.0)	1.6
Services (%YoY)	6.0	7.7	8.2	4.4	5.4	5.7 (5.2)	6.3
Nominal GNP (RM'b)	459.1	471.0	483.2	394.2	447.5	494.0	554.3
Change (%)	…	…	…	9.0	13.5	10.4	12.2
				figures in brackets are official numbers			
Domestic expenditure							
Private consumption (%YoY)	10.1	13.7	14.4	6.6	7.9	11.8 (8.1)	7.5
Public consumption (%YoY)	-2.3	-6.0	0.1	10.0	5.5	-2.1 (4.2)	8.0
Gross fixed capital formation (%YoY)	2.2	-1.8	3.0	2.7	3.8	2.3 (3.7)	2.5
Federal government budget (RM'b)	…	…	…	-20.9	-18.8	-19.9	-17.7
External sector							
Gross exports (f.o.b) (RM'b)	122.6	129.1	135.0	398.8	442.0	523.8	581.4
Change (% YoY)	*13.7*	*9.4*	*5.3*	*11.5*	*10.8*	9.0	11.0
Gross imports (c.i.f) (RM'b)	97.6	107.8	114.8	317.7	366.8	435.2	487.4
Change (% YoY)	*10.1*	*7.9*	*8.8*	*0.6*	*15.5*	*8.8*	*12.0*
Trade balance (RM'b)	25.0	21.3	20.2	81.1	75.2	88.6	94.0
Current account (RM'b)	20.9	17.0	16.1	50.8	62.3	72.0	78.0
Current account (% of nominal GNP)	…	…	…	13.7	13.9	14.6	14.1
External reserves [at end of- RM (USD)]	…	…	…	170.6(44.9)	253.5(66.7)	316.2(83.2)	…
Reserves (as multiple of retained imports)	…	…	…	6.8	8.2	…	…
Total external debt (RM'b) est.	…	…	…	187.2	41.6	…	…
of which : short-term (< 1 year) (RM'b) est.	…	…	…	34.5	41.6	…	…
Reserves/Short-term external debt	…	…	…	4.9	6.1	…	…
Main exports:							
Electronics & electricals (RM'b)	64.0	67.1	70.2	223.5	257.1	272.4	296.5
Change (%YoY)	10.0	4.4	2.3	5.2	11.1	6.0	8.9
% of total exports	*52.2*	52.0	52.0	56.0	58.2	52.0	51.0
Chemicals and chemical products (RM'b)	7.5	8.1	8.2	21.2	27.8	32.5	36.6
Change (%YoY)	20.7	17.4	12.8	23.2	31.1	16.8	12.7
% of total exports	6.1	6.3	6.1	5.3	6.3	6.2	6.3
Palm oil (RM'b)	4.5	5.0	5.4	20.2	20.1	20.4	22.0
Change (%YoY)	-4.0	-1.6	1.9	36.3	-0.5	1.6	8.0
% of total exports	3.7	3.9	4.0	5.1	4.5	3.9	3.9
Crude & partly refined petroleum (RM'b)	5.9	6.8	6.8	15.7	21.3	26.2	*29.7*
Change (%YoY)	34.1	44.7	10.1	35.1	35.7	23.0	13.2
% of total exports	4.8	5.3	5.0	3.9	4.8	5.0	5.1
Monetary indicators							
Consumer price index (avg change % yoy)	2.4	3.1	3.3	1.1	1.4	3.0	1.6
Producer price index (avg change % yoy)	2.5	2.7	2.9	5.6	2.0	2.8	1.8
3-month KLIBOR (mid quote - end of)	2.87	2.87	2.87	2.88	2.8	2.87	2.87
BLR (commercial banks-end of, average)	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Ttl loans of banking system (end of -RM'b) 1/	522.6	531.4	542.6	474.0	514.0	554.1	593.0
Change (% YoY)	*8.5*	*8.4*	*8.5*	*4.8*	*8.5*	*8.0*	*7.0*
Ttl deposits of banking system (end of-RM'b)	651.1	667.7	686.5	553.8	624.0	711.4	803.8
Change (% YoY)	*13.0*	14.2	13.0	9.8	12.7	14.0	13.0
Narrow money (M1) (end of-RM'b)	115.7	119.0	116.7	102.1	114.3	119.0	…
Change (% YoY)	*9.5*	*12.6*	*8.7*	*14.6*	*11.1*	*4.1*	…
Broad money (M3) (end of-RM'b)	644.0	656.9	668.9	549.5	617.7	680.9	…
Change (% YoY)	*13.3*	*13.6*	*13.0*	*9.7*	*12.4*	*10.2*	…
Total loans/Nominal GNP (%)	113.8	112.8	112.3	128.3	114.9	112.2	107.0
KLSE market capitalisation (RM'b) 2/	694.9	688.6	723.1	640.3	722.0	747.3	859.4
KLSE market capitalisation/Nominal GNP (%)	151.4	146.2	149.6	162.4	161.3	151.3	155.0
RM/1USD (at end of)	3.80	3.80	3.80	3.80	3.80	3.80	3.80
RM/100Yen spot (at end of)	3.53	3.54	3.45	3.55	3.75	3.6	3.4

1/ Exclude loans sold to Cagamas & Danaharta

2/ Excludes fixed income securities

The above is Mayban Securities Research Department's independent estimates and projections and does not reflect the view of the Maybank group.

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