PP10551/09/2012 (030567)
10 Nov 2011

Chris Eng
+60 (3) 9207 7677
chris.eng@my.oskgroup.com

The Research Team
+60 (3) 9207 7688
research2@my.oskgroup.com

Strategy

Invest Malaysia Hong Kong 2011

Zooming in on Stock Ideas

Invest Malaysia Hong Kong 2011 proved to be a success, with a 27% increase in the number of corporate showcased as well as the number of fund managers attending compared with 2010. Coupled with our pre-event marketing roadshow, we believe there is a substantial interest in Malaysian investment stories among Hong Kong investors although this was a little less than among Singaporean investors. Still, there is growing recognition that Malaysian mid cap companies are rewarding alternatives given the defensiveness of their business models and growth potential. We believe the Malaysian economy and market will continue to show tenacity in volatile times.

Part II of IMHK. OSK co-hosted the 2nd Invest Malaysia Hong Kong (IMHK) with Bursa Malaysia in Hong Kong on 3 Nov 2011. The attendance improved this time around from 58 last year to 74 fund managers this year, and from 11 corporates to 14 corporates. We also had the privilege of playing host to Dato' Sri Idris Jala, Minister in the Prime Minister's Department and CEO of PEMANDU, for the second time in HK, who presented a One-Year Report Card on the Economic Transformation Programme (ETP). Through the event, for which the theme was "Change Perspective", we hoped to change the perspective of Hong Kong investors towards Malaysia by highlighting the tenacity of Malaysian companies in achieving sustainable long term growth beyond the country's borders. In line with this theme - which fits in with the ETP - the 14 corporates which participated in IMHK 2011 were either from sectors that would see a long term transformation over the next 9 years to 2020, were shorter term beneficiaries of the ETP, OR were regional/global champions in their respective sectors.

Interest on actionable ideas. While the fund managers were happy to be updated on the ETP, we believe the greater part of their focus was on the corporates featured at the event, which attracted a fairly packed day of meetings. Investors were keen to identify good buys from among the participating corporate, with many new investors seeking to be briefed on the background of those companies. Repeat attendees expressed regret for not buying into our mid-cap outperformers such as QL Resources and KPJ Healthcare in a big way last year. While the corporates shed light on the developments within their own industries, a common thread across their stories was their resolute resilience moving into 2012, with defensive companies such as AEON, KPJ, Malaysia Airports, QL and SEGi highlighting their respective niches which should help them weather the tough times. Other companies such as Hong Leong, MBSB, MMC and Time dotcom, meanwhile, elaborated on the specific corporate developments that would carry them through 2012, such as digesting Hong Leong's merger, Gas Malaysia's listing for MMC and Time's acquisition of 3 telco companies. Overall, the 14 corporates gave a good pitch on why they were all BUY calls for OSK.

Continued exposure needed. While investors in Hong Kong are already aware of the ETP albeit only at the surface level, we feel that marketing efforts need to be continued to ensure that the longer term transformation plans in Malaysia appeal to the longer term investors there. Similarly, while Hong Kong investors (especially those with ASEAN funds) are generally familiar with bigger caps in Malaysia, continued marketing of our Mid and Small cap companies should be done to ensure as well as sustain interest in this rewarding segment of the Malaysian market. Malaysia remains a defensive market and despite the current volatile times, we remain NEUTRAL on the Malaysian market.

INVEST MALAYSIA HONG KONG 2011

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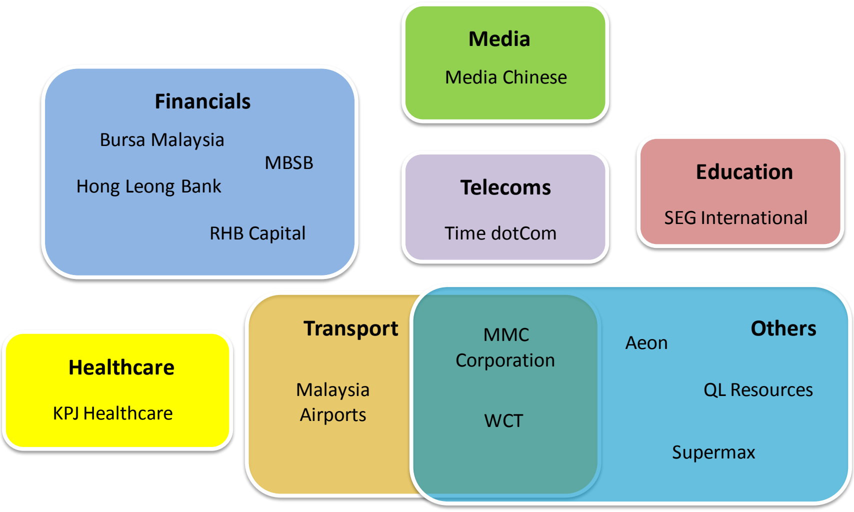
- AEON Co (M)
- Hong Leong Bank
- KPJ Healthcare
- Malaysia Airports Holdings
- Malaysia Building Society
- Media Chinese International
- MMC Corporation
- QL Resources
- RHB Capital
- SEG International
- Supermax Corporation
- Time dotcom
- WCT

Figure 1: Event details

Source: Bursa, OSK

Figure 2: The 14 participating companies



Source: OSK

Interest on actionable ideas. While the fund managers were happy to be updated on the ETP, we believe the greater part of their focus was the corporates attending the event, with all the corporates drawing a fairly packed day of meetings. The investors were keen to identify the good buys among the participating corporate, with many new investors seeking to be briefed on the background of those companies. Meanwhile, the second-time attendees expressed regret in not buying into our mid cap outperformers such as QL Resources and KPJ Healthcare in a big way. A summary of the Highlights from the Discussions is detailed below:

1. **The importance of human talent in the transformation of Malaysia**. For PEMANDU, the questions related to what Malaysia is doing to attract and retain talent to facilitate the transformation of Malaysia via the ETP. Dato' Sri Idris Jala highlighted the efforts of Talent Corp, the agency tasked with the difficult job of retaining talent and getting expatriate Malaysians to return or to contribute positively despite being overseas. He also reminded that the task of retaining talent also falls on the shoulders of the private sector in that this sector's compensation has to be attractive enough for Malaysians to stay put. He also said the challenge the private sector faces is being able to secure enough productivity gains to afford the higher compensation. Finally, Dato' Sri Idris explained the Government's role in expanding education facilities from the pre-school to vocational and university level to train more skilled labour in the country.
2. **AEON highlighted plans to expand to East Malaysia** and its ability to withstand a slowdown in 2012 given its target market of middle income consumers.
3. **Hong Leong Bank has no plans to rationalize its recently merged branch network** and instead intends to leverage on it to drive greater cross selling opportunities.
4. **KPJ Healthcare continues to see medical tourism and its retirement home business plans as future growth drivers.**
5. **Malaysia Airports will benefit from the recent hike in airport tax and airplane landing and parking charges**. It will also seek new partnerships to maximize utilization of its landbank.
6. **Malaysia Building Society will continue to see loans growth driven by personal financing for civil servants**.
7. **Media Chinese International sees Malaysia's adex growth likely remaining fairly sturdy for 2012.** The group continues to focus on a multi-platform approach for content delivery.
8. **MMC Corp's most immediate catalyst is the listing of Gas Malaysia,** targeted for end-2011**.**
9. **QL Resource's expansion in Vietnam and Indonesia are on track**. Commercialisation of its new palm pellet business also expected in FY14.
10. **RHB Capital's valuation remains compelling at 1.38x PBV despite having an above industry ROE of 14.6%**.
11. **SEG International is still targeting a student population of 32,000 by end-2012 from the 23,000 in 2010**. PAT margins are expected to sustain at >25% going forward on economies of scale.
12. **Supermax will continue to focus on the natural rubber glove segment as natural rubber prices retrace to moderate levels.** Nevertheless, all new production lines will have dual production capability.
13. **Time dotCom's management still sees the wholesale telecoms business as promising.** The proposed acquisition of 3 telecoms and data related companies is pending approval on 22 Nov.
14. **WCT is more cautious in tendering for jobs in the Middle East given the heightened risks there**. Nevertheless, it remains positive on Qatar over the longer term given the infrastructure development needed before the 2022 FIFA World Cup.

Need for continuous exposure. While investors in Hong Kong are already aware of the ETP albeit only at the surface level, we feel that marketing efforts need to be continued to ensure that the longer term transformation plans in Malaysia appeal to the longer term investors there. Similarly, while Hong Kong investors (especially those with ASEAN funds) are generally familiar with the bigger caps in Malaysia, there should be continued marketing of our Mid and Small cap companies to ensure interest in this rewarding segment of the Malaysian market can be sustained.

The detailed highlights from the individual corporate discussions are as follows:

AEON (BUY, FV: RM7.68)

- While the west coast market still has room to grow, it is planning to expand its presence to the east coast, and Sabah and Sarawak, where the group has yet to have a presence.
- 5 new stores in the pipeline, namely Ipoh Station 18 (opening in mid 2012), Rawang (opening in end 2011), Sri Manjung (opening in end 2012), Sungai Petani (opening in 2013) and Bukit Mertajam (opening in 2014). 1 or 2 more new stores are in the plan.
- 9MFY11 results scheduled for release on 24 Nov. 9MFY11 SSS growth could be in the range of 4%-5%.
- Expect SSS growth to slow next year as economic conditions deteriorate but AEON is not overly concerned about competition as it has a niche. The group targets the middle income consumer segment and continues to open stores in suburban areas. AEON also adopts a unique business model (involved in both property management and retailing).

Hong Leong Bank (BUY, FV: RM12.15)

- Management continues to retain its ROE guidance of 16% to 17%
- Merger with EON Capital has made Hong Leong Bank a meaningful systematic player in the domestic banking landscape with an overall market share in excess of 9% for most business lines.
- The group has no intention of rationalizing its branch network, now the second largest in Malaysia, and instead intends to leverage on it to drive greater cross selling opportunities and new market segments
- The group is well prepared for Basel 3 with its loans to deposit ratio being the lowest among domestic banks (more than 40% - retail deposit) and core equity capital ratio in excess of 9%.
- The group does not expect a significant jump in provisions from the potential realignment of EON Capitals loan loss coverage ratio closer to that of Hong Leong Bank on a standalone basis as management has indicated that EON Capital had raised its provisions adequately before the completion of the merger. We have conservatively built into our assumption a 52bps credit cost which could surprise on the downside, thereby providing earnings upside surprise.

KPJ Healthcare (BUY, FV RM5.21)

- The on-going expansion strategy is on track with 2 new hospitals to be opened in 2012, 2 in 2013 and 1 in 2014
- Will continue to look for opportunities for expansion, especially in underserved markets such as East Malaysia and the smaller towns Peninsular Malaysia.
- The acquisition of the retirement home and geriatric business via Jeta Gardens will be completed soon.
- Expanding its exposure in the education business through its nursing university college, which is expected to start its medical degree course next year on top of the existing nursing and allied health courses.
- Foreign shareholdings was at 11% as at end of Sept as compared to 12% as at end June.

Malaysia Airports Holdings (BUY, FV RM8.10)

- Construction on KLIA2 on track for completion by end-2012 although we do not rule out a delay in completion.
- KLIA2, which will have 10x more commercial space than the existing LCCT, is expected to drive non-aeronautical revenue contribution moving forward.
- A lot of interested enquiries have been received from potential tenants; which includes a supermarket to cater for the shopping needs for the 45,000 staff working in KLIA area.
- YTD passenger growth at 12% and is expected to end up at 10% for the full year, well above its initial target of 7-8%.
- Good mix of business and leisure passengers has shielded MAHB from global economic downturns and we expect air travel demand to remain resilient, thanks to expansion of routes by carriers.
- Airport acquisitions (of 1 airport per annum) will come in post completion of KLIA2.
- Moving forward, more JVs with potential partners (which potentially will include a property developer) will be established to maximize the utilization of the Sepang landbank. These JVs will create new income streams in the form of revenue shared and dividend income.

- The recent announcement of a tariff hike on PSC and aircraft landing & parking charges will boost bottom-line. As such, we have recently raised earnings by 9-16% for 2012-2013. We have raised our DCF fair value from RM7.36 to RM8.10 based on 9% WACC as noted in last week's report.

Malaysia Building Society (BUY; RM2.70)

- MBSB is looking at annual loans growth of 30% in the medium term, which is much higher than the industry average. Main growth driver will still be personal financing for civil servants (PF-i). The loan disbursement for PF-I is RM400-500m per month.
- More retail products such as credit card and hire purchase will be launched this year. The Islamic credit card is specially tailored for civil servants.
- Collaborating with MSIG-Takaful and AmAssurance to introduce bancassurance during 2HFY11. We expect more fee-based and non-interest income from this collaboration in future as the commission is lucrative.
- Confident to achieve PBT of RM450m for FY11. The 9MFY11 PBT is RM327m.
- Maintain BUY with FV of RM2.70 based on 2.6x FY12 PBV. We continue to like this stock for its solid performance and strong growth in its PF-I segment.

Media Chinese (BUY; RM1.51)

- Malaysia's adex growth would likely remain fairly sturdy for 2012 given its domestic consumption focus, which typically makes up over 60% of advertising spending
- Newsprint costs are expected to linger between USD600-USD700/tonne in view of the current weakness in crude oil and used newspaper prices.
- Although Hong Kong's property market has slowed down given the increasingly stringent government measures in place, Ming Pau's earnings contribution is relatively more resilient given its niche focus in being one of the most independent daily publications.
- While its travel businesses continue to grow, there could be plans ahead to dispose or spin off the division as it offers no obvious synergies to its printing businesses.
- The group continues to focus on its multi-platform approach by providing content across numerous electronic platforms.

MMC Corporation (TRADING BUY, FV RM3.47)

- Gas Malaysia IPO is on track for Dec. The 382mmscfd gas suppl has been extended till end-2012. Has asked for 100mmscfd of supply from the new Melaka LNG plant to be ready by 2012. MMC sees the Govt sticking to its gas price hike schedule. Demand for shares has been good.
- PTP's volume grew by 15.5% YTD August 2011 and actually recorded its highest ever monthly volume of 600,000 TEUs in September.
- Johor Port has recently secured approval for a tariff hike after 24 years. Effectively 8 – 10% tariff hike. Still aiming for container operations transfer from Johor Port to PTP to avoid single customer risk.
- Malakoff gas dispatch has drop due to gas supply curtailment but offset by coal plant dispatch. Tanjung Bin utilization 80%.
- Zelan received LOI from Mudajaya for Tanjung Bin extension. Holds RM400m worth of IJM shares, more than LAD amount.
- Foreign shareholding was 6.5% as at end September.

QL Resources (BUY, FV RM3.62)

- 1QFY12 (FYE March) surimi sales was poor due to poor fish landing. Fish landing recovered in September and was good in Oct and Nov (2 - 3QFY12). Management guided that there are no concerns on the surimi division as it will continue to be profitable as long as there is fish landing and due to the fact that the surimi market is a global one. Expects fish landing to be at least the same as FY11 when fish landing was exceptionally high.
- All its expansion in Indonesia and Vietnam is on track to achieve the targeted production volume. Vietnam – 250k eggs per day by end 1QFY13, Indonesia – 0.5m eggs/day by 1QFY13, 1m day-old-chicks by 2QFY12. Indonesian operation will be launched officially in March 2012.
- Expect feedmeal margins to be slightly under pressure due to the higher competition. Kuok Group and Malayan flour Mill have started distributing feed meal. QL has the competitive edge in terms of the availability of warehouse space, import partner such as KFC and it has its own farm, which

increases import volume. QL is still looking at 7% sales growth in FY12. While feed meal margins may be lower, egg margins will be higher due to lower feed meal cost.

- Looking for at least 20% PBT margin for palm pellet as it is the product of palm oil waste. Full commercialization expected in FY14.
- Expects Boilermech to contribute RM4k/month net earnings (after minority interest). Acquired for Boilermech's expertise in boiler engineering which QL needs for its palm pellet technology. QL also needs Boilermech to supply boilers for its palm pellet division.
- Expects good results in 3QFY12.
- Opening another egg farm in Raub, Pahang to supply eggs to the east coast. Approved for 10 years tax exemption. Will convert chicken waste to energy in this farm. In fact, the group has invested RM5m in its Nilai farm to convert chicken waste to energy. Expects cost saving of RM1m/year.

RHB Capital (BUY, FV: RM9.90)

- Low cost and high yielding nature of RHB Capital's Easy Banking franchise has allowed the group to sustain above industry growth while maintaining its cost to income ratio at a relatively low 43.6% - the second lowest among Malaysian banks.
- Funding cost pressure is likely to persist with the group's loans to deposit ratio close to its optimum 90% level but partially mitigated by aggressive growth in higher yielding ASB financing.
- Remains committed in completing acquisition of Bank of Mestika in Indonesia pending clarity on Indonesia's single shareholding limit cap.
- ASB financing, Hire purchase and Government linked wholesale loan financing will be key loans growth segment.
- Valuation remains compelling at 1.38x FY12 PBV despite having above industry's ROE of 14.6%.

SEG International (BUY, FV:RM2.23)

SEGi's sturdy revenue CAGR of 31% since 2006 remains intact with target student population of 32k by end-2012 from 23k in 2010. We expect the group to leverage on its increasingly established reputation in Malaysia as well as tying up with more foreign universities going forward. Reiterate BUY at FV of RM2.23 based on 18x FY12 PER. Key points include

- Capex are fairly manageable at RM5m-RM15m p.a. given its asset light model and strong cash flow generation nature of its business
- Its proposed RM500m campus in Ipoh, Perak will be under lease arrangements
- PAT margin is expected to sustain at >25% going forward on greater economies of scale as the group continues to roll out high-margin medical sciences and healthcare programs
- Share of international students is forecasted to hit 30% of its total students base, from slightly over 10% currently, as the group continues to expand its presence in the enormous China market as well as within the Asean region.
- Dividend policy is set at a minimum payout of 50% from PAT.

Supermax (BUY, FV:RM5.50)

- Demand for examination rubber glove as a whole is expected to remain strong, growing between 7-8% p.a.
- However, the industry may soon see saturation in the nitrile glove segment due to the increase in production capacity from China.
- Supermax will continue to focus in the natural rubber glove production, which currently still makes up about 70% of its product mix. Nevertheless, all new production lines would have dual production capability, capable of producing both the natural rubber and nitrile gloves so that it can inter-switch the production mix better based on market demand in the future.
- Also, the company would be increasing its surgical glove contribution to more than 0.5bn pieces p.a. by December 2011 and this is expected to contribute positively to its bottom line given that the margin from surgical gloves is about 10-15% higher than that for normal examination gloves.
- Supermax may consider looking into vinyl glove production in the next 2-3 years to complement its existing product mix further. This is likely to be via partnership with the Chinese company in China.

Time DotCOM (BUY, FV RM0.67)

- Management indicated that prospects for the wholesale business in Malaysia remain promising and the corporate segment is gaining momentum in terms of market share.

- The proposed acquisition of the three companies (GTC, GTL & AIMS) valued at RM322m is pending shareholders' approval on 22 Nov. The deal would allow TDC to regionalize its wholesale business via the expansion of its footprint.
- GTC, the global IP transit provider continued to perform well in 9MFY11 with headline earnings of RM6.74m, which constitute 90% of FY10's bottom-line.
- Management did not rule out the longer term possibility of disposing of its 3.5% stake in DiGi (RM855.3m at our FV RM31.30) although it has been deriving strong dividend income for the company.
- Maintain BUY at FV of RM0.67, valuing its core business at 4.5x FY12 EV/EBITDA (41%), 3.5% stake in DiGi (47%) at our FV and net cash of 8 sen/share (12%).

WCT (BUY, FV RM2.93)

- Job flows in the Middle East have slowed down due to the situation in Europe, which has impacted the funding of projects.
- WCT is more cautious in tendering for jobs in the Middle East. In fact, the company has walked away from 3 contracts there as margins were insufficient to compensate for the risks involved.
- YTD job wins at RM180m vs original guidance of RM2bn. Management is unable to commit to a revised full year target for 2011.
- It is positive on Qatar over the longer term given the massive infra commitments (USD30bn) in preparation for the 2022 FIFA World Cup.
- Also biding for various highway projects in Oman which total RM10bn. Tenders for some of the packages have closed.
- Current earnings mix - 65% construction, 14% prop development and 15% prop management. Targeted mix for 2015 is 45%, 30% and 25%.
- Our FV of RM2.93 is based on 12x FY12 earnings. There is downside risk to our FY12-13 forecasts is orderbook replenishment this year falling below our target and management guidance for RM2bn. There is downside potential to our FY12-13 forecasts, but unlikely for FY11.

Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

OSK RESEARCH SDN. BHD. (206591-V)
(A wholly-owned subsidiary of OSK Investment Bank Berhad)

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office OSK Research Sdn. Bhd. 6th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	**OSK Securities** **Hong Kong Ltd.** 12th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	**DMG & Partners** **Securities Pte. Ltd.** 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211

Jakarta	Shanghai	Phnom Penh
PT OSK Nusadana **Securities Indonesia** Plaza CIMB Niaga, 14th Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	**OSK (China) Investment** **Advisory Co. Ltd.** Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	**OSK Indochina Securities Limited** No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171

Bangkok
OSK Securities (Thailand) PCL 191, Silom Complex Building 16th Floor, Silom Road,Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 2200 2000 Fax : +(66) 2632 0191