

Malaysia update

Monthly commentary

October 2014

Market overview

- Local stocks fell as investors were concerned about rising US interest rates, which strengthened the US dollar and weakened commodity prices.
- The central bank held rates steady at 3.25% as expected, citing a stable inflation outlook while supporting economic growth. Industrial production and export growth both decelerated and disappointed forecasts. Lower production was led by a contraction in mining.
- As palm oil prices fell to a five-year low, the authorities waived the 4.5% tax on palm oil exports for September and October, and may extend this. Bumper crops of competing vegetable oils and weaker Chinese demand contributed to softer prices. While this may subdue the profit outlook for our plantation holdings, they have the management capability and efficient cost structures to weather the current downturn.

Model portfolio news

There were no strategic changes to the portfolio.

Corporate news

United Malacca's quarterly results were underpinned by improved yields and productivity. We take comfort in the firm's solid balance sheet as it faces more challenges ahead.

Meanwhile, the Malaysian Employees Provident Fund (EPF) sought a waiver from authorities to vote in the proposed merger of RHB Capital, **CIMB Group** and Malaysia Building Society. Under listing rules, related parties are not allowed to vote in mergers to protect the interest of minority shareholders. EPF owns large stakes in all three banks, and has stated that it has the right to protect the interest of its 14 million beneficiaries. We are in favour of the merger only if it makes business sense and improves cost efficiency, and we await the release of details on the terms before making any decision.

Elsewhere, mobile operator **Axiata's** Indonesian subsidiary, XL Axiata, will sell and lease back some of its telecom towers to a private-equity owned company for US\$459 million. The move comes as mobile operators globally are shedding infrastructure investments to free up capital. Property developer **SP Setia's** third quarter results met expectations, with revenues bolstered by robust sales from its Battersea residential development in London. Its CEO, Dato' Voon Tin Yow, resigned and will be replaced by deputy president Dato' Khor Chap Jen. Mall operator, **Aeon Co** opened its first furniture retail outlet named Aeon Index Living Mall, a joint venture with Thai furniture company Index Living.

Cement and building materials maker, **Lafarge Malaysia**, reported second-quarter results in line with expectations. Robust cash flow indicated that dividend payouts would remain unchanged.

In the fast-moving consumer goods segment, **BAT Malaysia** tried to push through a 10% hike in cigarette prices but had to backpedal after competitor Philip Morris broke rank and opted not to raise prices.

Offshore oil services provider, **Bumi Armada's** stock price was volatile as some investors appear to have been selling to raise funds to subscribe for their discounted rights shares.

We hold the companies highlighted above.

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