1Q16 Investment Strategy

Investing In a Chaotic World

FBMKLCI	1,653.37
Target	1,755.00 ↑

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Our view remains unchanged. We firmly believe that the expectations of US Fed further raising its benchmark discount rate will continue to cause high volatility in capital flows across global capital markets. Nevertheless, our decent index target of 1,755 still implies >6% potential gains from the current level. In addition, as we see no immediate earnings and price re-rating catalysts amid relatively high valuations as per the historical PER band, the local equity market is likely to be trapped in a sideways or range-bound trading mode. We continue to advocate a range trading strategy with a Buy On Weakness (B.O.W.) if and when the index dips below 1,620 and Sell On Strength (S.O.S.) as it approaches 1,710 and beyond. Our index target of 1,755 implies FY16E/FY17F PERs of 19.4x/17.9x on the back of our FY16E/FY17F earnings growth estimates of 3.9%/8.1%.

Looking Into 2016. Despite our expectation of a decent real GDP growth estimate of 5.1% in 2016, we see no immediate re-rating catalysts to our corporate earnings growth estimates (even after the Budget 2016 announcement). Earnings growth is expected to remain soft at 3.9% in 2016 (vs. 6.7% by consensus) before turning stronger to 8.1% (consensus: 9.6%) in 2017.

The continuous/potential net foreign outflows (due to rising interest rate in U.S. and weak commodity prices, including crude oil) plus reductions in domestic liquidity (as per the excess liquidity in banking system) are putting pressure to the local equity market. On the other hand, our Modern Portfolio Theory (MPT) model also suggests that foreign capital outflows may remain intact until the monthly performance of FBMKLCI (in USD term) turns positive in a sustainable manner. Besides, the uninspiring valuations of FBMKLCI could cap market upside potential as well.

Nonetheless, the downside could also be cushioned by the revival of investment sentiment as per the narrower discount between FBMKLCI and its consensus target as well as PER-multiple discount between FBMKLCI and FBMSC. Moreover, the re-introduction of ValueCap S/B should provide the much-needed liquidity.

Short-term Pullbacks In The Making? However, we do not rule out potential short-term pullbacks as both discounts (FBMKLCI vs. Consensus & PER-multiple of FBMKLCI vs. FBMSC) have been fast approaching their respective historical top-end. Besides, the delay in ValueCap's capital injection could prompt investors to stay side-lined until ValueCap starts buying into the domestic market in a substantial and sustainable way.

End-2016 Target @ 1,755. Based on the blended Top-Down and Bottom-Up approaches, we peg our **end-2016 index target at 1,755, implying FY16E/FY17F PERs of 19.4x/17.9x**. For Top-Down approach, we assign a target FY17F PER of 17.5x hence 1,730. Bottom-Up approach values FBMKLCI at 1,780 based on our analysts' inputs.

Sector Outlook. So far, we have only 4 **Overweight** sectors, namely **(i) Construction, (ii) Gaming, (iii) Power Utility, and (iv) Gloves**. On the contrary, we **Underweight (i) Auto and (ii) Healthcare (Hospital)** sectors. The other sectors under our coverage (i.e. Aviation, Banking & Non-bank Financials, Building Materials, Consumer, Media, MREITs, Oil & Gas, Plantations, Plastic & Packaging, Property, Shipping & Ports, Telco, as well as Tech & Semicon) are rated as Neutral.

2016 Investment Strategy. Despite the fair numbers of Neutral sectors and limited Overweight sectors, we generally preferred to stick with defensive/resilient sectors (such as Telco, Power, Pharmaceutical, Gloves, Education and F&B). We also like selective export-oriented companies (Tech & Semicon, Plastic & Packaging, as well as Gloves) due to relatively high probability of hiking interest rate in US, hence, weakening of regional currencies that will boost exports. Besides, we also believe that export-driven manufacturers are the long-term beneficiaries of TTPA due to increased market access.

We are also cautiously optimistic about the Construction sector despite concerns over potential delay in certain mega projects in the government's efforts to achieve the targeted fiscal deficit. However, it is our view that the government may prioritize its resources but projects for public interest, such as public transportations, will still be continued.

However, unlike previous quarters, when we were looking for higher yielding stocks such as Gaming & MREIT sectors, we have turned more cautious in yield stocks as the recent hike in Fed's interest rate could signal the beginning of a series of interest rate hikes. In a rising interest rate environment, bond-like equity investment is likely to see de-rating due to: (i) narrower interest differential and (ii) higher required discount rate for valuation purposes.

Timing-wise, we aim to Buy On Weakness (B.O.W.) if and when the index dips below 1,620 and Sell On Strength (S.O.S.) as it approaches 1,710 and beyond.

1Q16 Top Picks. After taking all the above-mentioned factors into consideration, coupled with input from analysts, we select: **(i) ARMADA (OP; TP: RM1.17), (ii) KIMLUN (OP; TP: RM2.05), (iii) OLDTOWN (OP; TP: RM1.76), (iv) PESTECH (OP; TP: RM7.43), (v) PHARMA (OP; TP: RM6.95), (vi) SKPRES (OP; TP: RM1.76), (vii) TAANN (OP; TP: RM5.70), (viii) TENAGA (OP; TP: RM15.42), (ix) TM (OP; TP: RM7.33) and (x) TOPGLOV (OP; TP: RM14.20)** as Top Picks for the current quarter.

Quick 2015 Review

It was a year full of challenges. 2015 has proven to be tougher than expected. While we have had anticipated a volatile year due to indecisive of US' monetary policy stance, hence wild swing in capital flows, as well as a tougher operating environment and weaker consumer sentiment post-GST implementation, domestic equity market was further depressed by much weaker crude oil (and commodity) prices. The fast depreciating ringgit has also been adding pressure to the market. As a result, the market historical (20-day) volatility yo-yoed from the lowest reading of ~5.0% in late-Apr15 to ~21.5% in late-Sep15 before subsided to ~5.5% again in mid-Aug15 (see Figure 1).

As of end-Dec15, FBMKLCI declined 3.9% YoY, which underperformed regional indices by ~60bps on average in local currency terms. The decline would be higher if measured in US dollar terms. As mentioned earlier, the decline was partly owing to decline of 18.6% YoY in Ringgit and 35.0% YoY in crude oil prices while Crude Palm Oil (CPO) prices marked a decent improvement of 4.7% YoY (see Figure 2).

Keep flowing out. In terms of capital flow, we saw a total amount of RM19.2bn foreign equity outflow for the entire year of 2015 (see Figure 3 & 4). As for fixed income market, we also saw a total accumulated decline of RM12.3bn in foreign ownerships as of end-Nov15 (see Figure 5). We reckon that the strong outflow was partly a result of an expectation of higher interest rate in US, which materialized in mid-Dec15 when the Fed started to hike its benchmark discount rate by 25bps.

Uninspiring valuations. As of end-Dec15, FBMKLCI closed at 1,672.2, translating into current- and next-year PERs of 19.7x and 18.2x, respectively, as per consensus (see Figure 6) and 19.6x/18.7x as per our FY15E/FY16F estimates (see Figure 7). Again, if we compare these closing and forward PERs against the historical PER bands, valuations seem uninspiring. Note that FBMKLCI is now traded close to 16.8x FY17F Forward PER, which is fast approaching the +1SD-level (of 17.1x) above its 3-year's moving average (of 16.5x) (see Figure 8). As such, upside could be limited unless significant/concrete re-rating catalysts emerge.

Lack of catalysts. Thus far, we have yet to see any earnings re-rating catalysts. Based on the latest results reporting season, we still see >1/3 of stocks under our coverage delivering weaker-than-expected results (see Figure 9). Besides, we also see no major surprises on the local equity market as most of the "goodies" that were offered in Budget 2016 have no significant impact to corporate earnings.

To be frank, we thought we had factored most of the potential negatives into our forecasts during early-2015. However, apart from 1QCY15 results season that managed to show a relatively lower "disappointment ratio" of ~25%, 2QCY15 and 3QCY15 registered ratios of between 35% and 40%. With such weaker-than-expected numbers, it was no surprise that we have downgraded our FY15E earnings growth estimate from 7.3% in early-2015 to the latest 1.8%. Most of the downgrades came from Banks and Oil & Gas players. For FY16E and FY17F, we estimate growth rates of 3.9% and 8.1% (vs. consensus' 6.7% and 9.6%), respectively.

For banks, most of them are haunted by higher-than-expected credit cost as well as slower topline and margin compression. Besides, they also see sticky cost-to-income ratio and challenges in growing fee-based income. While Oil & Gas players were generally hit by low oil prices, hence lower charted rate and utilization of assets, coupled with provisions for impaired assets.

Export-oriented Companies – The clear-cut winners. Nonetheless, export-driven sectors such as Gloves, Technology & Semicon as well as OEM Manufactures continued to outperform the benchmark index, registering +104.0% on average (see Figure 10) on the back of strong US dollar, which we had expected since early last year. To recap, Ringgit has depreciated 18.6% against US dollar in 2015 while US dollar Index went up by 9.3% (see Figure 2) during the same period of time.

2016: Hunger for Re-rating Catalysts

Continue to be haunted by tightening of US interest rate. Looking ahead, we believe uncertainties of U.S. interest rate will continue to cause high volatility in global capital flows. We understand from The Financial Times' poll, which consists of 51 top world economists, the Fed is likely to lift rates by 75bps in 2016 and a further 100bps in 2017. As such, we continue to believe that the local market is likely to continue trading sideways or fluctuate in a trading-range amid the potential swing in capital flows and higher market volatility.

Should the afore-mentioned anticipation materialize, we believe there would be two major negative implications to the local equity market – (**i**) outflow in foreign outflow and (**ii**) concerns of government fiscal position and sovereign rating due to lower government's oil revenue (arising from depressed commodity prices, including oil prices).

Based on our Monte Carlo Simulation, WTI Brent Crude Oil could see an average price of ~USD38/barrel and there is high probability (~55%) centric between USD30/barrel to USD45/barrel (see Figure 11). Recall that the government has assumed a crude oil assumption of USD48/barrel in the 2016 Budget. Should oil prices remain low as anticipated, the government may revise down its fiscal deficit target, hence negatively affecting the country's sovereign rating and ultimately valuation of Ringgit. Besides, there is also concern that the government will prioritize and delay certain mega projects in its efforts to achieve the targeted fiscal deficit of 3.1%.

When will foreign selling taper off or even reverse? Recall that we saw a total amount of RM19.2bn foreign equity outflow for the entire year of 2015 (see Figure 3 & 4) while towards the final week of the year, there was a total net inflow of RM546.2m. However, we reckon that this was not an exciting figure and it is too early for us to conclude that foreign selling is tapering off or could even be an early sign of reversal despite the fact that the estimated foreign equity ownership in FBMKLCI has been hovering between the -2SD and -1SD below its 12-month moving average (see Figure 12). This is because the net foreign outflow still amounted to RM1.2b for the entire month of December 2015. In order to assess the trend of foreign outflow in a more systematic way, we have borrowed the concept of multiple assets allocation from The Modern Portfolio Theory (MPT) although the predictive power of this model is relatively weak.

In our MPT Study, we assume global investors are able to invest in or short-sell the following markets - (**i**) FTSE Bursa Malaysia KLCI, (**ii**) Dow Jones Industrial Average, (**iii**) FTSE 100 Index, (**iv**) Nikkei 225, (**v**) Hang Seng Index, (**vi**) Shanghai Stock Exchange Composite Index, (**vii**) KOSPI Index, (**viii**) FTSE Straits Times Index, (**ix**) Stock Exchange of Thai Index, (**x**) Jakarta Composite Index, (**xi**) Philippine Stock Exchange Index, and (**xii**) Ho Chi Minh Stock Index - with a target portfolio return of 10% (in USD term). We have also further optimised the portfolio risk down to the minimum (for the target portfolio return). The outcomes are shown in the following table.

Findings for MPT	29-May-15	30-Jun-15	31-Jul-15	31-Aug-15	30-Sep-15	30-Oct-15	30-Nov-15	31-Dec-15
Portfolio Weights for FBMKLCI	9.68%	7.31%	8.11%	-21.96%	-26.62%	-37.51%	-31.77%	-32.93%
MoM Chg		-2.4%	0.8%	-30.1%	-4.7%	-10.9%	5.7%	-1.2%
FBMKLCI (in RM term)	1,747.52	1,706.64	1,723.14	1,612.74	1,621.04	1,665.71	1,672.16	1692.51
MoM Chg		-2.3%	1.0%	-6.4%	0.5%	2.8%	0.4%	1.2%
MYR/USD	3.6675	3.7733	3.8310	4.1925	4.3950	4.3012	4.2535	4.2943
MoM Chg		2.9%	1.5%	9.4%	4.8%	-2.1%	-1.1%	1.0%
FBMKLCI (in USD term)	478.17	455.80	450.85	386.02	369.59	387.73	393.22	393.21
MoM Chg		-4.7%	-1.1%	-14.4%	-4.3%	4.9%	1.4%	0.0%
Accumulated Net Foreign Position (RM'm)	(2,541.70)	(3,153.60)	(2,808.40)	(4,070.20)	(2,406.60)	694.90	(843.60)	(1,193.50)
FBMKLCI Mkt Cap (RM'm)	1,009,612	993,759	1,006,895	947,766	954,734	981,410	999,457	1,008,767
% to FBMKLCI Mkt Cap	-0.3%	-0.3%	-0.3%	-0.4%	-0.3%	0.1%	-0.1%	-0.1%

Based on the Proposed Portfolio Weights of FBMKLCI, we still expect foreign outflow to continue to be volatile. This is because the suggested portfolio weight for FBMKLCI is still lower (vs. previous month) as per our latest update and the negative figure suggests a short-selling scenario. The lower proposed portfolio weights are inline with the weaker currency exchange apart from subdued performance of FBMKLCI.

However, the worst could be over as we are seeing the lowest number (or highest short-selling number) in Oct15. Nevertheless, **we may only start seeing foreign inflow if and when the monthly performance of FBMKLCI (in USD) turns positive in a sustainable manner.**

Besides, MPT may also suggest that FBMKLCI has lost its shine as a "low-beta" market. This is because the declining trend in the proposed portfolio weight under the optimization condition of lowest portfolio risk suggests higher asset risk in nature for FBMKLCI. If this hypothesis holds, FBMKLCI could trade at lower valuation multiples, which is not a surprise to us.

From Figure 13, it is clearly seen that PER valuation “premium” for FBMKLCI has been in a declining mode since its peak of 21% in end-Jun13 to its low of 3.7% in end-May15. As of end-Dec15, the “valuation premium” registered at 10.4%, which is slightly below the 3-year’s average of 11.8%.

Testing times for domestic liquidity. On the domestic front, our strongest argument for a cautiously optimistic market – The Liquidity Factor – is under pressure. We notice that Excess Liquidity (EL) in the banking system has deteriorated from the high of RM307.6b in Mar15 to the low of RM204.0b in Oct15, approximately a reduction of RM100b. Based on our observation; we believe EL could be a leading indicator for the local equity market (see Figure 14). Hence, the revival of EL is of utmost importance in boosting the local equity market, in our view.

ValueCap to the rescue? The revival of ValueCap S/B could be a positive measure as it serves as a re-rating catalyst and to improve market sentiment as well. The allocated RM20b, which is funded by its three shareholders, namely Khazanah Nasional Bhd (Khazanah), Retirement Fund Inc (KWAP) and Permodalan Nasional Bhd (PNB), is approximately 2% of FBMKLCI’s total market cap. This is inline with the RM5.1b that was allocated back in 2003, which also amounted to ~2% of the total market cap of FBMKLCI as well.

Back then, the FBMKLCI rose 25.5% in 2003 in contrast to ~25% decline since April 2002 (see Figure 15). While the strong performance of FBMKLCI in 2003 could be partly due to the strong performance by favourable global market (when Dow Jones Industrial Average, DJIA, gained 21.5% in 2003) (see Figure 16), **we can still expect the 2% additional capital to generate additional 4% return in FBMKLCI.**

Wind of Change? Apart from the estimate “wealth effect”, we also believe that the reintroduction of ValueCap has nonetheless inspired the local market and reversed investment sentiment since then. From both Figure 15 and 16, we saw: (i) “discount” between FBMKLCI and its consensus target as well as (ii) PER-multiple discount between FBMSC and FBMKLCI improving substantially. These observations suggest a much stronger investor confidence.

Nonetheless, there was a hiccup recently. Originally, ValueCap aimed to start commencing its investment by late-Nov15 or latest by Dec15. However, it was reported that ValueCap may see a partial delay in its first tranche of funding of RM6.0b. A local online media reported that at least one of the shareholders has yet to allocate its RM2b share. Thus, the shareholders can only come out with approximately RM3b by the end of 2015 with the remaining RM3b investment to be made in the 1Q16. As such, we believe market sentiment could take a breather until ValueCap starts buying into the domestic market in a substantial and sustainable way.

Moreover, the positive sentiment could have been priced in for the short-term, as the “discount” between FBMKLCI and its consensus target is normally capped between its +1SD and +2SD levels of -2.6% and -0.1%, respectively. Thus far, the FBMKLCI is traded at 3.5% discount (or -3.5%) to its consensus target of ~1,755 (see Figure 17).

Besides, the PER-multiple discount between FBMSC and FBMKLCI has also surpassed its +1SD level of -0.4x within a short span of time from a level of -7.0x during the period of Sep15-Nov15 (see Figure 18). While it is not entirely impossible for the PE-multiple gap to turn into premium, say +2.6x as per the +2SD-level, investment sentiment could probably be turning toppish soon.

As such, **while we believe the investor confidence has gradually improved, we still do not rule out potential short-term pullbacks as the positive sentiment, which is also inline with the positive seasonal study (see Figure 19 & 20), could have been priced in.** This is because such upswing in sentiment could probably move ahead of the anticipated earnings growth as well as valuations.

Stretched valuations and less exciting earnings growth? To recap, as of end-Dec15, FBMKLCI was traded at current- and next-year PERs of 19.7x and 18.2x, respectively, as per consensus (see Figure 6) or 19.6x/18.7x as per our FY15E/FY16F estimates (see Figure 7). Again, if we compare these closing and forward PERs against the historical PER bands, valuations seem uninspiring as the FBMKLCI is now traded close to 16.8x FY17F Forward PER, which is fast approaching the +1SD-level (of 17.1x) above its 3-year's moving average (of 16.5x) (see Figure 8).

As such, **upside could be limited as we see no immediate earnings re-rating catalysts**. **In fact, we are less optimistic over the growth prospect after the few rounds of earnings downgrades. For FY16E, we only estimate an earnings growth rate of 3.9% while consensus is looking at 6.7%.** While our in-house and consensus are looking at growth rates of **8.1%** and 9.6%, respectively, **for FY17F**; the Fair 1-Year Fwd. PER is estimated at 16.8x-17.3x, as per our regression study.

Fair 1-Year Forward PER (x) = 1.00*Historical PER (x) + 0.80*2-Year Forward Average Earnings Growth (with R-Square of 95.8% or an Adjusted R-Square of 78.5%)

Even, if we employed a 17.5x PER against FY17F earnings estimate to derive **our Top-Down Index Target, FBMKLCI is estimated at 1,730**, implying a < 2.5% upside from here. As from a **Bottom-Up approach**, we may see a better upside of 5% to **~1,780**.

Blended with these two valuation methodologies, **we peg our end-2016 target at 1,755** (or ~4% upside from here, which is not exciting). At 1,755, the index is **valued at 19.4x/17.9x PERs against our FY16E/FY17F earnings estimates**.

1Q16 Investment Strategy

Still a range-trading market. All in all, we believe the local equity market could still be stuck in a range-bound mode as we have yet to see any concrete re-rating catalysts. As such, we believe investors should adopt a **Sell On Strength (S.O.S.) strategy when the index approaches 1,710 and beyond**. On the flip side, investors should employ a **Buy On Weakness (B.O.W.) strategy if and when the index dips below 1,620**. This trading range is derived from the +1SD and -1SD levels from the 3-year's Average "Discount" between FBMKLCI and its consensus target.

As for sector allocations (see Figure 23-25 for details), we prefer (**i**) Construction, (**ii**) Power Utility, and (iii) Gloves. These are our Overweight sectors. While we rate Gaming sector as Overweight, we are less keen on this sector due to: (i) lower investor interest and (ii) potential hit by higher required discount rate as US starts raising interest rate. We are also less keen on: (i) Auto and (ii) Healthcare (Hospital) sectors. These two sectors as rated as Underweight among sectors under our coverage. The other sectors (Financials, Building Materials, Consumer, Media, MREITs, Oil & Gas, Plantations, Plastic & Packaging, Property, Shipping & Ports, Telco, as well as Tech & Semicon) are all labeled as Neutral.

Be selective, nonetheless. Having said that we will still be selective in our stock picking. Generally speaking, we like …

i. **Beneficiaries from Budget 2016.**

   a. **Construction** – supported by various mega infrastructure projects i.e. MRT2 (RM28.0b), LRT3 (RM10.0b), highway projects like Pan Borneo (RM28.9b), DASH (RM4.2b), SUKE (RM5.3b) and RAPID (RM18.0b).

   b. **Non-bank Money Lenders, Consumer F&B and Retailer** – due to increasing hand-outs by the government to the lower income group.

   c. **Education** - SASBADI (NR, FV:RM2.21-2.68) could be a potential beneficiary from the increased number of schools and schooling assistance, which will lead to higher demand for textbook and revision books. SEGI (UP: TP: RM1.21) will be a marginal beneficiary from increased tax relief on tuition fees.

   d. **Manufacturers those are in expansion mode** – owing to Special Reinvestment Allowance, which has extended tax incentive for CAPEX from 2016-2018. This measure should benefit manufacturers such as: (i) Gloves, (ii) Plastic Packaging, and (iii) Semicon players in general.

ii. **Stocks that benefit from the revival of ValueCap**, which are generally GLCs. It was also reported that Valuecap will look at listed companies in six key sectors - (i) banking, (ii) consumer industries, (iii) services, (iv) construction, (v) plantation and (vi) property.

iii. **Defensive or resilient counters but not necessary be high-yielding stocks.**

   a. Unlike previous quarters when we were looking for higher yielding stocks such as Gaming & MREIT sectors, we turn more cautious in yield stocks as the recent hike in Fed interest rate could signal the beginning of a series of interest rate hikes. It was reported that consensus is looking at possible 75bps and 100bps hike in Fed rate in 2016 and 2017, respectively. Should this materialise, this will hurt bond-like equity investment due to: (i) narrower interest differential and (ii) higher required discount rate used in valuation.

   b. To minimise potential headwinds, we like resilient sectors such as Telco, Power, Pharmaceutical, Gloves, Education and F&B even though some of these sectors are rated as Neutral.

iv. **Export-oriented companies.** While most of the export-oriented stocks have performed strongly in 2015, we still like this type of companies as the potential hike in US interest rate should further strengthen US dollar and hence benefiting exporters. While our economist only estimates an end-2016 Ringgit target of 4.17, we do not rule out a weaker-than-expected Ringgit performance judging from our Simulation Study (see Figure 21). Based on the simulated path of Ringgit, the local currency could be hovering around 4.35 on average in 2016. In fact, the study also shows that there is high chance (>35%) to see Ringgit to depreciate beyond 4.45. Moreover, we also believe that export-driven manufacturers are the long-term beneficiaries (from increased market access) of the recently signed Trans-Pacific Partnership Agreement (TTPA) (see Figure 22).

1Q16 Top Picks (see Figure 26). **After taking all the above-mentioned factors into consideration, coupled with input from analysts, we select (i) ARMADA (OP; TP: RM1.17), (ii) KIMLUN (OP; TP: RM2.05), (iii) OLDTOWN (OP; TP: RM1.76), (iv) PESTECH (OP; TP: RM7.43), (v) PHARMA (OP; TP: RM6.95), (vi) SKPRES (OP; TP: RM1.76), (vii) TAANN (OP; TP: RM5.70), (viii) TENAGA (OP; TP: RM15.42), (ix) TM (OP; TP: RM7.33), and (x) TOPGLOV (OP; TP: RM14.20) as Top Picks for the current quarter.**

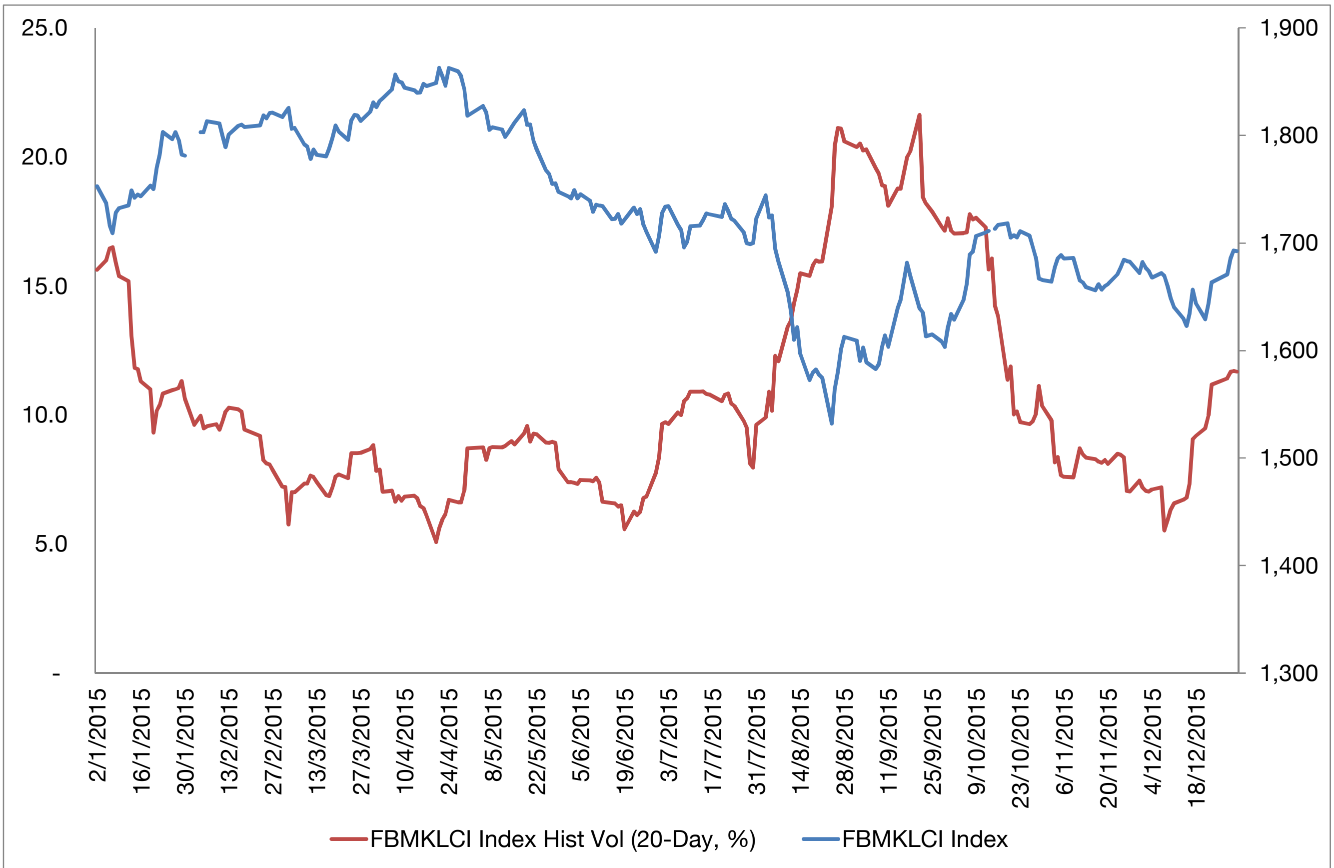
1Q16 Top Picks (Closing as at 23 December 2015)

Stocks	Last Price (RM)	FY15 Core Np Growth (%)	FY16 Core NP Growth (%)	FY15 Core PER	FY16 Core PER	FY16 Net Div Yield (%)	FY16 ROE (%)	Target (RM)	Upside (%)	Rating
ARMADA	1.04	-29.1%	44.0%	23.2	15.9	1.4%	5.3%	1.17	12.5%	OP
KIMLUN	1.41	93.8%	4.5%	12.2	6.3	2.9%	14.6%	2.05	45.4%	OP
OLDTOWN	1.62	4.3%	1.7%	14.5	14.2	3.8%	14.5%	1.76	8.6%	OP
PESTECH	6.80	93.5%	23.8%	15.0	21.6	1.4%	21.3%	7.43	9.3%	OP
PHARMA	6.21	6.7%	9.0%	17.6	16.5	4.7%	18.2%	6.95	11.9%	OP
SKPRES	1.35	4.3%	112.3%	27.9	18.2	2.7%	42.4%	1.76	30.4%	OP
TAANN	5.04	50.5%	-14.4%	17.0	11.3	4.8%	14.2%	5.70	13.1%	OP
TENAGA	13.20	13.4%	-3.0%	12.6	13.4	2.5%	11.0%	15.42	16.8%	OP
TM	6.71	-9.0%	12.5%	26.2	28.7	3.1%	11.2%	7.33	9.2%	OP
TOPGLOV	13.64	56.4%	48.4%	29.9	20.1	1.5%	21.3%	14.20	4.1%	OP

Source: Kenanga Research

Appendix I

Figure 1: Historical Volatility (20 days) of FBMKLCI in 2015



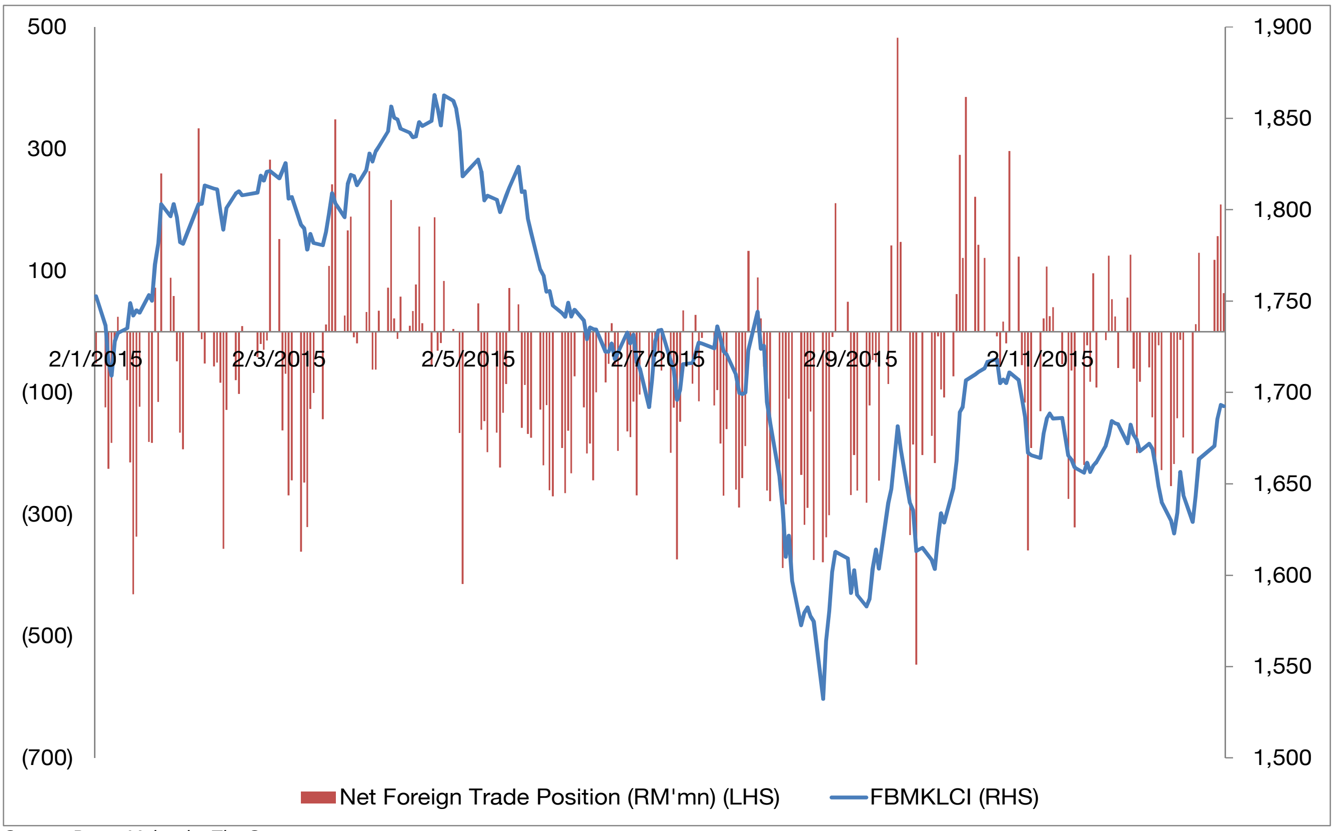
Source: Bloomberg

Figure 2: YoY Performance of Selected Indices, Currencies and Commodities

Indices/Commodities	Last Price	YTD Net Chg.	YTD % Chg.	Currencies/Commodities	Last Price	YTD Net Chg.	YTD % Chg.
FTSE Bursa Malaysia KLCI	1,692.51	(68.74)	-3.9%	Malaysian Ringgit Spot	4.2943	0.7978	-18.6%
Dow Jones Industrial Avg.	17,425.03	(398.04)	-2.2%	Dollar Index Spot	98.631	8.355	9.3%
FTSE 100 Index	6,242.32	(323.77)	-4.9%	British Pound Spot	1.4814	(0.0769)	-4.9%
NIKKEI 225	19,033.71	1,582.94	9.1%	Japanese Yen Spot	120.39	0.61	-0.5%
Hang Seng Index	21,914.40	(1,690.64)	-7.2%	Hong Kong Dollar Spot	7.7509	(0.0046)	0.1%
Shanghai SE Composite	3,539.18	304.51	9.4%	Chinese Yuan Spot	6.4937	0.2882	-4.4%
KOSPI Index	1,961.31	45.72	2.4%	South Korean Won Spot	1,175.06	81.11	-6.9%
Straits Times Index STI	2,882.73	(482.42)	-14.3%	Singapore Dollar Spot	1.413	0.0878	-6.2%
Stock Exch. of Thailand Index	1,288.02	(209.65)	-14.0%	Thai Baht Spot	36.04	3.15	-8.7%
Jakarta Composite Index	4,593.01	(633.94)	-12.1%	Indonesian Rupiah Spot	13,788	1,243	-9.0%
PSEi – Philippine SE Index	6,952.08	(278.49)	-3.9%	Philippines Peso Spot	46.905	2.185	-4.7%
Ho Chi Minh Stock Index	579.03	33.40	6.1%	Vietnamese Dong Spot	22,475	1,083	-4.8%
ICE Brent Crude Futures	37.28	(20.05)	-35.0%	CBOT Crude Soybean Oil Futures	30.55	(1.42)	-4.4%
NYME Light Crude Futures	37.04	(16.23)	-30.5%	Bursa CPO Futures – Spot Month	2,398	107	4.7%
				Bursa CPO Futures – 3rd Month Fwd	2,485	219	9.7%

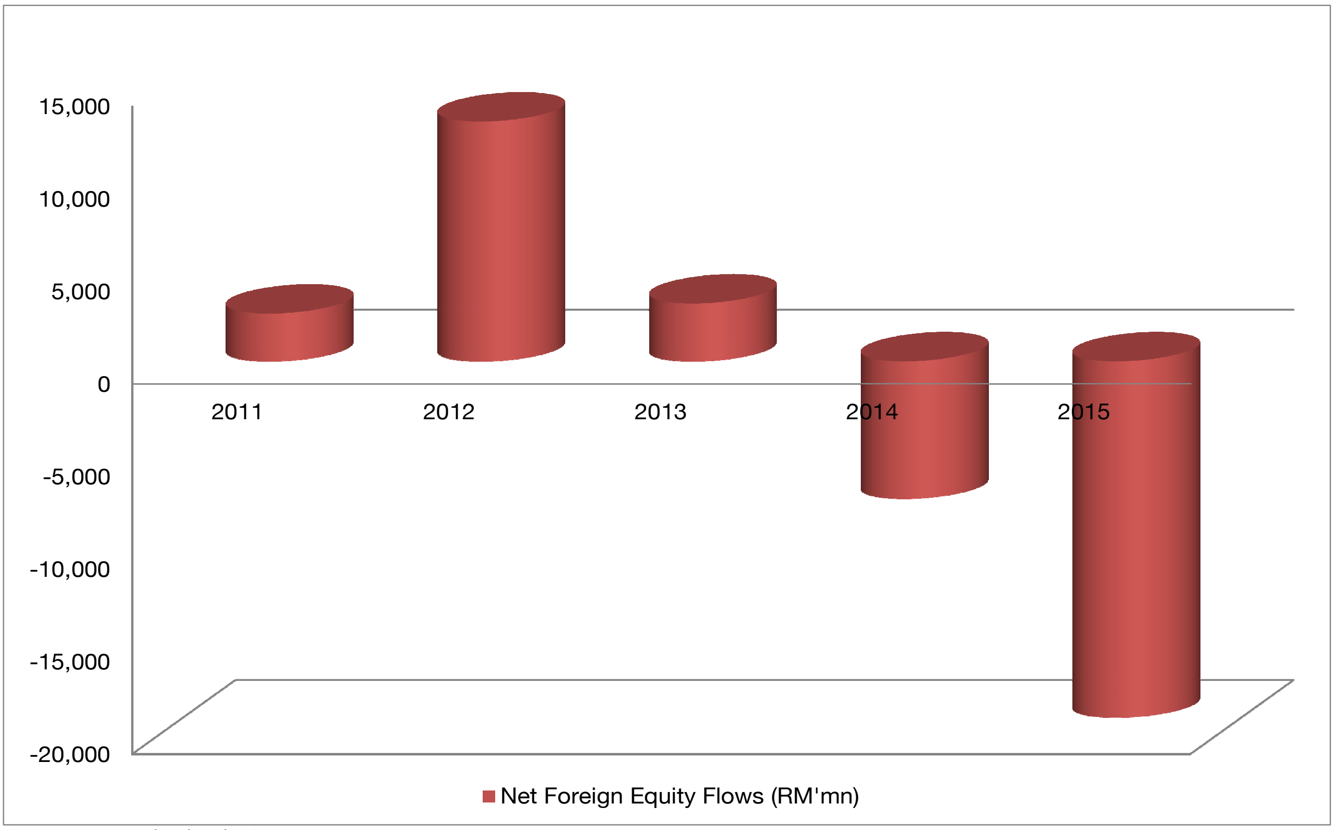
Source: Bloomberg

Figure 3: Net Foreign Trade Position (Equity) Since Early-2015



Source: Bursa Malaysia, The Sun

Figure 4: Yearly Net Foreign Trade Position (Equity) (2011-2015)



Source: Bursa Malaysia, The Sun

Figure 5: Change in Foreign Positions (for both Equity and Debt Securities)

End of Period	Total Foreign Holdings in Notes (ST GovPapers)	Total Foreign Holdings in MGS + GII + SPK (LT GovPapers)	Total Foreign Holdings in Government Papers	Total Foreign holdings in PDS	Total Foreign holdings in Debt Securities (mn)	Excess Liquidity in Banking System (RM'mn)	FBMKLCI	Acc. Net Foreign Position (RM'mn) For The Month
Jan-14	77,612.7	140,950.4	218,563.1	14,450.0	233,013.1	274,713.3	1,804.0	**(3,679.6)**
Feb-14	78,253.0	142,525.6	220,778.6	14,339.9	235,118.5	272,625.4	1,835.7	**(1,653.6)**
Mar-14	75,901.7	144,500.5	220,402.2	14,416.9	234,819.1	285,269.5	1,849.2	**(903.4)**
Apr-14	80,239.3	140,623.3	220,862.6	15,046.1	235,908.7	282,612.2	1,871.5	**718.3**
May-14	83,739.3	150,911.2	234,650.5	14,806.5	249,457.0	281,807.2	1,873.4	**2,985.6**
Jun-14	78,171.7	154,675.1	232,846.8	14,575.0	247,421.8	281,975.1	1,882.7	**506.5**
Jul-14	82,248.8	159,725.3	241,974.1	14,515.6	256,489.7	288,373.5	1,871.4	**(347.3)**
Aug-14	87,233.1	155,130.2	242,363.3	14,534.5	256,897.8	276,272.1	1,866.1	**195.5**
Sep-14	79,309.2	154,774.6	234,083.8	15,193.1	249,276.9	273,837.1	1,846.3	**(1,492.9)**
Oct-14	83,337.6	152,763.9	236,101.5	14,981.6	251,083.1	280,048.4	1,855.2	**(509.7)**
Nov-14	71,521.7	150,692.8	222,214.5	14,251.7	236,466.2	283,402.9	1,820.9	**(307.5)**
Dec-14	60,894.8	151,070.8	211,965.6	13,908.4	225,874.0	289,759.0	1,761.3	**(2,929.0)**
Jan-15	52,408.5	152,587.1	204,995.6	13,827.5	218,823.1	290,587.8	1,781.3	**(2,183.7)**
Feb-15	52,636.7	152,163.2	204,799.9	13,858.3	218,658.2	290,814.5	1,821.2	**(407.0)**
Mar-15	41,863.8	157,914.7	199,778.5	13,636.0	213,414.5	307,558.9	1,830.8	**(539.2)**
Apr-15	35,634.7	168,325.7	203,960.5	12,392.9	216,353.4	302,126.5	1,818.3	**156.1**
May-15	26,774.0	169,028.4	195,802.4	12,646.3	208,448.7	288,690.8	1,747.5	**(2,541.7)**
Jun-15	22,710.9	176,572.5	199,283.4	12,628.5	211,911.9	280,479.2	1,706.6	**(3,153.6)**
Jul-15	20,693.0	173,657.2	194,350.2	12,422.0	206,772.2	230,200.9	1,723.1	**(2,808.4)**
Aug-15	19,126.7	166,163.7	185,290.4	12,544.5	197,834.9	215,794.8	1,612.7	**(4,070.2)**
Sep-15	27,227.2	147,519.3	174,746.5	27,227.2	201,973.7	219,497.5	1,621.0	**(2,406.6)**
Oct-15	32,600.0	144,469.0	177,069.0	32,600.0	209,669.1	204,018.2	1,665.7	**694.9**
Nov-15	29,639.3	154,292.8	183,932.0	29,639.3	213,571.3	207,617.8	1,672.2	**(787.9)**

Source: BNM, Bursa Malaysia, The Sun

Figure 6: Consensus Earnings Estimates & Index Target

Name	RM/share	FY15 PER (x)	FY16 PER (x)	FY14 NPG	FY15 NPG	FY16 NPG	FY15 D.Y.	Target Px (RM)	% of Upside
Public Bank Bhd	18.52	15.1	14.5	11.2%	4.7%	4.4%	3.0%	19.08	3.0%
Tenaga Nasional Bhd	8.40	12.3	11.7	2.5%	-0.5%	5.2%	6.2%	9.11	8.4%
Malayan Banking Bhd	13.32	11.6	11.2	20.7%	0.6%	3.5%	2.4%	15.38	15.5%
CIMB Group Holdings Bhd	4.54	11.9	9.8	-31.6%	5.1%	20.7%	3.2%	5.01	10.4%
Axiata Group Bhd	6.41	24.7	22.2	-7.9%	-2.7%	11.5%	3.5%	6.58	2.6%
Sime Darby Bhd	7.75	20.8	23.0	-9.4%	-31.0%	-9.6%	3.2%	7.81	0.8%
DiGi.Com Bhd	5.40	22.5	21.7	19.1%	-8.0%	3.6%	4.4%	5.35	-0.9%
Maxis Bhd	7.27	21.4	18.8	-21.6%	10.4%	13.9%	2.5%	6.62	-9.0%
Genting Bhd	6.80	27.3	25.7	-2.7%	8.8%	6.4%	3.6%	6.11	-10.1%
Petronas Gas Bhd	22.70	24.8	24.1	-11.3%	-1.7%	2.9%	2.7%	22.50	-0.9%
IOI Corp Bhd	6.58	58.5	46.5	19.5%	22.6%	25.7%	0.5%	6.48	-1.5%
IHH Healthcare Bhd	7.34	16.7	14.3	-14.6%	-9.6%	16.8%	0.6%	8.53	16.2%
Petronas Chemicals Group Bhd	4.46	24.7	25.8	12.8%	-18.3%	-4.0%	2.0%	4.04	-9.4%
Telekom Malaysia Bhd	6.78	30.1	26.8	-17.8%	1.6%	12.5%	3.2%	6.87	1.3%
MISC Bhd	9.37	16.5	15.2	5.7%	15.1%	8.3%	1.6%	10.18	8.6%
Genting Malaysia Bhd	4.38	20.2	17.3	-25.8%	3.5%	16.4%	1.5%	4.59	4.7%
Kuala Lumpur Kepong Bhd	22.88	27.4	23.4	8.1%	-10.2%	16.8%	2.3%	22.13	-3.3%
AMMB Holdings Bhd	15.90	19.4	18.2	-6.7%	5.8%	7.0%	1.5%	16.06	1.0%
British American Tobacco Malaysia Bhd	4.53	7.1	9.8	10.0%	7.6%	-27.2%	6.0%	4.90	8.2%
SapuraKencana Petroleum Bhd	56.08	17.5	17.5	9.5%	1.2%	0.4%	5.5%	59.26	5.7%
YTL Corp Bhd	1.57	16.1	13.3	22.8%	-34.6%	21.3%	6.1%	1.68	7.3%
PPB Group Bhd	13.44	13.0	13.6	13.3%	6.2%	-4.2%	2.9%	13.09	-2.6%
Hong Leong Bank Bhd	2.02	8.4	11.6	107.2%	31.8%	-27.3%	1.7%	2.20	9.2%
UMW Holdings Bhd	24.86	28.2	27.0	-38.2%	74.8%	4.4%	2.6%	20.50	-17.6%
Petronas Dagangan Bhd	2.76	27.7	23.1	7.2%	15.9%	19.8%	4.0%	3.26	18.1%
RHB Capital Bhd	7.87	22.8	18.8	-0.1%	-38.2%	21.3%	3.5%	7.14	-9.3%
Astro Malaysia Holdings Bhd	5.67	9.8	8.8	11.3%	-12.7%	11.9%	2.0%	6.24	10.0%
Felda Global Ventures Holdings Bhd	4.12	27.3	23.3	17.7%	0.6%	16.8%	2.8%	4.41	7.2%
Hong Leong Financial Group Bhd	7.06	18.0	17.4	-0.1%	54.2%	3.8%	4.9%	7.12	0.9%
KLCCP Stapled Group	13.96	9.9	9.5	14.7%	-5.0%	3.4%	2.7%	16.72	19.7%
FBMKLCI Index	**1,692.51**	**19.7**	**18.2**	**2.2%**	**0.8%**	**6.8%**	**3.2%**	**1,753.95**	**3.6%**

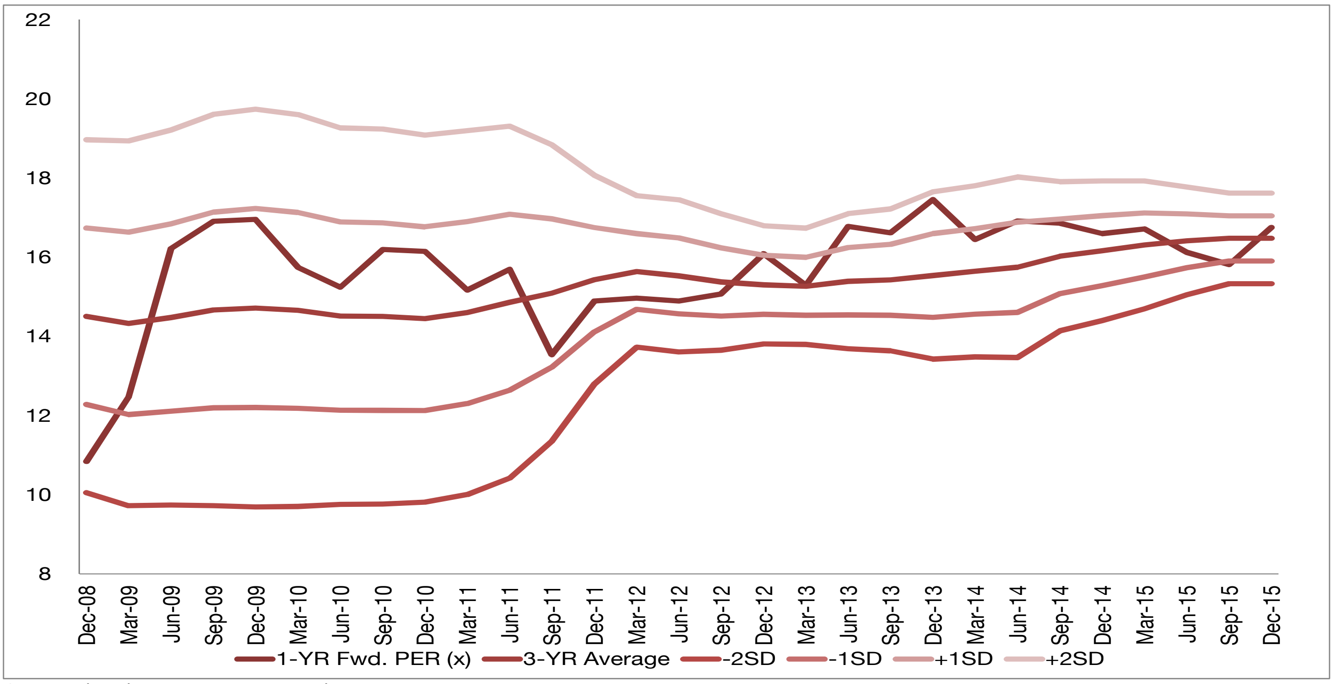
Source: Bloomberg

Figure 7: Kenanga Research's Earnings Estimates & Index Target

Name	RM/share	FY15 PER (x)	FY16 PER (x)	FY14 NPG	FY15 NPG	FY16 NPG	FY15 D.Y.	Target Price (RM	% of Upside
Public Bank Bhd	18.52	14.9	14.3	11.2%	5.9%	4.4%	2.9%	20.00	8.0%
Tenaga Nasional Bhd	13.32	12.3	13.4	20.7%	-5.4%	-8.1%	2.2%	15.42	15.8%
Malayan Banking Bhd	8.40	12.0	11.7	2.5%	1.5%	3.0%	6.9%	9.74	16.0%
CIMB Group Holdings Bhd	4.54	12.9	12.0	-31.6%	-3.1%	7.5%	3.3%	4.06	-10.6%
Axiata Group Bhd	6.41	21.0	22.5	-7.9%	14.7%	-6.9%	3.5%	6.09	-5.0%
Sime Darby Bhd	7.75	20.8	25.0	-9.4%	-31.0%	-16.6%	3.2%	8.00	3.2%
DiGi.Com Bhd	5.40	22.7	21.6	19.1%	-9.1%	5.0%	4.3%	6.05	12.0%
Maxis Bhd	6.80	27.3	24.8	-2.7%	8.9%	9.9%	3.1%	6.48	-4.7%
Genting Bhd	7.34	13.7	12.9	-14.6%	9.9%	6.5%	0.5%	8.52	16.1%
Petronas Gas Bhd	22.70	25.1	24.6	-11.3%	-2.9%	2.0%	2.8%	21.99	-3.1%
IOI Corp Bhd	4.46	24.7	21.8	12.8%	-18.3%	13.7%	2.0%	4.52	1.3%
IHH Healthcare Bhd	6.58	62.4	56.7	19.5%	15.0%	10.0%	0.3%	5.00	-24.0%
Petronas Chemicals Group Bhd	7.27	20.8	16.8	-21.6%	13.5%	23.9%	2.4%	7.50	3.2%
Telekom Malaysia Bhd	6.78	29.7	26.6	-17.8%	3.0%	11.8%	3.1%	7.33	8.1%
MISC Bhd	9.37	15.9	13.9	5.7%	19.2%	14.4%	1.1%	10.64	13.6%
Genting Malaysia Bhd	4.38	19.9	16.9	-25.8%	4.9%	17.6%	1.6%	4.26	-2.7%
Kuala Lumpur Kepong Bhd	22.88	28.0	25.2	8.1%	-12.3%	11.3%	2.0%	22.80	-0.3%
AMMB Holdings Bhd	4.53	7.1	10.0	10.0%	7.6%	-28.8%	6.0%	5.42	19.6%
British American Tobacco Malaysia Bhd	56.08	17.2	16.8	9.5%	3.5%	1.9%	5.7%	60.00	7.0%
SapuraKencana Petroleum Bhd	2.02	8.4	11.9	107.2%	31.8%	-28.9%	2.2%	2.38	17.8%
YTL Power International Bhd	1.48	12.4	13.1	14.0%	-23.6%	-4.9%	6.8%	1.66	12.2%
MMC Corp Bhd	1.96	17.8	18.3	120.5%	-32.1%	-2.7%	0.0%	2.86	45.9%
Gas Malaysia Bhd	2.40	22.9	21.2	-2.2%	-19.7%	8.2%	3.4%	2.68	11.7%
PPB Group Bhd	15.90	20.2	18.3	-6.7%	2.0%	9.9%	1.4%	16.92	6.4%
Hong Leong Bank Bhd	13.44	13.0	14.5	13.3%	6.2%	-9.8%	3.1%	11.51	-14.4%
UMW Holdings Bhd	7.87	24.5	16.2	-0.1%	-42.3%	51.1%	2.5%	6.73	-14.5%
Petronas Dagangan Bhd	24.86	26.8	26.5	-38.2%	83.8%	1.2%	2.6%	22.35	-10.1%
RHB Capital Bhd	5.67	10.4	7.4	11.3%	-17.6%	39.8%	2.8%	7.26	28.0%
Astro Malaysia Holdings Bhd	2.76	27.7	22.4	7.2%	15.9%	23.4%	4.0%	3.30	19.6%
Alliance Financial Group Bhd	3.56	10.2	9.9	4.7%	-5.8%	3.4%	4.2%	4.18	17.4%
Bursa Malaysia Bhd	8.35	23.0	24.1	14.5%	-1.9%	-4.7%	4.2%	8.00	-4.2%
BIMB Holdings Bhd	3.83	11.5	10.2	90.6%	-3.9%	12.9%	4.6%	4.09	6.8%
Malaysia Building Society Bhd	1.41	12.5	8.8	69.9%	-68.5%	42.6%	2.1%	2.08	47.5%
Westports Holdings Bhd	4.12	26.5	22.3	17.7%	3.6%	18.7%	2.8%	4.52	9.7%
KLCCP Stapled Group	7.06	18.6	18.1	-0.1%	49.4%	2.9%	4.8%	7.13	1.0%
FBMKLCI Index	**1,692.51**	**19.6**	**18.7**	**2.5%**	**1.8%**	**3.9%**	**3.2%**	**1,777.97**	**5.0%**

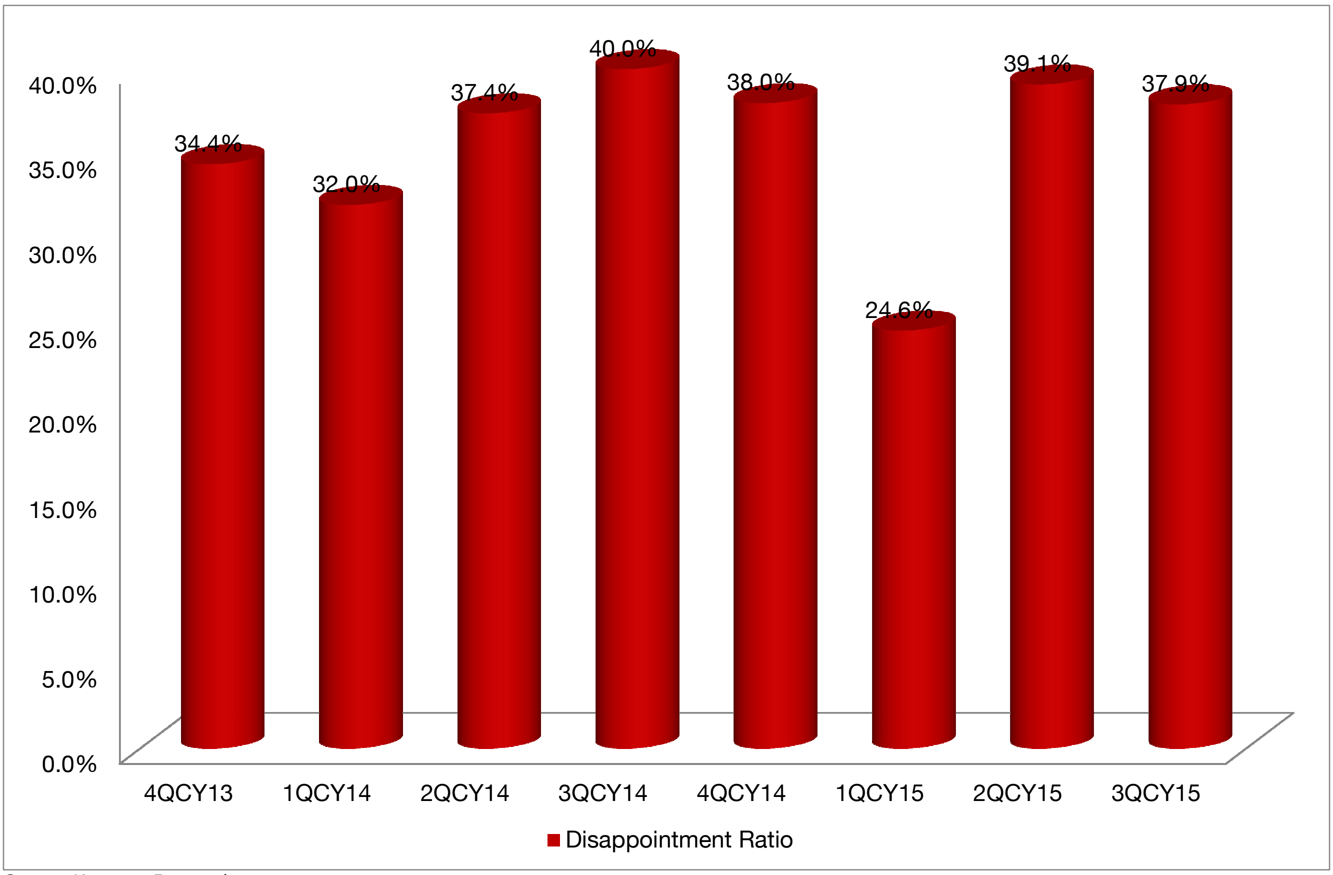
Source: Bloomberg

Figure 8: Historical 1-Year Forward PER Band (Dec08 – Dec15)



Source: Bloomberg, Kenanga Research

Figure 9: Disappointment ratio for Results Reporting Season from 4Q13 to 3Q15



Source: Kenanga Research

Figure 10: YoY Performance of Selected Export-Driven Stocks

Segment	Company	2014 Last Price (RM)	2015 Last Price (RM)	YoY Changes	
				RM	%
Rubber Gloves	HARTA	3.52	5.94	2.43	69.0%
	KOSSAN	4.47	9.30	4.83	108.1%
	SUPERMX	1.68	3.24	1.56	92.9%
Plastics & Packaging	SCIENTX	7.09	9.75	2.66	37.5%
	SLP	0.59	1.90	1.31	222.0%
	TGUAN	1.87	3.15	1.28	68.4%
Original Equipment Manufacturers	KAREX	2.25	4.13	1.88	83.3%
	MAGNI	1.81	4.48	2.67	147.1%
	PRLEXUS	1.19	2.56	1.37	115.1%
	WELLCAL	1.55	2.61	1.06	68.4%
Electrical & Electronics	MPI	4.53	9.31	4.78	105.5%
	SKPRES	0.64	1.31	0.67	104.7%
	UNISEM	1.78	2.38	0.60	33.7%
			Average		104.0%
FBM KLCI		1761.25	1692.51	-68.74	-3.9%
FBM SC		15035.53	15944.13	908.60	6.0%

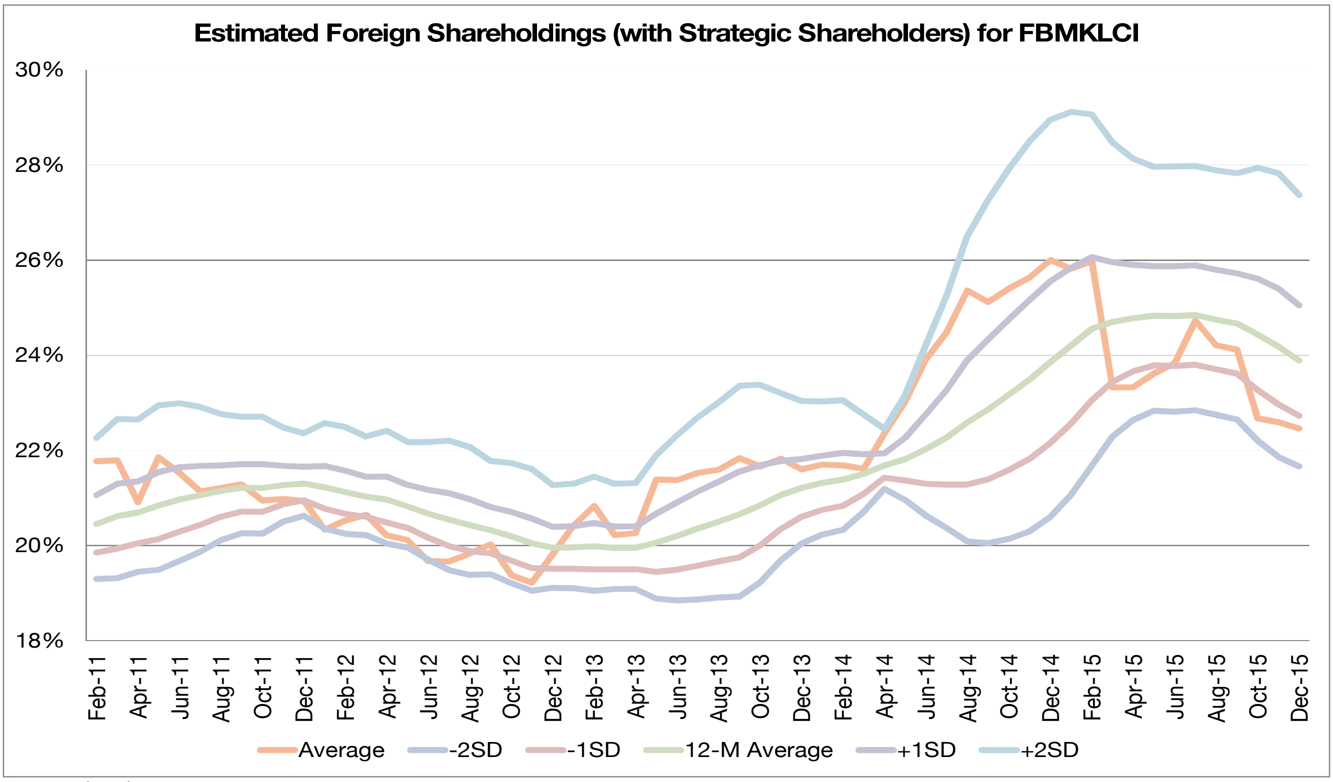
Source: Bloomberg

Figure 11: Monte Carlo Simulation Study for WTI Brent Crude Oil (USD/barrel) (as at end-Dec15)

Distribution of Simulated CO1 Till End-2016	1	2	3	4	5	6	7	8	9	10	Average
Mean	33.8	39.1	38.9	38.7	32.3	39.9	47.0	30.9	41.4	40.7	**38.3**
Standard Deviation	8.5	9.6	13.1	13.1	7.8	12.3	16.4	7.8	18.9	12.2	**12.0**
Kurtosis	1.0	2.5	2.2	0.4	0.3	1.5	7.9	0.8	4.6	2.6	**2.4**
Skewness	0.9	0.6	1.2	0.7	0.4	0.9	2.3	0.7	2.0	1.4	**1.1**
Range	43.2	69.8	76.3	68.6	42.7	76.0	113.5	41.8	103.4	71.5	**70.7**
Minimum	18.5	14.1	14.8	15.5	16.0	18.3	23.6	17.1	17.0	21.8	**17.7**
Maximum	61.6	83.9	91.1	84.1	58.7	94.3	137.1	58.9	120.4	93.3	**88.3**
Count	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	**2,611**
At 68% Confidence Level,											
CO1 is expected to oscilate between	25.3	29.6	25.8	25.6	24.6	27.6	30.6	23.1	22.5	28.4	**26.3**
and	42.3	48.7	52.0	51.8	40.1	52.3	63.4	38.7	60.3	52.9	**50.3**
Probability of CO1 <=	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	**25.0**
=	15.1%	7.0%	14.5%	14.8%	17.3%	11.3%	9.0%	22.4%	19.3%	10.0%	**14.1%**
Probability of CO1 <=	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	**30.0**
=	32.8%	17.0%	24.9%	25.3%	38.2%	21.0%	15.0%	45.4%	27.3%	19.1%	**26.6%**
Probability of CO1 <=	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	**35.0**
=	55.6%	33.2%	38.3%	38.8%	63.4%	34.5%	23.2%	70.1%	36.7%	32.1%	**42.6%**
Probability of CO1 >=	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	**45.0**
=	9.5%	27.0%	32.0%	31.6%	5.1%	34.1%	54.9%	3.5%	42.5%	36.2%	**27.6%**
Probability of CO1 >=	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	**50.0**
=	2.9%	12.8%	19.8%	19.5%	1.1%	20.8%	42.7%	0.7%	32.5%	22.3%	**17.5%**
Probability of CO1 >=	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	**55.0**
=	0.6%	4.9%	10.9%	10.7%	0.2%	11.1%	31.2%	0.1%	23.6%	12.1%	**10.6%**

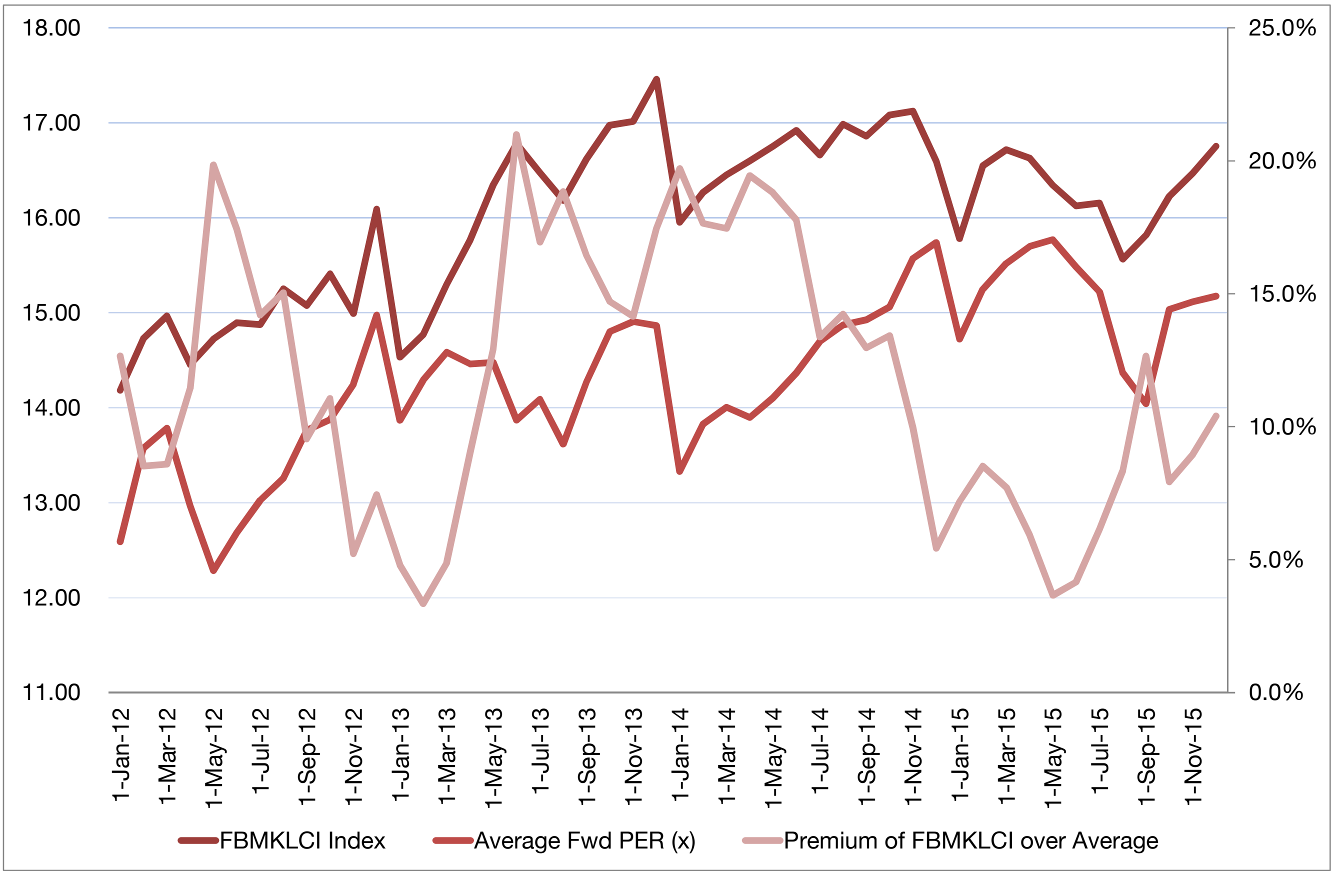
Source: Kenanga Research

Figure 12: Estimated Market Weighted Average Foreign Shareholdings for Top 30 Largest Market Cap Stocks (with Foreign Strategic Shareholders) (as of end-Dec15)



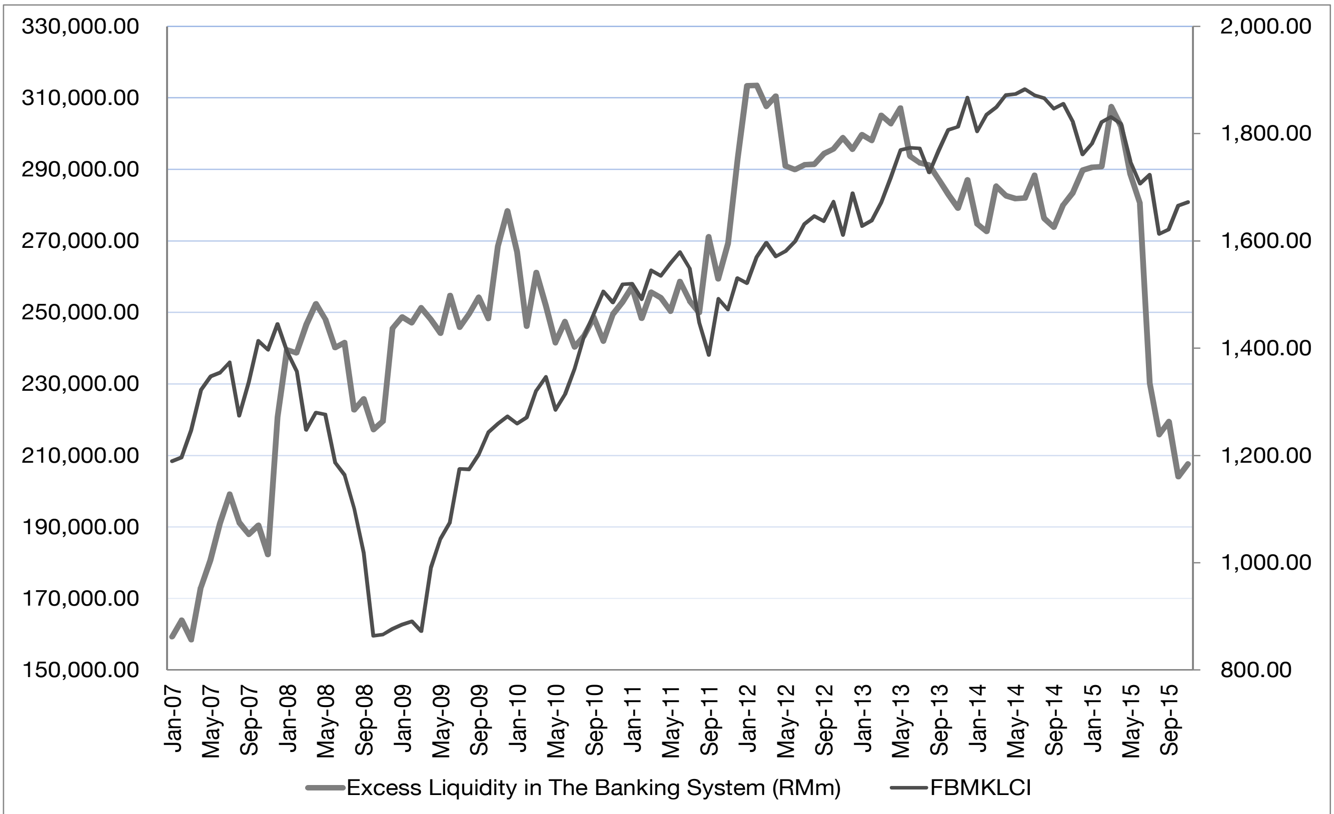
Source: Bloomberg

Figure 13: Fwd. PER of FBMKLCI vs. The Average of 11-Selected Indices (as of end-Dec15)



Source: Bloomberg

Figure 14: Excess Liquidity vs. FBMKLCI (Jan07-Nov15)



Source: BNM, Bloomberg

Figure 15: Performance of FBMKLCI in 2002 & 2003

Source: Bloomberg

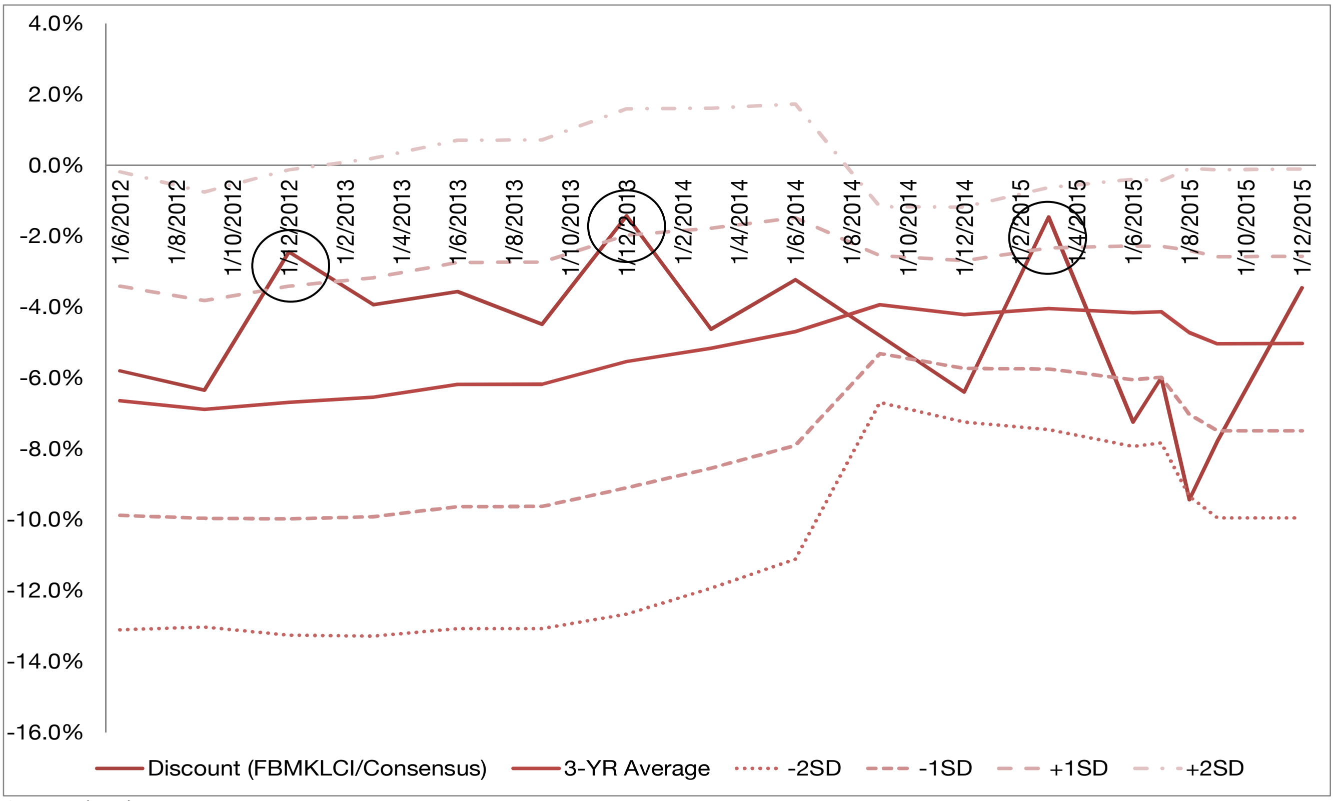
Figure 16: Relative Performance of FBMKLCI and Dow Jones Industrial Average in 2003

Range 01/02/2003 - 12/31/2003 Period Daily No. of Period 363 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	FBMKLCI Index	USD	25.54%	29.99%	5.73%	30.17%
2)	INDU Index	USD	21.45%	24.26%		24.41%
3)	FBMKLCI Index	MYR	25.54%	29.99%	5.73%	30.17%

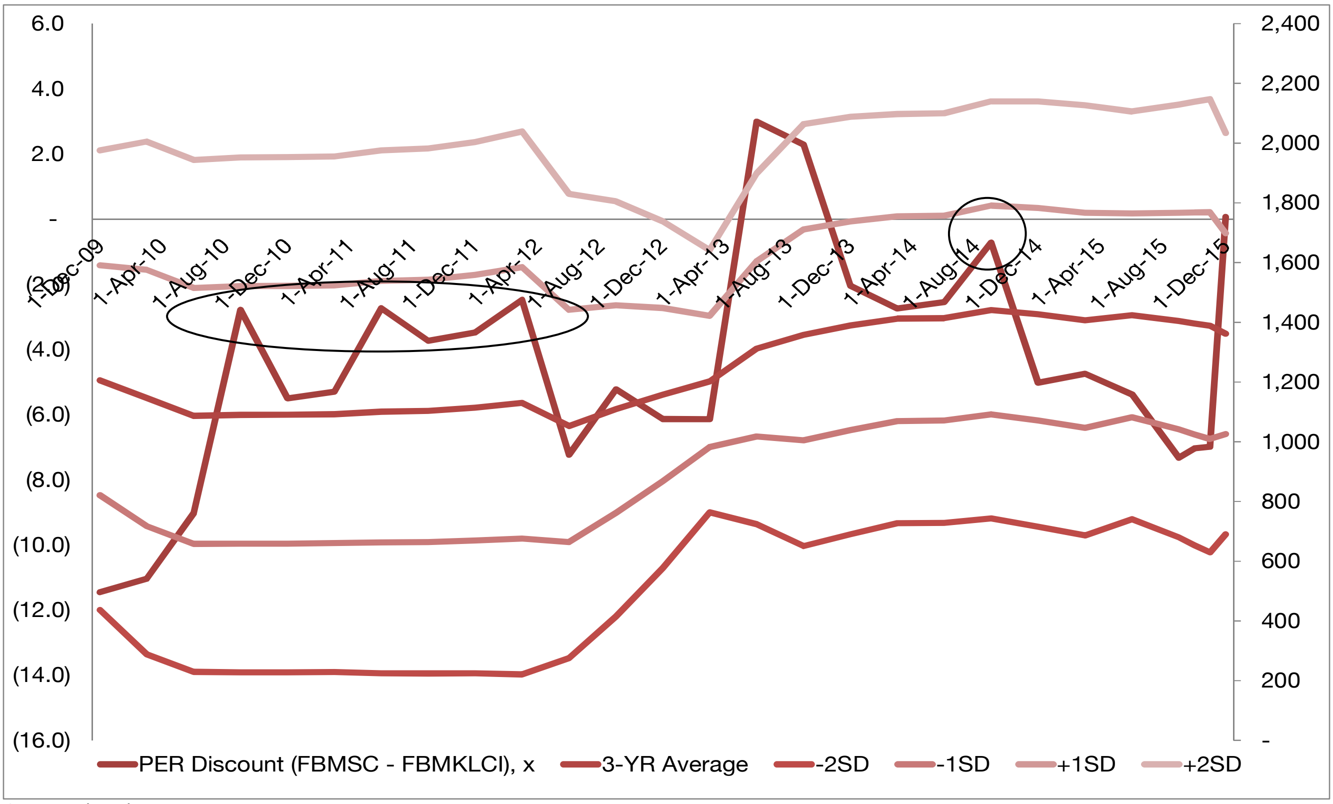
Source: Bloomberg

Figure 17: Discount between FBMKLCI and Its Consensus – Reversed from Its -2SD-level and Heading Towards +1SD and +2Sd Levels



Source: Bloomberg

Figure 18: PER-multiple Discount between FBMSC and FBMKLCI Has Narrowed Substantially, Indicating Fast Improvement in Sentiment. However, Could Be Toppish In The Short-Term.



Source: Bloomberg

Figure 19: Seasonal Study for FBMKLCI Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average (Monthly Change)	-1.28	1.18	1.73	.20	.27	.18	.08	-2.98	-.58	3.03	-1.24	1.95
2015	1.14	2.24	.53	-.68	-3.89	-2.34	.97	-6.41	.51	2.76	.39	1.19
2014	-3.37	1.75	.74	1.21	.10	.50	-.60	-.28	-1.06	.48	-1.85	-3.28
2013	-3.64	.62	2.08	2.75	3.00	.24	-.05	-2.54	2.38	2.16	.32	2.99
2012	-.62	3.18	1.70	-1.61	.64	1.17	2.03	.89	-.57	2.22	-3.72	4.85
2011	.07	-1.89	3.61	-.66	1.52	1.33	-1.92	-6.56	-4.16	7.55	-1.33	3.98

Source: Bloomberg

Figure 20: Seasonal Study for FBMSC Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average (Monthly Change)	3.33	1.27	1.82	.59	2.92	-.46	2.78	-6.07	.12	3.77	-2.68	-1.04
2015	5.57	4.71	-2.01	1.44	-2.91	-1.78	2.00	-14.31	6.57	6.87	-.22	1.53
2014	.02	5.26	3.64	1.77	.15	2.75	6.33	-2.42	.33	-5.20	-7.07	-8.56
2013	-.16	-.13	5.93	-.54	24.13	-4.49	4.06	-2.90	5.59	3.50	-.96	.36
2012	8.35	.96	-3.15	-.52	-4.38	1.74	3.19	-1.28	-3.63	2.64	-4.91	.13
2011	2.88	-4.43	4.70	.81	-2.37	-.52	-1.68	-9.42	-8.26	11.06	-.25	1.32

Source: Bloomberg

Figure 21: Monte Carlo Simulation Study for MYR/USD (as at end-Dec15)

Distribution of Simulated MYRUSD Till End-2016	1	2	3	4	5	6	7	8	9	10	Average
Mean	4.289	4.377	4.474	4.532	4.407	4.386	4.216	4.285	4.327	4.210	**4.350**
Standard Deviation	0.287	0.214	0.414	0.261	0.297	0.328	0.272	0.329	0.307	0.348	**0.306**
Kurtosis	0.066	0.526	1.269	(0.427)	0.086	0.430	(0.230)	(0.098)	1.075	0.139	**0.284**
Skewness	0.129	0.570	1.370	0.535	0.642	(0.838)	(0.018)	0.173	0.319	0.313	**0.320**
Range	1.654	1.349	2.055	1.465	1.821	1.606	1.429	1.785	1.941	1.749	**1.685**
Minimum	3.544	3.898	3.761	3.929	3.804	3.456	3.564	3.562	3.468	3.428	**3.641**
Maximum	5.198	5.248	5.816	5.394	5.625	5.062	4.994	5.347	5.409	5.177	**5.327**
Count	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	**2,611**
At 68% Confidence Level,											
MYRUSD is expected to oscilate between	4.002	4.163	4.059	4.270	4.111	4.058	3.944	3.956	4.020	3.862	**4.044**
and	4.575	4.591	4.888	4.793	4.704	4.715	4.487	4.614	4.634	4.558	**4.656**
Probability of MYRUSD <=	4.150	4.150	4.150	4.150	4.150	4.150	4.150	4.150	4.150	4.150	**4.150**
=	31.4%	14.5%	21.7%	7.2%	19.3%	23.6%	40.5%	34.1%	28.2%	43.2%	**26.4%**
Probability of MYRUSD <=	4.200	4.200	4.200	4.200	4.200	4.200	4.200	4.200	4.200	4.200	**4.200**
=	37.9%	20.4%	25.5%	10.2%	24.2%	28.5%	47.7%	39.9%	33.9%	48.9%	**31.7%**
Probability of MYRUSD <=	4.250	4.250	4.250	4.250	4.250	4.250	4.250	4.250	4.250	4.250	**4.250**
=	44.6%	27.7%	29.5%	14.1%	29.8%	33.9%	55.0%	45.8%	40.1%	54.6%	**37.5%**
Probability of MYRUSD >=	4.350	4.350	4.350	4.350	4.350	4.350	4.350	4.350	4.350	4.350	**4.350**
=	41.5%	55.0%	61.7%	75.6%	57.7%	54.4%	31.0%	42.1%	47.0%	34.4%	**50.0%**
Probability of MYRUSD >=	4.400	4.400	4.400	4.400	4.400	4.400	4.400	4.400	4.400	4.400	**4.400**
=	34.9%	45.7%	57.0%	69.3%	51.0%	48.3%	24.9%	36.3%	40.6%	29.3%	**43.7%**
Probability of MYRUSD >=	4.450	4.450	4.450	4.450	4.450	4.450	4.450	4.450	4.450	4.450	**4.450**
=	28.7%	36.7%	52.3%	62.3%	44.3%	42.3%	19.4%	30.8%	34.4%	24.5%	**37.6%**

Source: Kenanga Research

Figure 22: Trans-Pacific Partnership Agreement (TTPA) Beneficiaries

Potential impact of Malaysia's participation in the TPPA on existing firms in 10 selected key economic sectors

Sector	Overall Impact*	Positive Impact	Negative Impact
Textiles		• Yarn forward rule to boost exports & investment in upstream activities	-
E&E		• Large export opportunities from access to US government procurement	-
Automotive		• Component manufacturers to benefit from greater market access	• Displacement effect on national car manufacturers from import of US cars to be small
Plastics		• Cheaper imports and lower tariffs to enhance export competitiveness	-
Wood		• Lower trade barriers to raise export prospects	-
Construction		• General contractors to remain competitive	• Increased competition for specialised contractors, but high threshold and long transition period accorded
Retail		• Most sub-sectors to be minimally affected as prevailing regulations are largely safeguarded	• More transparent liberalisation of convenience stores may increase competition
Palm oil		• Small rise in exports as primary markets are non-TPPA countries	• Potential for production disruptions arising from labour disputes
Pharmaceuticals		• Minimal impact as marketing approval processes are efficient and data exclusivity is safeguarded at 5 years	• Introduction of soft patent linkage, but enhanced capabilities of authorities can mitigate potential costs
Oil & gas		• PETRONAS' rights in the Petroleum Development Act 1974 ("PDA 1974") are largely safeguarded	• 12 goods and services to be liberalised • Flexibility to accord local preferences is capped

* Legend: Positive impact on firms Neutral impact on firms Negative impact on firms

Source: PwC

Figure 23: Overweight Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Construction	Maintain	• The construction scene remains exciting, underpinned by strong construction award news flow from mega infrastructure projects i.e. MRT2, LRT3, Pan Borneo, RAPID, SUKE, DASH. • While we expect most contractors to benefit from these upcoming projects, we urge investors to keep an eye on small-mid cap contractors given their undemanding valuation of 8-10x vis-à-vis big-caps of 15-16x, coupled with better growth prospects due to low base effect. • For the small-mid cap space, our preferred picks are MITRA and MUHIBAH for their consistent earnings performance. • We continue to like KIMLUN, which has been our Top Pick for several quarters, for its superb earnings performance due to improvements in margins thanks to its manufacturing division.	**OP:** KIMLUN (TP: RM2.05) – **Top Pick** MMCCORP (TP: RM2.86) MITRA (TP: RM1.63) MUHIBAH (TP: RM2.79) SENDAI (TP: RM0.92) **MP:** GAMUDA (TP: RM4.67) HSL (TP: RM2.03) IJM (TP: RM3.50) WCT (TP: RM1.51) **UP:** NAIM (TP: RM1.66)
Gaming	Maintain	• Still a boring sector given the limited organic growth in this highly regulated and matured sector. • However, there is a deep value in GENTING and attractive 7%-8% net yields for NFO players.	**OP:** BJTOTO (TP: RM3.56) – **Preferred Pick** GENTING (TP: RM8.52) MAGNUM (TP: RM2.90) **UP:** GENM (TP: RM4.26)
Power Utility	Upgrade	• With the recent upgrade in TENAGA, the sector is now an OVERWEIGHT. The government's commitment in ICPT framework shows the sector is moving in the right direction with structural reform. • With the subsidy rationalisation program, the tariff rebate is likely to reduce in the near term.	**OP:** MALAKOF (TP: RM2.19) PESTECH (TP: RM7.43) – **Top Pick** TENAGA (TP: RM15.42) – **Top Pick** YTLPOWR (TP: RM1.66)
Rubber Gloves	Maintain	• We maintain our OVERWEIGHT rating on the rubber gloves sector. The sustained weakness in Ringgit against the US Dollar coupled with longer delivery lead days implying robust demand are expected to drive sequential earnings growth and provide impetus for further upside in share price performance moving into 1Q16. • Our investment case is based on: (i) earnings growth underpinned by new capacity expansions matched and fuelled by pent-up demand for rubber gloves especially nitrile gloves; (ii) longer delivery lead days; (iii) favourable USD/MYR exchange rate; and (iv) sustained low raw material prices especially latex. Our TOP PICK is TOPGLOV.	**OP:** HARTA (TP: RM6.00) SUPERMX (TP: RM2.83) TOPGLOV (TP: RM14.20) – **Top Pick** **MP:** KOSSAN (TP: RM9.11)

Source: Kenanga Research

Figure 24: Underweight Sector

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Automotive	**Downgrade**	• Sector lacks catalysts while 2016 TIV growth may decline or be flat for the sector. Downgrade to UNDERWEIGHT given the outweighing of UNDERPERFORM ratings in the total market capital of our stocks coverage universe. • We remain selective in our picks and prefer players that are less vulnerable to the weakening MYR with targeted customer base in the middle-income to high-income bracket that are less sensitive to the rising cost of living.	**OP:** BJAUTO (TP: RM2.63) **– Preferred Pick** **MP:** MBMR (TP: RM2.92) **UP:** DRBHCOM (TP: RM1.06) TCHONG (TP: RM2.15) UMW (TP: RM6.73)
Healthcare	**Maintain**	• We maintain our UNDERWEIGHT rating on the sector. The recent 3QCY15 results season saw IHH and PHARMA performing within expectations. • However, KPJ came in above our expectation due to lower-than-expected losses from its newly opened hospitals. IHH'S earnings were driven by organic growth intensities of existing hospitals, specifically higher inpatient admissions and revenue intensities across the board while its solid double-digit EBITDA growth was underpinned by higher revenue and operating leverage from higher patient volumes. • All in, healthcare stocks under our coverage are already trading at rich PER valuations compared to their low-teens growth. We also believe that their growth potentials are already reflected in the valuations. • Overall, we believe that the healthcare industry in Malaysia will continue to enjoy stable growth supported by growing healthcare expenditure, rising medical insurance and aging population demographics. The main drawback at this juncture is that healthcare stocks including IHH (UP, TP: RM5.00) and KPJ (UP, TP: RM3.97) are trading at rich valuations while offering low dividend yields.	**OP:** PHARMA (TP: RM6.95) **– Top Pick** **UP:** IHH (TP: RM5.00) KPJ (TP: RM3.97)

Source: Kenanga Research

Figure 25: Neutral Sectors

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
Aviation	Maintain	• While airlines are set to enjoy lower jet-fuel costs and potentially better yields in coming quarters, the operating environment remains challenging for airport operators due to slower-than-expected passenger traffic growth, and high operating costs. • Hence, we are maintaining our neutral view on the sector.	**OP:** AIRASIA (TP: RM1.86) **UP:** AIRPORT (TP: RM5.24)
Banking & Non-Banking Financial Institutions	Maintain	• The Banking and NBFIs sector still lacks re-rating catalysts. • Structural and cyclical headwinds such as: (i) slower loans/financing growth; (ii) tight liquidity environment; (iii) narrowing NIM; (iv) weak capital market activities; as well as (v) rising credit costs continue to plague the industry. • YTD, KLFIN underperformed the FBMKLCI by 4.3ppts. Essentially, the lag was primarily due to: (i) an uninspiring 3Q15 reporting season; (ii) fear of higher impaired loans; and (iii) uncertainties from the challenging economy. • Asset quality is seen to be deteriorating but we believe it will be stable moving forward as the banks seek new credit worthy customers.	**OP:** MAYBANK (TP: RM9.74) – **Preferred Pick** RHBCAP (TP: RM7.26) – **Preferred Pick** **MP:** AEONCR (TP: RM12.41) AFG (TP: RM4.18) AMBANK (TP: RM5.42) BIMB (TP: RM4.09) BURSA (TP: RM8.00) HLBANK (TP: RM11.51) LPI (TP: RM13.35) MBSB (TP: RM2.08) PBBANK (TP: RM20.00) **UP:** AFFIN (TP: RM2.17) CIMB (TP: RM4.06)
Building Materials	Maintain	• Reiterate NEUTRAL outlook on Building Material because: (i) steel sector is expected to be more challenging due to persistent steel dumping issues, and (ii) intense pricing competition in the cement sector. • However, we expect earnings growth from aluminium counter, PMETAL, due to capacity expansion from Jan-16 onwards.	**OP:** PMETAL (TP: RM2.59) – **Preferred Pick** **UP:** ANNJOO (TP: RM0.61) LAFMSIA (TP: RM8.01)
Consumer	Maintain	• Prefer the F&B subsector over the retail/MLM subsectors due to its defensive nature while the persistently weak consumer sentiment would limit the consumer spending particularly in the discretionary items. • Avoid the tobacco sector following the massive excise duty hike.	**OP:** CARLSBG (TP: RM13.86) DLADY (TP: RM58.51) GAB (TP: RM15.36) OLDTOWN (TP: RM1.76) – **Top Pick** **MP:** AMWAY (TP: RM9.83) BAT (TP: RM57.78) NESTLE (TP: RM76.20) PADINI (TP: RM1.82) PARKSON (TP: RM1.01)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
			QL (TP: RM4.16) **UP:** AEON (TP: RM2.42) HAIO (TP: RM2.22) ZHULIAN (TP: RM1.41)
Media	**Maintain**	• Despite the sector's valuation appear enticing at forward PER of only 10.1x (which is not far from its 6-year's trough PER of 8.2x), it still does not warrant a conviction upgrade yet in view of the lack of key earnings catalysts amid a challenging operational environment as a result of the weak MYR and consumer spending. • Decent dividend yield appears to be the only saving grace for the sector.	**OP:** ASTRO (TP: UNDER REVIEW; Previous TP: RM3.30) **– Preferred Pick** **MP:** MEDIA (TP: RM1.48) MEDIAC (TP: RM0.61) STAR (TP: RM2.36)
MREITs	**Maintain**	• Post interest rate hike, we expect knee-jerk reactions to bond yields which may last for a couple of months before normalising. However, we do not expect the 10-year MGS to be severely affected as increments to the U.S. interest rates will be very gradual, which would help limit market shocks and volatility to the MGS. • We believe earnings trajectory will be relatively flat for FY16 due to the weak retail and office environment. • As the sector lacks strong catalyst while downsides are largely priced in, we maintain our NEUTRAL call for the MREITs.	**OP:** PAVREIT (TP: RM1.68) SUNREIT (TP: RM1.73) **MP:** AXREIT (TP: RM1.69) IGBREIT (TP: RM1.38) KLCC (TP: RM7.13) **UP:** CMMT (TP: RM1.31)
Oil & Gas	**Maintain**	• While current valuations may suggest bottoming for the sector, significant earnings risk remain in the year ahead while more asset impairments are expected with asset utilisations expected to come down further. • The slump in upstream activities is expected to persist for a while more. We prefer downstream and contract-backed upstream players like PCHEM, ARMADA and YINSON.	**OP:** ARMADA (TP: RM1.17) **– Top Pick** GASMSIA (TP:RM2.68) PCHEM (TP: RM7.50) SKPETRO (TP: 2.38) YINSON (TP: RM4.04) **MP:** BARAKAH (TP: RM0.94) COASTAL (TP: RM1.99) DAYANG (TP: RM1.43) DIALOG (TP: RM1.71) MHB (TP: RM1.00) PANTECH (TP: RM0.58) PERISAI (TP: RM0.32) PETDAG (TP: RM22.35) **UP:** ALAM (TP: RM0.32) PETGAS (TP: RM21.99) UZMA (TP: RM1.77)

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
			WASEONG (TP: RM0.80)
Plantation	**Maintain**	• We think 1Q16 CPO prices are likely to appreciate because: (i) CPO price discount to soybean oil is at a 2-year's high, and (ii) expected stock drawdown due to production low season. • Investors may wish to position for a short-term rally, although we expect CPO prices to be dragged longer term by rising US interest rates and persistently weak crude oil prices.	**OP:** CBIP (TP: RM2.49) TAANN (TP: RM5.70) **– Top Pick** UMCCA (TP: RM7.05) **MP:** IJMPLNT (TP: RM3.64) IOICORP (TP: RM4.52) KLK (TP: RM22.80) PPB (TP: RM16.92) **UP:** FGV (TP: RM1.47) GENP (TP: RM9.40) SIME (TP: RM8.00) TSH (TP: RM1.95)
Plastics & Packaging	**Downgrade**	• We believe the sector is now fairly valued due to a stabilising MYR while capacity upgrades are already priced in. Resin cost is likely to be stable <USD1,200/MT. • Nevertheless, long-term prospects remain positive as the sector is a TPPA beneficiary, plus Reinvestment Allowance should help keep taxes below the corporate rate for the next 3 years.	**MP:** SCIENTX (TP: RM9.49) SLP (TP: RM1.87) TGUAN (TP: RM3.07)
Property	**Maintain**	• Sector lacks catalysts while 2016 sales growth may decline or be flat at best for developers under our coverage. Valuations expected to stay closer to trough levels plus there is risk for further sector de-ratings if developers' headline sales continue to weaken.	**OP:** ECOWLD (TP: RM1.90) **– Preferred Pick** HUAYANG (TP: RM2.20) **– Preferred Pick** KSL (TP: RM1.72) UOADEV (TP: RM2.22) **– Preferred Pick** **MP:** MAHSING (TP: RM1.47) MATRIX (TP: RM2.46) MRCB (TP: RM1.39) SPSETIA (TP: RM3.50) SUNWAY (TP: RM3.27) UEMS (TP: RM1.20) **UP:** CRESNDO (TP: RM1.74) IOIPG (TP: RM2.09)
Shipping & Ports	**Maintain**	• Moving forward, the shipping sector is expected to be supported by strong recovery in petroleum segment considering the rising demand and limited supply. • As for the port operators, weak trade volume on the	**OP:** MISC (TP: RM10.64) **– Preferred Pick**

Sector	Sector Call Changes	Brief Comments	Stock Calls/Ratings
		back of slowing global economy growth may put pressure on the throughput growth and lead to more intense competition in the industry.	**MP:** BIPORT (TP: RM6.81) WPRTS (TP: RM4.52) **Accept Offer** NCB (TP: RM4.40)
Technology / Semiconductor	**Maintain**	• We see the risk and reward ratio as no longer compelling given the rich valuations in some counters. Note that global semiconductor sales have also been slowing down with an obvious sign in July, with the latest semiconductor sales registered in October (-2.5% YoY) which marked the fourth straight month of sales weakness, we do not discount that the industry slowdown could have already been in the making; with growth tipping off from the high base alongside with the softening demand from major economies. • Having said that, we raise our 2016 USD/MYR assumption from RM4.20/USD to RM4.40/USD to align with our latest forecast. This should increase the earnings estimates of MPI and UNISEM by c.5% for CY2016.Limited upside of 4.7% based on targeting sector market capitalisation.	**OP:** SKPRES (TP: RM1.76) **– Top Pick** **MP:** MPI (TP: RM9.71) NOTION (TP: RM0.43) UNISEM (TP: RM2.27)
Telecommuni-cations	**Downgrade**	• Limited upside of 4.7% based on targeting sector market capitalisation. • Competition in the mobile segment is expected to remain intense with service revenue likely to grow by a low single digit. • Decent sector dividend yield of 4% in FY16 could provide shelter to investors during uncertainty.	**OP:** TM (TP: RM7.33) **– Top Pick** AXIATA (TP: RM6.92) **MP:** DIGI (TP: RM5.60) MAXIS (TP: RM6.48)

Source: Kenanga Research

Figure 26: 1Q16 Top Picks

Top Picks	Comments
ARMADA (OP; TP: RM1.17)	Earnings risks remain for its OSV & T&I division which is tied to the upstream activity. However, its FPSO earnings stream is still consistent with strong contract backing of the FPSO jobs. 2017 could be a bumper year for the group with new FPSO jobs kicking in (FPSO Kraken) in full swing alongside with partial contribution from its currently work-in-progress FPSO contracts (Rainbow, Olombendo & FSU Malta). A Buy for long-term investors.
KIMLUN (OP; TP: RM2.05)	KIMLUN remained as our Top Pick for 1Q16, being the frontrunner for the supply of IBS components to both MRT2 and LRT3, and its consistent earnings delivery as compared to other contractors. That said, we also believe that KIMLUN is set to enjoy the first mover advantage in the IBS segment given government's initiative in promoting the usage of IBS.
OLDTOWN (OP; TP: RM1.76)	A viable laggard play in the premium F&B sector with earnings growths forecasted at 1.7% and 9.3% in the next 2 years, driven by the robust growth in FMCG business. Its CAFÉ PBT contribution to the Group has shrunk to 32.8% in 1H16 from 44% in FY15 (FY12:55%) which profiled it more as a growing FMCG play. Besides, its strong balance sheet position with net cash of RM151.0m (32.6 sen/share) provide further room for higher dividend pay-out which could translate into yield of >5%.
PESTECH (OP; TP: RM7.43)	Now a concessionaire player after securing a 25-year power transmission contract in Cambodia in April 2015. The expected recurring income of c.RM16m-RM20m p.a. almost matches its reported earnings in CY14. In addition, PESTECH is still at the growth stage with 3.5-year CAGR of 69% which is backed by c.RM857m orderbook that will keep them busy for the next three years.
PHARMA (OP; TP: RM6.95)	We prefer PHARMA for its: (i) defensive earnings as the sole concession holder to purchase, store, supplies and distribute approved drugs and medical products to Government hospitals and clinics nationwide; (ii) growth exposure in the healthcare and pharmaceutical industry supported by an ageing population, and (iii) decent dividend yield of 4.8%.
SKPRES (OP; TP: RM1.76)	SKPRES is our new TOP PICK for the tech sector, with investment merits of: 1) Solid reputation in the industry with world-class manufacturing capability, which warrants higher chances of it winning other contracts in the near to medium term; 2) Resilient earnings prospect (at a 2-year NP CAGR of 93%) backed by its on-hand long-term contracts from the top-notch home appliance maker, Dyson; 3) Earnings accretion from the acquisition of Tecnic; and 4) Strong Balance Sheet and healthy Operating Cash Flow which will support its generous Dividend Payout Policy of no less than 50% from its PATAMI (translating into decent dividend yield of 2.8%-4.9%). SKPRES is trading at an undemanding valuation of 10x FY17E PER, which is at an unjustified 17% discount from the industry average PER of 12x; all against its superb 2-year NP CAGR of 93% as well as the higher-than-industry (yet sustainable) margins backed by its cost pass through mechanism.
TAANN (OP; TP: RM5.70)	We like TAANN for its undemanding valuation (11-12x vs. peers' 18x) despite above-average FFB growth (15% vs. peers' 6%). Strong USD and regional timber shortage should provide upside to timber segment's earnings. Dividend yield is also attractive (5.1% vs peers' 2.4%).
TENAGA (OP; TP: RM15.42)	Back in the radar again after the removal of 1MDB overhang. With government's adhering to the scheduled half yearly tariff review, fuel cost risk is now being transferred to end-user based on the ICPT mechanism. Current PER of 13x is unwarranted given its earnings risk profile and index weighting status.
TM (OP; TP: RM7.33)	Less competition in its fixed-line broadband business and potential better-than-expected synergies from P1.
TOPGLOV (OP; TP: RM14.20)	TOPGLOV's historical valuation at peak earnings averaged at between 23-27x PER. The PER valuation of Top Glove (19x FY17E PER) has lagged its peers and is trading at an average 20% discount to KOSSAN (22x FY17E PER) and HARTA (27x CY17E PER). We consider the under-performance as unwarranted. The valuation gap should narrow when we consider that TOPGLOV has similar/higher total capacity and net profit level compared to KOSSAN and HARTA. We like TOPGLOV for: (i) its ability to evolve from purely a dominant latex-based rubber gloves producer into a higher margin nitrile-based products producer, (ii) undemanding PER valuation at discount to peers.

Source: Kenanga Research

Appendix II – Technical and Statiscal Analyses For FBMKLCI

Figure 27: Monthly Charting for FBMKLCI

Source: Bloomberg, Kenanga Research

Technically speaking, the FBMKLCI is still well supported above the long-term regression channel established since 1998 after testing the low of 1,503.68 in mid-August 2015. However, the technical bounce fails to overcome its steeper uptrend that was formed since 2008. This could be an early weakening sign. Furthermore, the index has been trending down in a temporary/short-term downtrend. Hence, we do not rule out a possible retest of the recent low if and when the upper downtrend channel line (of 1,710 and declining) is proven stubbornly strong. Nonetheless, this scenario is likely as per our Simulation Study. Our Monte Carlo Simulation Model suggests that FBMKLCI is likely to hover around 1,740, on average, in 2016 with a decent probability of testing 1,800-psychological resistance.

Figure 28: Monte Carlo Simulation Study for FBMKLCI (as at end-Dec15)

Distribution of Simulated FBMKLCI Till End-2016	1	2	3	4	5	6	7	8	9	10	Average
Mean	1,749.6	1,720.9	1,779.9	1,761.2	1,677.7	1,702.0	1,761.3	1,777.8	1,760.7	1,718.5	**1,741.0**
Standard Deviation	100.9	117.8	124.9	180.2	143.9	153.1	130.1	126.7	118.3	114.7	**131.1**
Kurtosis	1.4	0.3	(0.4)	0.0	0.8	0.8	(0.3)	(0.3)	0.9	(0.5)	**0.3**
Skewness	0.8	(0.4)	0.7	0.3	(0.3)	0.3	0.7	0.5	0.8	0.1	**0.4**
Range	696.1	598.7	586.1	904.1	759.5	862.2	628.9	585.2	679.4	597.0	**689.7**
Minimum	1,483.9	1,373.4	1,516.7	1,322.8	1,289.3	1,286.9	1,513.6	1,547.7	1,484.9	1,442.9	**1,426.2**
Maximum	2,180.0	1,972.1	2,102.8	2,226.9	2,048.8	2,149.1	2,142.5	2,132.8	2,164.3	2,039.9	**2,115.9**
Count	2,611.0	2,611.0	2,611.0	2,611.0	2,611.0	2,611.0	2,611.0	2,611.0	2,611.0	2,611.0	**2,611.0**
At 68% Confidence Level,											
FBMKLCI is expected to oscilate between	1,648.7	1,603.2	1,655.0	1,581.0	1,533.8	1,548.8	1,631.2	1,651.1	1,642.4	1,603.8	**1,609.9**
and	1,850.5	1,838.7	1,904.8	1,941.4	1,821.6	1,855.1	1,891.4	1,904.6	1,879.0	1,833.2	**1,872.0**
Probability of KLCI <=	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	1,550.0	**1,550.0**
=	2.4%	7.3%	3.3%	12.1%	18.7%	16.1%	5.2%	3.6%	3.7%	7.1%	**8.0%**
Probability of KLCI <=	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	**1,600.0**
=	6.9%	15.2%	7.5%	18.6%	29.5%	25.3%	10.8%	8.0%	8.7%	15.1%	**14.5%**
Probability of KLCI <=	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	**1,650.0**
=	16.2%	27.3%	14.9%	26.9%	42.4%	36.7%	19.6%	15.7%	17.5%	27.5%	**24.5%**
Probability of KLCI >=	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	1,700.0	**1,700.0**
=	68.8%	57.1%	73.9%	63.3%	43.8%	50.5%	68.1%	73.0%	69.6%	56.4%	**62.5%**
Probability of KLCI >=	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	1,750.0	**1,750.0**
=	49.8%	40.3%	59.5%	52.5%	30.8%	37.7%	53.5%	58.7%	53.6%	39.2%	**47.5%**
Probability of KLCI >=	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0	**1,800.0**
=	30.9%	25.1%	43.6%	41.5%	19.8%	26.1%	38.3%	43.1%	37.0%	23.9%	**32.9%**

Source: Kenanga Research

Appendix III - Model Portfolio

The local equity market continued to face pressure from a weakening Ringgit, political uncertainty and the indecision of the timing of US interest rate hike in 4Q15. The latter concern, however, has finally been removed following the US central bank's decision to raise its interest rates by a quarter percentage point in mid-December and pledge of a gradual pace of further increases. This marks the end to the near-zero borrowing costs that have prevailed since the US was struck by the worst financial crisis in modern times.

Despite higher market volatility coupled with persistent foreign funds' outflow, our model portfolio still managed to sail through the challenging waves and record a superior total return of 8.37% in 4Q15, outpacing the FBMKLCI by 306 bps. Although our model portfolio underperformed the index by 41 bps in 3Q15, we still recorded a handsome 3.03% total return in the year 2015 and outpaced the benchmarked index by 396 bps on a full-year basis.

Dividend-wise, our 4Q15 model portfolio received a total RM320k or 0.89% during the quarter which aligned with the FBMKLCI's performance, despite the model portfolio merely consisted of 71.03% coverage on the index-link stocks. The top three outperformers in the 4Q15 were TOPGLVE (+68.8%); MPI (+40.8%), and TAANN (+35.1%) while the underperformers came from PHARMA (-4.9%); WPTS (-3.1%) and DIGI (-2.3%).

Moving into the 1Q16, we believe the market will continue to be challenging and thus, assign a NEUTRAL weighting (or equal index link weighting) to most of the sectors to align with our strategy; a defined stock picking remains a key factor to outperformance. As part of the usual stock weighting rebalancing, we have also included all our 1Q16 top picks. The newly added stocks for the 1Q16 model portfolio include: (a) OLDTOWN, (b) DLADY, (c) RHBCAP, and (d) AXIATA.

These stock selections are to replace companies removed from the 4Q15 model portfolio (i.e. PWROOT, SLP, MITRA, AFG, and MAXIS).

Figure 29: Track Records of Kenanga Research Model Portfolio Return – Outperformed Market Despite Challenging Investment Environment during 4Q15

Kenanga Research Model Portfolio Return

	Initial Capital RM	Capital Invested	Unutilised cash	Capital Gain	Dividend Received	Total Gain	Capital Gain (based on initial cap)	Capital Gain (based on cap invested)	Total Return (based on initial capital)	KLCI Return	OP/(UP) (vs KLCI)
2Q11	25,000,000	24,562,500	437,500	470,815	360,606	25,831,421	1.88%	1.92%	3.33%	3.11%	0.22%
3Q11	25,831,421	25,235,032	596,389	(2,882,853)	242,681	23,191,250	-11.16%	-11.42%	-10.22%	-11.23%	1.01%
4Q11	23,191,250	22,999,232	192,018	3,112,904	186,868	26,491,022	13.42%	13.53%	14.23%	11.42%	2.81%
1Q12	26.491.022	26.491.022	-	1.217.337	168.843	27.877.202	4.60%	4.60%	5.23%	4.96%	0.27%
2Q12	27,877,202	27,877,202	-	(1,771)	403,846	28,279,278	-0.01%	-0.01%	1.44%	1.42%	0.02%
3Q12	28,279,278	28,279,278	-	749,917	275,492	29,304,687	2.65%	2.65%	3.63%	3.39%	0.24%
4Q12	29,304,687	29,304,687	-	1,016,154	270,543	30,591,385	3.47%	3.47%	4.39%	3.95%	0.44%
1Q13	30.591.385	30.591.385	-	(22.393)	136.028	30.705.020	-0.07%	-0.07%	0.37%	-0.56%	0.93%
2Q13	30,705,020	30,705,020	-	3,497,282	548,180	34,750,482	11.39%	11.39%	13.18%	7.55%	5.63%
3Q13	34,750,482	34,750,482	-	220,246	589,624	35,560,352	0.63%	0.63%	2.33%	0.73%	1.60%
4Q13	35,560,352	35,560,352	-	2,592,450	158,196	38,310,998	7.29%	7.29%	7.74%	5.83%	1.91%
1Q14	38.310.998	38.310.998	-	150.896	226.095	38.687.989	0.39%	0.39%	0.98%	0.40%	0.58%
2Q14	38,687,989	38,687,989	-	1,453,097	357,869	40,498,955	3.76%	3.76%	4.68%	2.75%	1.93%
3Q14	40,498,955	40,498,955	-	(608,326)	373,667	40,264,296	-1.50%	-1.50%	-0.58%	-1.02%	0.44%
4Q14	40,264,296	40,264,296	-	(3,006,931)	235,986	37,493,351	-7.47%	-7.47%	-6.88%	-3.91%	-2.97%
1Q15	37,493,351	37,493,351	-	1,608,167	230,156	39,331,674	4.29%	4.29%	4.90%	4.56%	0.34%
2Q15	39,331,674	39,331,674	-	(2,267,133)	351,039	37,415,580	-5.76%	-5.76%	-4.87%	-5.98%	1.11%
3Q15	37,415,580	37,415,580	-	(2,038,613)	269,228	35,646,195	-5.45%	-5.45%	-4.73%	-4.32%	-0.41%
4Q15	35,646,195	35,646,195	-	2,662,237	320,294	38,628,726	7.47%	7.47%	8.37%	5.31%	3.06%

Source: Kenanga Research

Figure 30: Model Portfolio for 4Q15

No	Industry / Company	12Mths ADJ Beta	No of Shares	Avg Cost/Share	Share Price @ 30-Dec-15	Unrealised Profit/(Loss) Q-to-Date	% Change Q-t-D	Weighting (as % of NAV)	Latest Dividend Ex-Date	Gross Dividend
				RM	RM	RM	%	X		RM
I	**CONSUMER**					**786,747**	**36.78%**	**6.00%**		
1	TOP GLOVE CORP BHD	0.90	110,428	8.07	13.62	612,876	68.77%	2.50%	1/11/2016	0.03
2	POWER ROOT BHD	0.67	304,668	2.34	2.69	106,634	14.96%	2.00%	12/10/2015	0.03
3	SLP RESOURCES BHD	1.00	320,175	1.67	1.88	67,237	12.57%	1.50%	12/11/2015	0.02
II	**CONSTRUCTION/PROPERTY**					**177,366**	**16.59%**	**3.00%**		
3	KIMLUN CORP BHD	1.05	445,577	1.20	1.40	89,115	16.67%	1.50%	7/21/2015	0.04
4	MITRAJAYA HOLDINGS BHD	0.86	519,119	1.03	1.20	88,250	16.50%	1.50%	8/17/2015	0.03
III	**FINANCIAL SERVICES**					**311,255**	**2.73%**	**32.00%**		
5	CIMB GROUP HOLDINGS BHD	1.26	519,507	4.46	4.57	57,146	2.47%	6.50%	9/21/2015	0.030
6	MALAYAN BANKING BHD	0.87	458,070	8.56	8.45	(50,388)	-1.29%	11.00%	10/8/2015	0.240
7	PUBLIC BANK BERHAD	0.65	244,152	17.52	18.56	253,918	5.94%	12.00%	8/12/2015	0.240
8	HONG LEONG BANK BERHAD	0.69	42,168	12.68	13.40	30,361	5.68%	1.50%	10/29/2015	0.251
9	ALLIANCE FINANCIAL GROUP BHD	0.95	106,407	3.35	3.54	20,217	5.67%	1.00%	12/11/2015	0.080
IV	**GAMING**					**10,158**	**0.47%**	**6.00%**		
10	BERJAYA SPORTS TOTO BHD	0.42	293,498	3.06	3.03	(1,855)	-0.21%	2.50%	1/18/2016	0.050
11	GENTING BHD	0.77	171,612	7.27	7.34	12,013	0.96%	3.50%	6/26/2015	0.030
IV	**OIL & GAS**					**347,129**	**9.74%**	**10.00%**		
12	PETRONAS CHEMICALS GROUP BI	0.88	203,195	6.14	7.24	223,514	17.92%	3.50%	8/20/2015	0.080
13	PETRONAS GAS BHD	1.09	40,581	21.96	22.70	30,030	3.37%	2.50%	11/18/2015	0.150
14	YINSON HOLDINGS BHD	1.39	247,543	2.88	2.90	4,951	0.69%	2.00%	8/14/2015	0.015
15	BUMI ARMADA BERHAD	0.89	770,729	0.93	1.04	88,634	12.43%	2.00%	6/11/2015	0.016
V	**PLANTATION**					**327,871**	**8.00%**	**11.50%**		
16	SIME DARBY BERHAD	1.03	251,674	7.79	7.82	7,550	0.39%	5.50%	12/9/2015	0.190
17	IOI CORP BHD	1.20	262,748	4.07	4.40	86,707	8.11%	3.00%	9/8/2015	0.045
18	TA ANN HOLDINGS BERHAD	0.85	144,512	3.70	5.00	187,865	35.14%	1.50%	12/1/2015	0.100
19	CB INDUSTRIAL PRODUCT HLDG	1.16	285,932	1.87	2.03	45,749	8.56%	1.50%	12/11/2015	0.030
VI	**POWER**					**275,798**	**10.32%**	**9.50%**		
20	TENAGA NASIONAL BHD	0.89	222,418	12.02	13.26	275,798	10.32%	7.50%	12/15/2015	0.190
21	PESTECH INTERNATIONAL BHD	0.64	122,706	5.81	6.75	115,344	16.18%	2.00%	4/14/2015	0.040
VII	**TELECOMMUNICATION**					**45,362**	**0.80%**	**16.00%**		
22	MAXIS BHD	0.73	217,687	6.55	6.81	56,599	3.97%	4.00%	11/26/2015	0.050
23	TELEKOM MALAYSIA BHD	1.36	346,857	6.68	6.78	34,686	1.50%	6.50%	9/7/2015	0.093
24	DIGI.COM BHD	1.36	353,251	5.55	5.42	(45,923)	-2.34%	5.50%	11/6/2015	0.051
VIII	**TRANSPORT**					**227,003**	**10.61%**	**3.00%**		
25	MISC BHD	0.95	81,014	8.80	9.37	46,178	6.48%	2.00%	8/18/2015	0.075
26	WESTPORTS HOLDINGS BHD	1.00	84,071	4.24	4.11	(10,929)	-3.07%	1.00%	8/13/2015	0.053
VIII	**OTHERS**					**191,754**	**17.93%**	**3.00%**		
27	PHARMANIAGA BERHAD	1.57	82,260	6.50	6.18	(26,323)	-4.92%	1.50%	12/9/2015	0.090
28	MALAYSIAN PACIFIC INDUSTRIES	0.67	80,769	6.62	9.32	218,077	40.79%	1.50%	12/1/2015	0.080
		0.95				**2,662,237**	**7.43%**	**100.00%**		
	Total Dividend Received in 4Q15					**320,294**	**0.89%**			
	Total Return					**2,982,531**	**8.33%**			
	KLCI					72.10	4.45%			
	KLCI - TOTAL RETURN						5.31%			

Source: Kenanga Research

Figure 31: Suggested Model Portfolio for 1Q16

No	Industry / Company	12Mths ADJ Beta	No of Shares	Avg Cost/Share	Share Price @ 30-Dec-15	Unrealised	% Change Q-t-D	Weighting (as % of NAV)	Latest Dividend Ex-Date	Gross Dividend
				RM	RM	RM	%	X		RM
I	**CONSUMER**					**0**	**0.00%**	**6.50%**		
1	TOP GLOVE CORP BHD	0.90	70,904	13.62	13.62	0	0.00%	2.50%	1/11/2016	0.03
2	OLDTOWN BHD	1.25	476,898	1.62	1.62	0	0.00%	2.00%	9/28/2015	0.03
3	DUTCH LADY MILK INDS BHD	1.00	16,197	47.70	47.70	0	0.00%	2.00%	12/1/2015	0.50
II	**CONSTRUCTION/PROPERTY**					**0**	**0.00%**	**1.00%**		
3	KIMLUN CORP BHD	1.05	275,919	1.40	1.40	0	0.00%	1.00%	7/21/2015	0.04
III	**FINANCIAL SERVICES**					**0**	**0.00%**	**32.00%**		
4	CIMB GROUP HOLDINGS BHD	1.26	422,634	4.57	4.57	0	0.00%	5.00%	9/21/2015	0.030
5	MALAYAN BANKING BHD	0.87	502,859	8.45	8.45	0	0.00%	11.00%	10/8/2015	0.240
6	PUBLIC BANK BERHAD	0.65	249,755	18.56	18.56	0	0.00%	12.00%	8/12/2015	0.240
7	HONG LEONG BANK BERHAD	0.69	57,655	13.40	13.40	0	0.00%	2.00%	10/29/2015	0.251
8	RHB CAPITAL BHD	0.85	134,830	5.73	5.73	0	0.00%	2.00%	3/25/2015	0.058
IV	**GAMING**					**0**	**0.00%**	**6.00%**		
9	BERJAYA SPORTS TOTO BHD	0.42	318,719	3.03	3.03	0	0.00%	2.50%	1/18/2016	0.050
10	GENTING BHD	0.77	184,197	7.34	7.34	0	0.00%	3.50%	6/26/2015	0.030
IV	**OIL & GAS**					**0**	**0.00%**	**10.00%**		
11	PETRONAS CHEMICALS GROUP BHD	0.88	186,741	7.24	7.24	0	0.00%	3.50%	8/20/2015	0.080
12	PETRONAS GAS BHD	1.09	42,543	22.70	22.70	0	0.00%	2.50%	11/18/2015	0.150
13	YINSON HOLDINGS BHD	1.39	266,405	2.90	2.90	0	0.00%	2.00%	8/14/2015	0.015
14	BUMI ARMADA BERHAD	0.89	742,860	1.04	1.04	0	0.00%	2.00%	6/11/2015	0.016
V	**PLANTATION**					**0**	**0.00%**	**11.50%**		
15	SIME DARBY BERHAD	1.03	271,685	7.82	7.82	0	0.00%	5.50%	12/9/2015	0.190
16	IOI CORP BHD	1.20	263,378	4.40	4.40	0	0.00%	3.00%	9/8/2015	0.045
17	TA ANN HOLDINGS BERHAD	0.85	115,886	5.00	5.00	0	0.00%	1.50%	12/1/2015	0.100
18	CB INDUSTRIAL PRODUCT HLDG	1.16	285,434	2.03	2.03	0	0.00%	1.50%	12/11/2015	0.030
VI	**POWER**					**0**	**0.00%**	**10.50%**		
19	TENAGA NASIONAL BHD	0.89	247,620	13.26	13.26	0	0.00%	8.50%	12/15/2015	0.190
20	PESTECH INTERNATIONAL BHD	0.64	114,455	6.75	6.75	0	0.00%	2.00%	4/14/2015	0.040
VII	**TELECOMMUNICATION**					**0**	**0.00%**	**16.00%**		
21	AXIATA GROUP BERHAD	1.27	361,579	6.41	6.41	0	0.00%	6.00%	9/28/2015	0.080
22	TELEKOM MALAYSIA BHD	1.36	341,847	6.78	6.78	0	0.00%	6.00%	9/7/2015	0.093
23	DIGI.COM BHD	1.36	285,083	5.42	5.42	0	0.00%	4.00%	11/6/2015	0.051
VIII	**TRANSPORT**					**0**	**0.00%**	**3.00%**		
24	MISC BHD	0.95	82,452	9.37	9.37	0	0.00%	2.00%	8/18/2015	0.075
25	WESTPORTS HOLDINGS BHD	1.00	93,987	4.11	4.11	0	0.00%	1.00%	8/13/2015	0.053
VIII	**OTHERS**					**0**	**0.00%**	**3.50%**		
26	PHARMANIAGA BERHAD	1.57	125,012	6.18	6.18	0	0.00%	2.00%	12/9/2015	0.090
27	SKP RESOURCES BHD	0.33	438,963	1.32	1.32	0	0.00%	1.50%	9/30/2015	0.020
		0.98				**0**	**0.00%**	**100.00%**		
	Total Dividend Received in 1Q16					**0**	**0.00%**			
	Total Return					**0**	**0.00%**			
	KLCI					0.00	0.00%			
	KLCI - TOTAL RETURN						0.00%			

Source: Kenanga Research

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Published and printed by:

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