

Banking

NEUTRAL

BNM Stats: (Jan 19) – As Expected, Moderating



By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

Jan 19 loans saw a resilient but moderating trend as loans growth shed 10bps to +5.5% YoY. Both Business and Households saw moderation in trend. Moderate indications continued as both applications and approvals fell 5.5 and 4.8% YoY, respectively. With uncertainties and volatility still prevailing, our NEUTRAL stance is under review. Our OUTPERFORM call for the banks under our coverage, i.e. AFFIN (TP: RM2.60), ABMB (TP: 4.45), AMBANK (TP: RM4.95), BIMB (TP: RM5.05), MAYBANK (TP: RM10.20) and MBSB (TP: RM1.15). The others are rated as MARKET PERFORM.



Resilient beginning but moderating... Loans growth for 2019 begins strongly at (+5.5% YoY vs Dec 18: +5.6% YoY), to RM1,678b) but MoM moderated by 30bps to +0.3%. Performances were mixed as Business started strongly (+5.3% YoY vs Jan 18: +2.1%) whilst Households moderated (+5.6% YoY vs Jan 18: +6.4% YoY). Business and Households shed 20bps each from Dec 18. On an annualized basis, moderation was significant with loans at +3.6% YoY (vs Jan 18: +5.5% YoY).

The moderation in Business was exemplified in loans for *Purchase of Securities and Other Purposes* (at +6.7% and +11.9% YoY vs Dec 18: +7.1% and +12.9% YoY, respectively). *Working Capital* saw an uptick of 10bps (from Dec 18) to +5.5% YoY. Both purchase of residential property and passenger cars moderated at +7.4% and +7.6% YoY (vs Dec 18: +7.4% and +7.6% YoY, respectively) while the credit cards space gained 60bps to +2.6% YoY. 18: +5.5% YoY). Jan 19 also saw higher loans repayments +14.2% YoY vs. disbursements of +11.0% YoY (Dec 18: +22.4% vs. +13.2%) which contributed to the slight moderation in loans for Jan 19. Business repayments outpaced disbursements (+16% YoY vs +13% YoY), while Household repayments outpaced disbursements (+9 YoY vs +6% (YoY)).

Overall net financing in the system shed 30bps to +5.5% as demand for both loans and corporate bonds slipped, with loans shedding 10bps to +5.0% YoY while corporate bonds shed 70bps to +7.3% YoY

Weak overall sentiments... The moderation in outstanding loans was compounded by weak sentiments as loans applications fell 5.5% YoY to RM70,654b led by falling applications from Business (-10% YoY vs Dec 18: +13% YoY) to RM34,519b and Households at -0.7% YoY (vs Dec 18: -2.2% YoY) to RM36,134b. Falling Business applications were led by *Working Capital* and *Purchase of Securities* (-14% YoY and -27.0% YoY respectively) with residential mortgages sliding 130bps to +6.0% YoY. Fall in Households applications were led by HP and credit card applications (-8% YoY and -14% YoY, respectively vs Dec 18: -21% and -3% YoY, respectively).

Weak start for approvals. Compounding the weak applications was the falling approvals (-4.8% YoY vs Dec 18: -8.5% YoY) as both Business and Households approvals slid further. (Business approvals slid further (-8.3% YoY) to RM15,431b (vs Dec 18: -13.0%). Falling Households approvals moderated (-0.9% YoY vs Dec 18: -2.1% YoY) to RM15,143b.

Falling Business approvals were led by *Purchase of Securities* (-37% YoY vs Dec 18: +54% YoY) and *Other Purposes* (45% YoY vs Dec 18: -70% YoY). Working capital approvals rebounded to +18% in Jan 19. For Households, the moderation in falling applications was attributed to a moderate fall in HP (-1% vs Dec 18: -12%). Approvals for credit card fell further (-25% vs Dec 18: 21%).

For Jan 19, approval rate in the system slid 11ppt to 43.3% dragged by Business (44.7% vs. Dec 18: 59.1%) with households at 41.9% (vs. Dec 18: 44.4%).

As loans moderated, so do deposits. Liquidity is still stable for Jan 18, despite deposits moderated and shedding another 110bps to +7% YoY to RM1,877b. While CASA fell (-2% YoY), the remainder moderated notably FDs (+4% YoY vs Dec 18: +6% YoY) and *Other Deposits accepted* (+6% YoY vs Dec 18: 12% YoY). Despite the fall in Deposits, CASA ratio remained stable at 26.5%. Loan-to-fund (LTF) ratio and loan-to-deposit ratio (LDR) were relatively stable at 83% and 89%, respectively, with excess liquidity to total deposits falling by 50bps to 10.6%.

Average lending rate was up by 2bps for Jan 19 to 5.04%, so does the 3-month deposit which remained flat at 3.17% alleviating downside pressure on NIM.

Asset quality remained stable. Generally, asset quality continued to be stable as GIL remained stable at 1.45% (Dec 18: 1.45%) with Net Impaired loans ratio at 0.91% (vs Dec 18: 0.91%). While Households' GIL remained steady at 1.09%, Business shed 1bps to 1.80% for Jan 19.

Loans growth prospect in 2019 seems to be challenging ahead with the prevailing uncertainties. Loans should be supported by resilient households on account of accommodative interest rates and stable asset quality. From the recent 4Q18 results, the banks in our universe guided for moderate loans for 2019 driven by Households. We expect 2019 loans growth to be <5%. Household demand will be supported by stable employment and wages with inflation looking subdued.

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The consistently improving asset quality will, in our opinion, sees banks having a healthier appetite for household loans and Personal Financing and we would not be surprised if competitive lending rates resurface (in order to prop up demand) putting downside pressure on NIM. The moderation in deposits and excess liquidity is a concern as NIM will be under pressure as funding costs are elevated should deposits intake intensify.

With **uncertainties on both domestic and external fronts prevailing**, potential total return in our banking universe is seen at ~6%; with no visible catalyst and potential game changer ahead. Our Neutral is under review present as we have a number of **OUTPERFORMers** in our coverage, i.e. AFFIN (TP: RM2.60), ABMB (TP: RM4.45) AMBANK (TP: RM4.95), BIMB (TP: RM5.05), (TP: RM6.10), MAYBANK (RM10.20) and MBSB (TP: RM1.25). The other banks are rated as MARKET PERFORM.

Fig 1: Industry Loan Growth by Breakdown

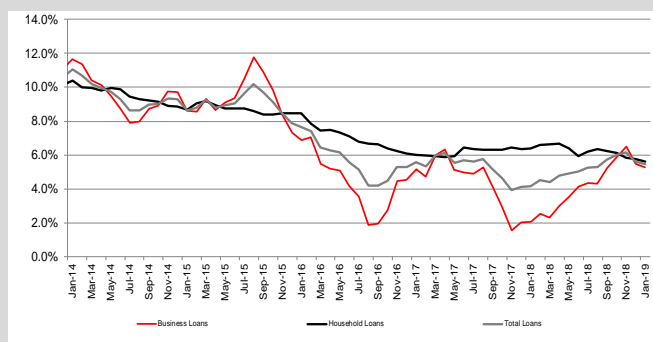
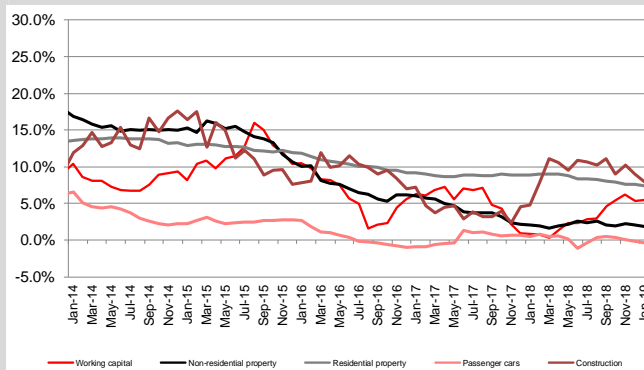


Fig 2: Industry Loans Growth by Economic Purpose



Source: BNM, Kenanga Research

Fig 3: Industry Loan Applications Growth by Breakdown

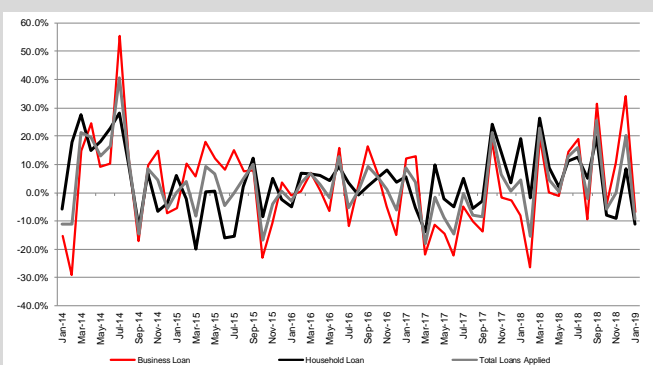
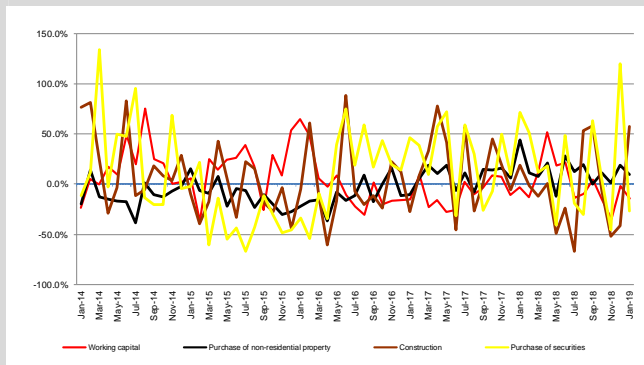


Fig 4: Industry Loan Application Growth by Economic Purpose



Source: BNM, Kenanga Research

Fig 5: Financing Growth

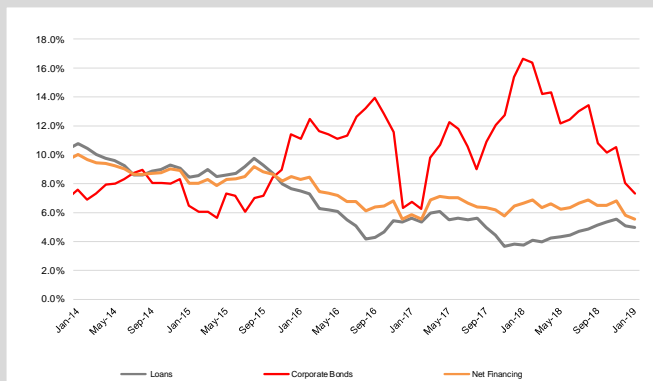
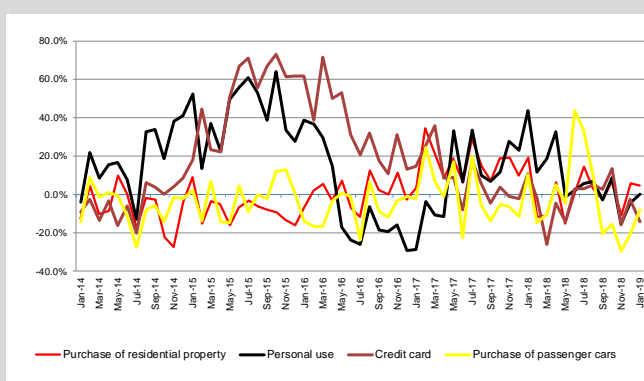


Fig 6: Household Loan Application Growth by Economic Purpose



Source: BNM, Kenanga Research

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Fig 7: Business Loan Approved Growth

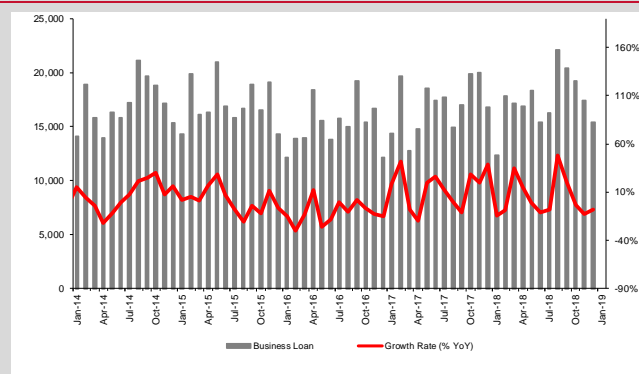
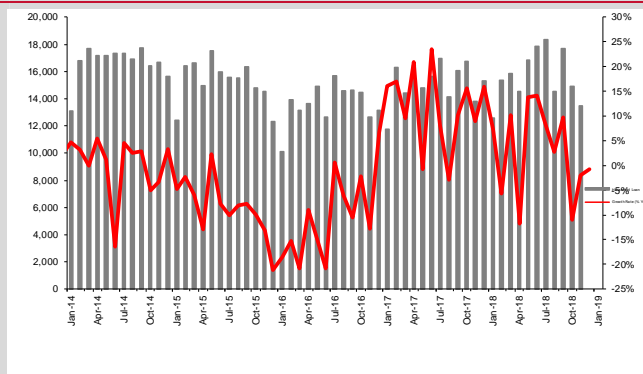
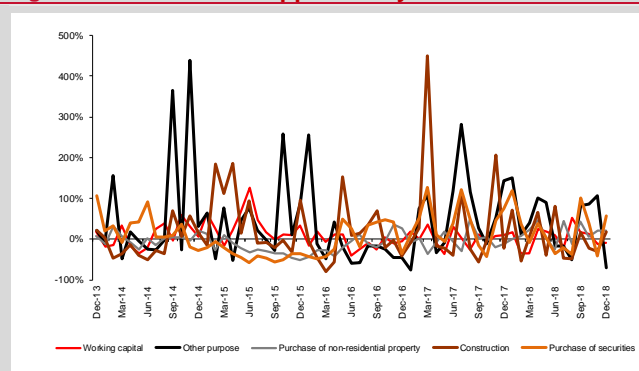


Fig 8: Household Loan Approved Growth



Source: BNM, Kenanga Research

Fig 9: Business Loans Approved by Breakdown



Source: BNM, Kenanga Research

Fig 10: Household Loans Approved by Breakdown

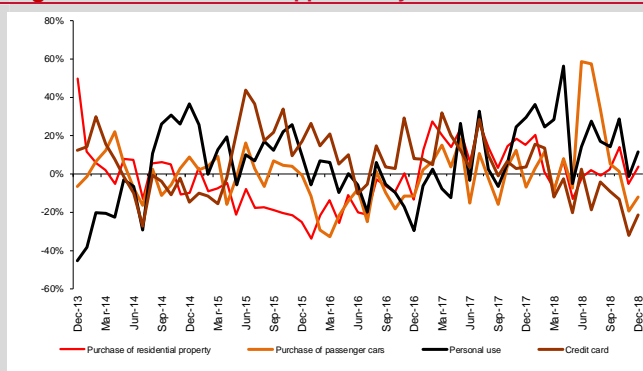
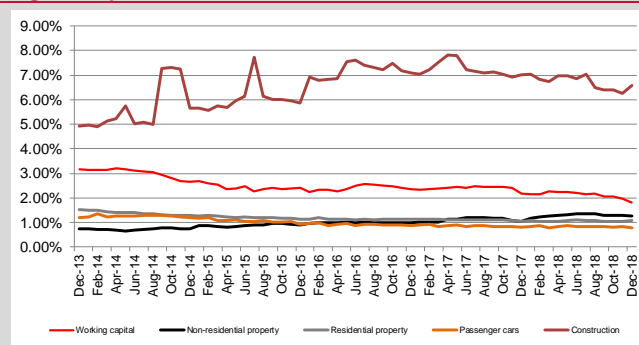


Fig 11: Impaired loans ratio breakdown



Source: BNM, Kenanga Research

Fig 12: Industry Net Impaired Loan Ratio

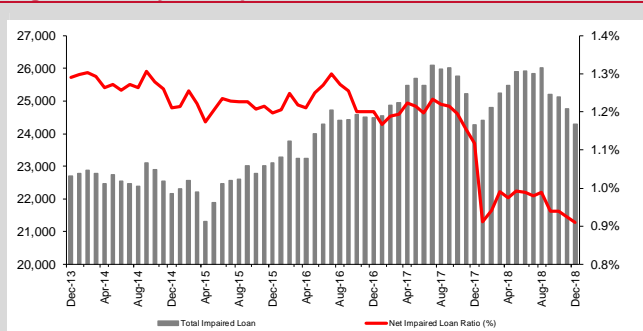


Table 1: Breakdown of Industry Loans

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY	Dec-18	% Ytd
Working capital	392,895.3	392,036.2	0.2%	372,530.6	5.5%	392,036.2	0.2%
Purchase of fixed assets other than land and building	9,558.1	9,599.7	-0.4%	8,765.5	9.0%	9,599.7	-0.4%
Purchase of securities	80,896.2	80,424.2	0.6%	75,816.2	6.7%	80,424.2	0.6%
Purchase of transport vehicles	8,868.9	8,939.2	-0.8%	9,058.0	-2.1%	8,939.2	-0.8%
Other purpose	79,683.6	80,155.5	-0.6%	71,196.4	11.9%	80,155.5	-0.6%
Purchase of non-residential property	218,186.4	217,719.4	0.2%	214,200.2	1.9%	217,719.4	0.2%
Construction	52,089.7	51,979.2	0.2%	48,279.9	7.9%	51,979.2	0.2%
Business Loan	842,178.2	840,853.5	0.2%	799,846.9	5.3%	840,853.5	0.2%
Purchase of residential property	562,591.3	558,966.3	0.6%	523,869.4	7.4%	558,966.3	0.6%
Purchase of passenger cars	159,724.6	159,897.4	-0.1%	160,271.2	-0.3%	159,897.4	-0.1%
Personal use	74,992.3	74,797.0	0.3%	69,676.2	7.6%	74,797.0	0.3%
Credit card	38,872.0	38,867.9	0.0%	37,899.5	2.6%	38,867.9	0.0%
Purchase of consumer durables	99.4	101.2	-1.7%	115.4	-13.9%	101.2	-1.7%
Household Loan	836,279.6	832,629.8	0.4%	791,831.8	5.6%	832,629.8	0.4%
Total Loans Outstanding	1,678,458	1,673,483	0.3%	1,591,679	5.5%	1,673,483	0.3%

Source: BNM

Table 2: Breakdown of Industry Loan Applications

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY
Working capital	12,427.7	12,546.0	-0.9%	14,518.2	-14.4%
Purchase of fixed assets other than land and building	657.8	602.5	9.2%	1,016.5	-35.3%
Purchase of securities	4,989.2	4,287.7	16.4%	6,832.9	-27.0%
Purchase of transport vehicles	271.5	198.2	37.0%	265.1	2.4%
Other purpose	3,564.2	3,786.6	-5.9%	5,231.4	-31.9%
Purchase of non-residential property	9,095.5	6,553.2	38.8%	8,267.2	10.0%
Construction	3,514.0	1,497.1	134.7%	2,226.0	57.9%
Business Loan	34,519.8	29,471.3	17.1%	38,357.3	-10.0%
Purchase of residential property	19,724.5	16,872.0	16.9%	18,830.5	4.7%
Purchase of passenger cars	6,764.5	4,967.6	36.2%	7,362.2	-8.1%
Personal use	6,142.4	4,957.1	23.9%	6,121.7	0.3%
Credit card	3,502.9	3,583.8	-2.3%	4,085.0	-14.3%
Purchase of consumer durables	0.0	0.6	-98.8%	0.5	-98.6%
Household Loan	36,134.4	30,381.1	18.9%	36,400.0	-0.7%
Total Loans Applied	70,654.2	59,852.4	18.0%	74,757.3	-5.5%

Source: BNM

Table 3: Breakdown of Industry Loan Approvals

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY
Working capital	9,164.8	6,901.8	32.8%	10,035.9	-8.7%
Purchase of fixed assets other than land and building	413.9	308.8	34.1%	394.1	5.0%
Purchase of securities	2,043.7	1,815.1	12.6%	1,304.1	56.7%
Purchase of transport vehicles	126.6	161.6	-21.6%	129.0	-1.8%
Other purpose	1,394.6	5,667.1	-75.4%	4,583.7	-69.6%
Purchase of non-residential property	2,995.4	2,976.0	0.7%	2,481.4	20.7%
Construction	1,273.8	1,403.1	-9.2%	1,084.2	17.5%
Business Loan	17,412.8	19,233.5	-9.5%	20,012.4	-13.0%
Purchase of residential property	7,618.0	8,913.2	-14.5%	7,327.9	4.0%
Purchase of passenger cars	2,892.0	2,971.6	-2.7%	3,288.9	-12.1%
Personal use	1,696.4	1,781.4	-4.8%	1,521.0	11.5%
Credit card	1,290.7	1,245.4	3.6%	1,642.2	-21.4%
Purchase of consumer durables	0.0	0.0	-100.0%	0.0	-100.0%
Household Loan	13,497.2	14,911.6	-9.5%	13,780.1	-2.1%
Total Loans Approved	30,910.0	34,145.1	-9.5%	33,792.5	-8.5%

Source: BNM

Table 4: Breakdown of Industry Loan Approvals Rate

RM'm	Jan-19	Dec-18	Ytd-19	Ytd-18
Working capital	56.8%	73.0%	49.9%	49.4%
Purchase of fixed assets other than land and building	49.4%	68.7%	51.0%	51.1%
Purchase of securities	50.5%	47.7%	62.8%	64.2%
Purchase of transport vehicles	66.3%	63.9%	58.0%	57.3%
Other purpose	41.6%	36.8%	61.8%	63.0%
Purchase of non-residential property	27.4%	45.7%	35.4%	36.2%
Construction	39.0%	85.1%	44.1%	44.6%
Business Loan	44.7%	59.1%	49.0%	49.4%
Purchase of residential property	41.0%	45.2%	42.7%	42.9%
Purchase of passenger cars	58.2%	58.2%	59.0%	59.1%
Personal use	29.0%	34.2%	30.4%	30.5%
Credit card	38.2%	36.0%	37.4%	37.3%
Purchase of consumer durables	57.1%	0.0%	33.2%	33.1%
Household Loan	41.9%	44.4%	43.1%	43.2%
Total Loans Approved Rate	43.3%	51.6%	46.0%	46.2%

Source: BNM

Table 5: Breakdown of Industry Loan Disbursements

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY
Working capital	65,256.3	71,734.2	-9.0%	55,687.2	17.2%
Purchase of fixed assets other than land and building	313.1	481.2	-34.9%	411.1	-23.8%
Purchase of securities	3,947.1	2,481.3	59.1%	4,231.2	-6.7%
Purchase of transport vehicles	430.6	420.2	2.5%	495.1	-13.0%
Other purpose	4,423.8	9,985.2	-55.7%	3,064.7	44.3%
Purchase of non-residential property	3,866.9	4,097.5	-5.6%	4,691.4	-17.6%
Construction	2,407.0	2,603.2	-7.5%	2,938.3	-18.1%
Business Loan	80,644.9	91,802.7	-12.2%	71,519.0	12.8%
Purchase of residential property	8,336.1	8,275.5	0.7%	8,677.4	-3.9%
Purchase of passenger cars	3,632.2	3,113.3	16.7%	3,840.0	-5.4%
Personal use	2,914.5	3,060.3	-4.8%	2,754.5	5.8%
Credit card	12,999.7	13,277.4	-2.1%	10,964.7	18.6%
Purchase of consumer durables	1.8	2.3	-24.0%	2.5	-29.0%
Household Loan	27,884.3	27,728.8	0.6%	26,239.1	6.3%
Total Loans Disbursed	108,529.2	119,531.5	-9.2%	97,758.1	11.0%

Source: BNM

Table 6: Breakdown of Total Deposits by Holder

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY	Dec-18	% Ytd
Federal Government	22,506.4	18,433.5	22.1%	21,998.6	2.3%	18,433.5	22.1%
State Government	29,702.3	29,267.1	1.5%	31,888.9	-6.9%	29,267.1	1.5%
Statutory authorities	65,682.0	70,408.3	-6.7%	56,993.3	15.2%	70,408.3	-6.7%
Financial institutions	333,847.3	344,355.5	-3.1%	281,075.3	18.8%	344,355.5	-3.1%
Business enterprises	634,437.7	646,471.6	-1.9%	613,786.3	3.4%	646,471.6	-1.9%
Individuals	710,647.8	703,705.4	1.0%	671,030.0	5.9%	703,705.4	1.0%
Others	105,177.2	103,391.8	1.7%	99,430.0	5.8%	103,391.8	1.7%
Total Deposits (& Repurchase) by Holder (RM'm)	1,902,000.8	1,916,033.2	-0.7%	1,776,202.5	7.1%	1,916,033.2	-0.7%

Source: BNM

Table 7: Breakdown of Total Deposits by Type

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY	Dec-18	% Ytd
Demand deposits	335,403.6	339,688.0	-1.3%	341,115.1	-1.7%	339,688.0	-1.3%
Fixed Deposits, Special Investment Deposit and General Investment Deposit	601,550.5	602,608.6	-0.2%	577,686.0	4.1%	602,608.6	-0.2%
Saving deposits	161,992.0	157,310.0	3.0%	152,265.7	6.4%	157,310.0	3.0%
Negotiable instruments of deposits	46,165.7	45,704.6	1.0%	44,144.7	4.6%	45,704.6	1.0%
Foreign currency deposits	138,763.4	142,418.6	-2.6%	115,498.1	20.1%	142,418.6	-2.6%
Other deposits accepted	244,252.1	251,651.9	-2.9%	229,728.8	6.3%	251,651.9	-2.9%
Total Deposit	1,876,614.5	1,883,307.8	-0.4%	1,757,973.3	6.7%	1,883,307.8	-0.4%
Repurchase agreements	25,386.3	32,725.4	-22.4%	18,229.2	39.3%	32,725.4	-22.4%
Total Deposits (RM'm) & Repurchase Agreements	1,902,000.8	1,916,033.2	-0.7%	1,776,202.5	7.1%	1,916,033.2	-0.7%

Source: BNM

Table 8: Breakdown of Industry Loan Repayments

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY
Working capital	63,654.6	70,044.2	-9.1%	54,396.8	17.0%
Purchase of fixed assets other than land and building	370.9	604.0	-38.6%	442.0	-16.1%
Purchase of securities	3,785.9	2,769.2	36.7%	3,813.9	-0.7%
Purchase of transport vehicles	521.8	491.3	6.2%	568.0	-8.1%
Other purpose	4,822.5	6,918.6	-30.3%	2,802.1	72.1%
Purchase of non-residential property	4,339.3	4,458.1	-2.7%	4,456.1	-2.6%
Construction	2,479.7	2,322.0	6.8%	2,407.0	3.0%
Business Loan	79,974.7	87,607.4	-8.7%	68,886.0	16.1%
Purchase of residential property	6,001.4	6,015.9	-0.2%	5,867.2	2.3%
Purchase of passenger cars	4,133.6	4,046.4	2.2%	4,223.8	-2.1%
Personal use	3,064.5	2,990.9	2.5%	2,716.4	12.8%
Credit card	13,401.9	12,693.6	5.6%	11,628.8	15.2%
Purchase of consumer durables	3.8	4.3	-11.6%	4.8	-20.1%
Household Loan	26,605	25,751	3.3%	24,441	8.9%
Total Loans Repaid (RM'm)	106,580	113,359	-6.0%	93,327	14.2%

Source: BNM

Table 9: Breakdown of Impaired Loans

RM'm	Jan-19	Dec-18	% MoM	Jan-18	% YoY	Dec-18	% Ytd
Working capital	7,048.7	7,112.3	-0.9%	7,983.2	-11.7%	7,112.3	7,048.7
Purchase of fixed assets other than land and building	237.8	238.5	-0.3%	164.8	44.3%	238.5	237.8
Purchase of securities	299.7	282.0	6.3%	257.2	16.5%	282.0	299.7
Purchase of transport vehicles	348.7	350.2	-0.4%	355.6	-1.9%	350.2	348.7
Other purpose	1,092.0	1,060.5	3.0%	1,015.4	7.5%	1,060.5	1,092.0
Purchase of non-residential property	2,778.3	2,765.2	0.5%	2,495.7	11.3%	2,765.2	2,778.3
Construction	3,390.2	3,423.0	-1.0%	3,395.5	-0.2%	3,423.0	3,390.2
Business Loan	15,195.3	15,231.7	-0.2%	15,667.3	-3.0%	15,231.7	15,195.3
Purchase of residential property	5,998.1	5,972.0	0.4%	5,654.2	6.1%	5,972.0	5,998.1
Purchase of passenger cars	1,229.5	1,226.1	0.3%	1,327.5	-7.4%	1,226.1	1,229.5
Personal use	1,552.8	1,525.6	1.8%	1,503.2	3.3%	1,525.6	1,552.8
Credit card	338.2	337.9	0.1%	432.7	-21.8%	337.9	338.2
Purchase of consumer durables	7.6	7.4	2.6%	1.8	323.7%	7.4	7.6
Household Loan	9,126.2	9,069.0	0.6%	8,919.4	2.3%	9,069.0	9,126.2
Total Non-Performing Loans	24,321.5	24,300.7	0.1%	24,586.7	-1.1%	24,300.7	24,321.5

Source: BNM

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BANKING																	
AFFIN BANK BHD	2.28	4,528.1	N	12/2019	20.0%	8.0%	12.4%	19.1%	9.5	9.4	7.9	0.5	0.5	5.6%	2.2%	2.60	OP
ALLIANCE BANK MALAYSIA BHD	4.20	6,502.0	N	03/2019	2.8%	4.2%	9.8%	4.1%	13.2	12.0	11.5	1.2	1.1	9.7%	4.0%	4.45	OP
AMMB HOLDINGS BHD	4.50	13,563.8	N	03/2019	3.4%	5.4%	27.3%	-7.3%	12.0	9.4	10.2	0.8	0.7	7.9%	3.6%	4.95	OP
BIMB HOLDINGS BHD	4.25	7,498.2	Y	12/2019	15.5%	12.3%	10.7%	12.2%	11.6	10.9	10.1	1.5	1.4	13.3%	3.6%	5.05	OP
CIMB GROUP HOLDINGS BHD	5.68	54,326.1	N	12/2019	4.6%	3.0%	-16.1%	-1.2%	9.5	11.7	12.3	1.0	0.9	8.2%	4.0%	6.10	MP
HONG LEONG BANK BERHAD	21.28	43,530.4	N	06/2019	5.8%	5.7%	2.0%	9.0%	16.5	16.2	14.8	1.8	1.8	11.0%	2.3%	20.60	MP
MALAYAN BANKING BHD	9.53	105,165.8	N	12/2019	5.2%	4.3%	1.6%	1.2%	13.0	12.8	12.6	1.4	1.2	10.1%	6.1%	10.20	OP
MALAYSIA BUILDING SOCIETY	1.01	6,453.0	N	12/2019	3.3%	-6.4%	22.7%	16.8%	14.4	12.6	10.8	0.8	0.9	7.0%	2.0%	1.15	OP
PUBLIC BANK BERHAD	25.02	97,131.1	N	12/2019	3.9%	5.2%	-0.1%	3.5%	17.3	17.3	16.7	2.4	2.4	13.7%	2.7%	24.10	MP
RHB BANK BHD	5.69	22,817.2	N	12/2019	6.0%	4.9%	5.0%	4.4%	9.9	9.4	9.0	1.0	0.9	10.0%	3.7%	5.80	MP
Simple Average					7.1%	4.7%	7.5%	6.2%	12.7	12.2	11.6	1.2	1.2	9.7%	3.4%		

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research

