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29 January 2014

Strategy

FBMKLCI: 1,793.05

End 2014 target: 1,970

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Top picks

Company	Bloomberg Ticker	TP (RM)
Big Cap		
Tenaga Nasional	TNB MK	13.24
Sapurakencana	SAKP MK	5.26
RHB Capital	RHBC MK	9.20
Malaysia Airports	MAHB MK	10.46
Gamuda	GAM MK	5.50
AirAsia	AIRA MK	3.18
Small Cap		
Kossan	KRI MK	4.82
Cahya Mata Sarawak	CMS MK	8.22
Suria Capital	SURIA MK	3.38
Brahim's Holdings	BRAH MK	2.67

FBMKLCI chart

Corporate day key takeaways

We featured 11 corporates at a recent corporate day event and observed that fund managers were still looking for fresh ideas and were less concern with the macro headwinds such as QE tapering and subsidy cut. We shared such optimism as we believe that Fed is unlikely to stay the course to fully taper the QE. While blue chips have recently come under selling pressure particularly by foreign investors, we believe rotational play will return in 2H14. In the meantime, we believe mid/small-cap stocks will outperform.

Corporate day on 21 Jan

- Alliance Investment Bank organised a corporate day on 21 January, featuring 11 Malaysian corporates which include 6 of our top picks for 2014, as well as a guest speaker who talked about quantitative easing.
- The event was well attended by more than 50 fund managers and buy-side analysts.

Quantitative easing is not expected to end anytime soon

- Guest speaker Richard Duncan, who is the chief economist at Blackhorse Asset Management in Singapore and the author of numerous books including his most recent, *"The New Depression: The Breakdown of the Paper Money Economy"*, and *"The Dollar Crisis: Causes, Consequences, Cures"*, shared with us his take on quantitative easing.
- He shared that US economy is driven by credit growth and QE tapering will zap excess liquidity out of the system in order to avert asset price bubble. That said, the current tapering schedule by Fed will lead to liquidity crunch by 3Q14. As such, he believes that QE tapering will eventually be scaled down. In fact, he expects quantitative easing may continue until 2015 in order to avert a recession driven by liquidity crunch.

Key takeaways from corporate presentations

- **MAHB** – Following the recent acquisition of additional stake in Istanbul Sabiha Gokcen International Airport, management is optimistic that the said airport will breakeven by FY15.
- **AirAsia** and **AirAsia X** – To tap into the corporate travel segment as another source of growth, the group will be implementing Fly-Thru and Hi-Flyer programmes.
- **Brahim's** – Visit Malaysia Year 2014 as well as new inflight catering customers such as Malindo and Lufthansa will drive revenue growth in FY14.
- **Deleum** – FY14 will be an exciting year given the company's record orderbook of RM3.4bn. More projects could be secured for oilfield services going forward.
- **Kossan** – Plant expansion plan is on track while the company is exploring opportunities for expansion in Vietnam. Recent M&A activities of an existing major customer may lead to more orders going forward.
- **Cahya Mata Sarawak** – Cement division will achieve 15% profit growth in FY14 after recent price hike. Land sale to Sentoria will be recognised in FY13 and FY14, while there could be more land sale in FY15. OM Sarawak will commence production by July 2014.
- **Suria Capital** – Jesselton Quay project is well on track for launch by 2Q14 once remaining land premium is settled within the next 2 weeks.
- **Ahmad Zaki Resources** – Orderbook stands at RM3.6bn and targeting RM500-600m in new job wins for FY14. On EKVE, work will commence in 3Q14 following financial closure recently while tolling should starts in 2018.
- **Oldtown** – Central kitchen in China has started since Jan 2014 which should boost its F&B business in China. Going forward, management is exploring e-commerce business in China and premium café outlet in Australia.
- **CB Industrial Products** – The group's palm oil engineering business has an outstanding orderbook of RM483m, and targets to secure RM400m jobs in 2014 which is driven by increasing demand in new areas like Africa and Papua New Guinea. Over the long term, plantation business will provide growth as it plans to plant its 65,041ha land in Kalimantan.

KEY TAKEAWAYS OF CORPORATE DAY

Alliance Investment Bank organised a corporate day on 21 January, featuring 11 Malaysian corporates which include 6 of our top picks for 2014, as well as guest speaker Richard Duncan who is the chief economist at Blackhorse Asset Management in Singapore and also the author of numerous books including his most recent, *"The New Depression: The Breakdown of the Paper Money Economy"*, and *"The Dollar Crisis: Causes, Consequences, Cures"*, an international bestseller that predicted the global financial crisis in 2008 with extraordinary accuracy. The said event was well attended by over 50 fund managers and buy-side analysts. We observed that fund managers were looking for fresh ideas and were less concern with the macro headwinds such as QE tapering and subsidy cut.

Figure 1 : Corporates invited

Company	Investment angles
Malaysia Airports AirAsia AirAsia X Brahim's	Visit Malaysia Year 2014 will boost tourist arrivals and spending. Klia2 opening will boost capacity.
Deleum	Oil & gas capex remains uninterrupted by government's fiscal tightening
Kossan Rubber	Stronger export demand on recovery in advanced economies
Cahya Mata Sarawak	Indirect beneficiary of electricity tariff hike in West Malaysia
Suria Capital	Benefit from focus on East Malaysia's development by government
Ahmad Zaki Resources	Benefit from "prioritisation" by government in awarding contracts
Oldtown	Resilient domestic consumption and rising contribution from China expansion
CB Industrial Products	Benefit from the demand of palm oil mills particularly in Indonesia due to rising maturity of new palms

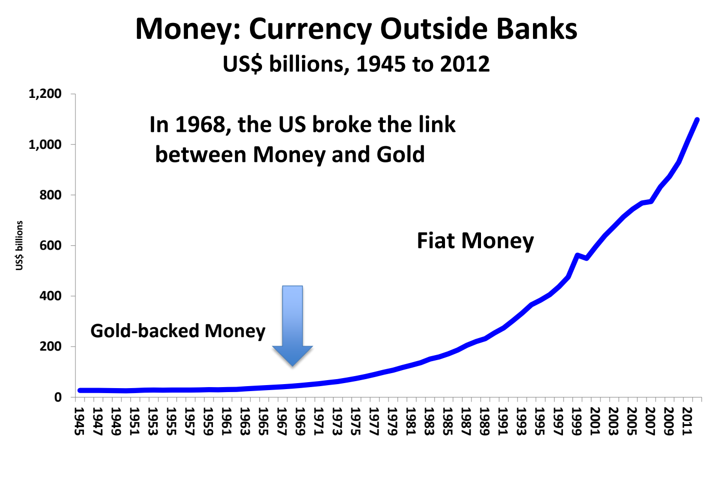
Source: Alliance Research

The following are the key takeaways of the said event.

Quantitative easing is not expected to end anytime soon

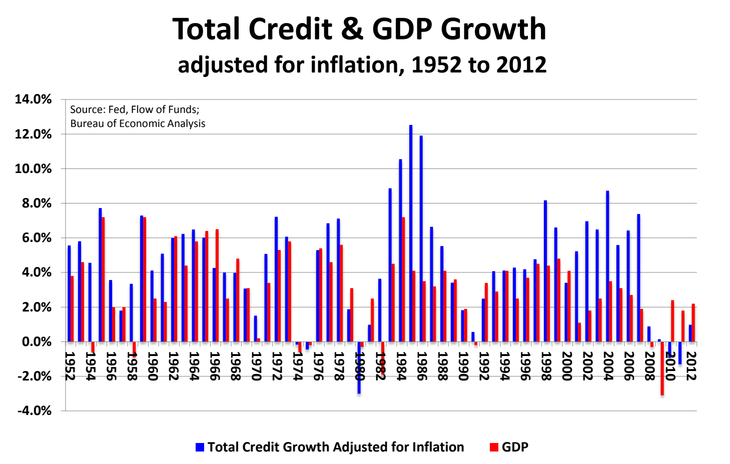
Richard Duncan's luncheon presentation with the title *"Credit, Liquidity and Asset Prices"* focused on how the US government has used credit as a source of economic growth since it abandoned the gold standard in 1968. In the years following that, the US economy has exploded. He further shared that over the long term, the US economy has generally required a minimum annual credit growth of 2% in real term in order to support an expansion in its economy.

Figure 2 : US money supply surged after abandoning gold standard



Source: Richard Duncan

Figure 3 : US economy need >2% real credit growth for expansion



Source: Richard Duncan

Based on his estimates which take into account US government's fiscal consolidation in the years ahead, credit growth in the US over the next 2 years (2014 and 2015) will only come in at 1.8% in real term and that will lead to a subpar growth in the US economy. Since the global financial crisis where credit growth fell behind, the Federal Reserve has injected massive liquidity via quantitative easing in order to prop up the economy, and indirectly the market. Unfortunately, QE3 has led to massive liquidity surplus in 2013 which led to a massive run in asset prices, including equity. Therefore, tapering is required in order to avert asset price bubble. Based on the Fed's tapering schedule, which will result in full removal of monthly asset buying by end 2014, liquidity will be trimmed significantly in 2014. However, if the schedule is followed, the US may face a liquidity crunch by 3Q14. Therefore, the speaker is of the opinion that the Fed will eventually revise its tapering schedule and may very well keep QE until 2015 in order to avert a recession driven by liquidity crunch.

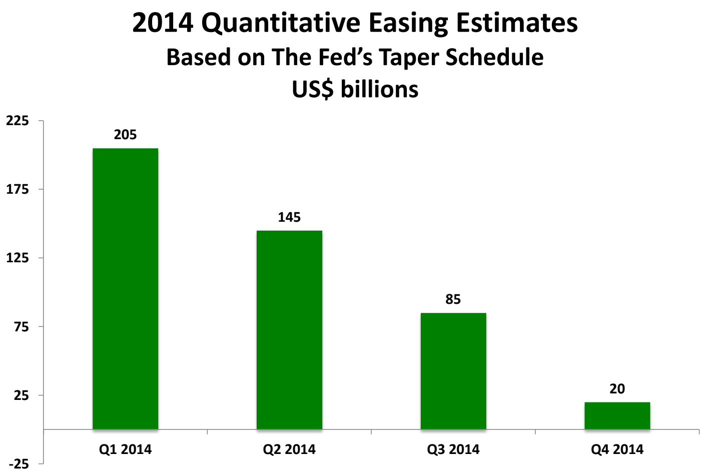
Figure 4 : Credit growth is still too slow in US

Credit Growth Projections

US$ billions	2013 est.	2014 est.	2015 est.
Total Credit Growth	1,815	2,200	2,325
Total Credit Year End	58,215	60,415	62,740
Forecast Credit Growth	3.2%	3.8%	3.8%
Less 2% assumed inflation	1.5%	2.0%	2.0%
Credit Growth after Inflation	1.7%	1.8%	1.8%

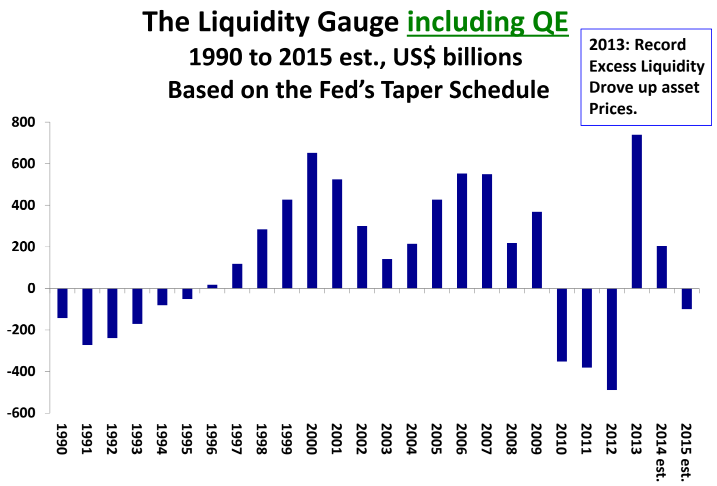
Source: Richard Duncan

Figure 5 : 2014 QE estimates after taking into account tapering



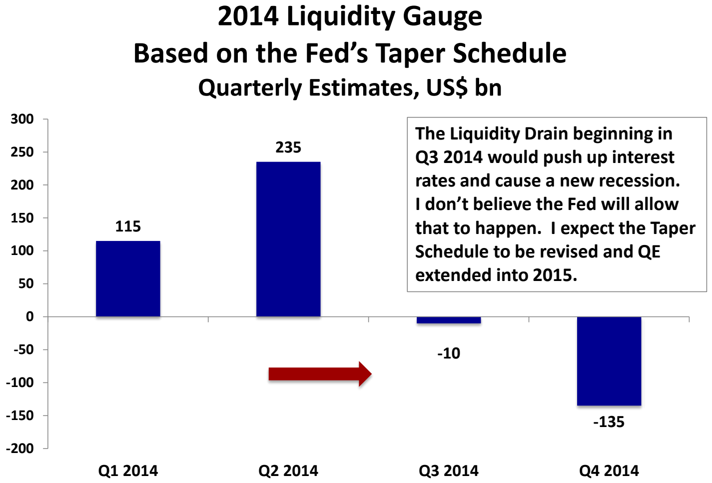
Source: Richard Duncan

Figure 6 : Liquidity will dry up by 2015



Source: Richard Duncan

Figure 7 : Expect QE schedule to be revised / extended by 3Q14



Source: Richard Duncan

Malaysia Airports Holdings (Buy, TP: RM10.46)

Malaysia Airports' (MAHB) MD, Tan Sri Bashir Ahmad and CFO, Mr Faisal Mansor were on hand for the presentation during the event. The corporate presentation was mainly focused on the earnings prospects of Istanbul Sabiha Gokcen International Airport (ISG), which MAHB recently acquired a 40% stake in Dec 2013. Post-acquisition, MAHB will own a 60% stake in the airport.

ISG is expected to breakeven by FY15 due to: (1) rising international passenger traffic which commands higher airport tax vis-à-vis domestic passengers, (2) rising developments in Asiatic side of Istanbul, where ISG is located, and (3) overcrowding at Istanbul Ataturk Airport which pushes airlines to relocate to ISG. Management expects an equity IRR of at least 15% for the project, which is well above the group's ROE which historically ranges from 8%-11%.

AirAsia (Buy, TP: RM3.18) and AirAsia X (Neutral, TP: RM1.12)

Both the CFOs of AirAsia (AA) and AirAsia X (AAX), namely Mr Andrew Littledale and Ms Noraesyah Yvonne were presenting for their respective companies during the event. Integral to both the companies' future growth prospects is the "Emirates Project", which will see the implementation of Fly-Thru and Hi-Flyer programmes as well as the listing of AA and AAX products on various Global Distribution Systems (GDS).

The Fly-Thru programme will entail the bundling of the group's travel products for various connecting routes, under one single ticket for convenience of travellers (i.e. Sydney-Kuala Lumpur and Kuala Lumpur-Tokyo will be sold under one single ticket). Particular attention will be made to ensure pricing will remain competitive vis-à-vis other airlines which offer direct flights. Meanwhile, the Hi-Flyer programme will enable passengers the flexibility to change the timing of their flights for a certain fee.

Once implemented, "Emirates Project" will allow the group to penetrate the corporate travel segment going forward. The ease of travel planning due to single fare structure and flexible flight timing is expected to increase the attractiveness of the group's products to corporate travellers. Meanwhile, listing on various GDS is also expected to highlight the group's products to various travel agents, who have historically been the go-to person for corporate travellers. In addition, the group plans to implement a flat fare structure for corporate travellers in order to ease corporate travel budgeting processes. Management sees the corporate travel segment as significant growth avenue going forward.

Brahim's Holdings (Strong buy, TP: RM2.67)

Dato' Brahim Choo, non-executive director of Brahim's Holdings gave a broad overview of the group, covering its various business segments. He expects the group's airport centric businesses, which comprises of its in-flight catering segment (via Brahim's Airline Catering i.e. BAC) and F&B outlets at KLIA (via Dewina-Host), to record strong growth in the coming financial year due to Visit Malaysia Year 2014. In addition, Malindo Air and Lufthansa - which has recently appointed BAC as its in-flight caterer – is expected to drive BAC's sales volume in FY14.

Meanwhile, he also reaffirmed the group's commitment to complete its sugar refinery by mid-FY15. Initial capacity is expected to be 180,000MT p.a. with capex expected to be somewhere between RM130m-RM150m. The group's sugar product is expected to be competitive given the lower transport and raw material costs. In light of the substantial sugar demand in East Malaysia, management expects the 60%-owned sugar refinery to provide substantial growth avenue to the group going forward. On another matter, he signalled management's intention to begin consolidating various food businesses currently privately held by Dato' Ibrahim under the public-listed Brahim's Holdings, possibly in the coming financial year i.e. FY14.

Deleum Berhad (Buy, TP: RM5.12)

FY14 will be an exciting year for Deleum as the group is going into the year with a record high orderbook of RM3.4bn. The group's orderbook contains 2 key long term projects set to commence in FY14 and this is the Pan Malaysian slick line contract (estimated value of RM700m) and also the Pan Malaysian Turboservices contract (estimated value of RM2bn for 7 years). On top of the commencement of these two contracts, a turnaround in the maintenance, repair and overhaul (MRO) segment, and continued growth in the group's associate company Malaysian Mud and Chemicals, will also serve as growth drivers for FY14 and FY15.

Management expects to secure more projects in FY14, and these would be related to more oilfield services involving matured field developments and also growing overseas. It was highlighted that they have managed to secure small projects in Indonesia so far, supplying their Solid Clenz solutions, and hope to grow this market base, with eventual expansion into Thailand. On this front, we view that our expectation for a 12% EPS CAGR going into FY16 is secured and we maintain our BUY recommendation on Deleum with a TP of RM5.12.

Kossan Rubber (Strong buy, TP: RM4.82)

Key takeaways from Kossan's presentation during our corporate event include, (1) expansion plan is well on track with 1 plant started commissioning in Jan 14 while another 2 plants will be commissioned in 2Q14, (2) the company is exploring opportunities in Vietnam to set up a glove manufacturing plant given its competitive cost structure and attractive tax incentive, and (3) potentially more business volume from one of its existing major customers following the customer's recent acquisition of another sizeable glove distributor based in US. Among these 3 key updates, we are most positive on the dynamic change of its major customer, following the acquisition of a sizeable competitor. We understand that this sizeable competitor is one of the key customers of Kossan's competitor, where the acquirer has no existing business relationship with. Hence, we do not rule out the possibility of higher orders from the acquirer once the acquisition is completed in 1Q14. This reiterates our view that Kossan could sustain its above-industry sales volume growth in 2014. As such, we maintain our high-conviction STRONG BUY call on Kossan with TP of RM4.82, based on unchanged target P/E of 18x for FY14.

Cahya Mata Sarawak (Strong buy, TP: RM8.22)

Key takeaways from CMS presentation during our corporate event is that the company continues to execute well across all its business divisions and are on target to achieve record earnings in FY13-14. Some of the highlights are: (1) Cement division is on track to achieve 10-15% profit growth in FY14 after the recent price hike; (2) Two parcel of land sales to Sentoria Group will be recognised in FY13 and FY14, while there could be another potential land sale in FY15; and (3) OM Sarawak is on schedule to commence initial production by July 2014. Management also spoke in details about MPA Sarawak where it expects another RM80-120m profit contribution to the group upon achieving full production capacity by 2018. In the interim, MoU for off-take agreements have actually been signed with several large global corporations, which is essential in order to secure the project financing (likely to be concluded within 6-9 months).

Suria Capital (Strong buy, TP: RM3.38)

We feel upbeat on Suria Capital's prospect as we get quite a few good updates from its CFO, Ms. Ng Kiat Min as well as the CEO of its bunkering and logistic division, Mr Erwin Chua during our corporate day. During the meeting, management reiterated that the timeline of launching the Jesselton Quay project is well on track as the group plans to settle the remaining land premium of RM70m within the next 2 weeks and secure the land title within a month. Thereafter, the project would be ready for launch by 2Q14, subject to procuring the development plan approval which was submitted in Sept 2013. Apart from that, the group could see improved contribution from the bunkering and logistic division in 2014 as the division is exploring various business opportunities to complement its port business such as lubricant sales and waste management for vessels that call on Sabah ports, which is a bonus to the turning-around (back to black in 3QFY13) bunkering and logistic division post the collaboration with Petro Summit in Nov 2013. In conclusion, we see potential earnings upgrade for Suria Capital and maintain our high-conviction STRONG BUY call with unchanged TP of RM3.38, based on FCFE valuation model.

Ahmad Zaki Resources (Buy, TP: RM0.89 ex-rights basis)

AZRB's orderbook balance (as at 3QFY13) stands at RM3.6bn which should sustain earnings for FY14-15. Management is targeting for RM500-600m in new job wins for FY14 (FY13: RM1.9bn). Some of the projects AZRB is eyeing include the Langat 2 water treatment plant (RM1.2bn JV with Salcon and MMC), AKLEH extension (RM150-200m) and government buildings in Putrajaya. Questions from attendees were mainly centred on the RM1.55bn East Klang Valley Expressway (EKVE) in which management shared that (1) financial closure has been fully achieved via government soft loans, bonds and rights issue, (2) work is expected to commence in early 3Q14, (3) tolling will commence in 2018 once the highway is completed and (4) toll rates (closed toll system) should be comparable to the North South Expressway. Traffic volume from the EKVE will mainly come via diversion from the MRR2 and Cheras-Kajang Highway which is currently experiencing extreme congestion. As for AZRB's plantation division which is still loss-making, management expects this to breakeven sometime in FY15. Maintain BUY rating on AZRB with RM0.89 TP (on an ex rights basis).

Oldtown (Buy, TP: RM2.39)

Key takeaways from Oldtown's presentation during our corporate event include, (1) the group has started its central kitchen operation in China since Jan 2014 following the appointment of April Eight (Guangzhou) Ltd as the licensed food processing centre for its café outlets in Guangdong Province, (2) the group is currently working hard to launch its e-commerce business in China (target 2H2014), and (3) exploring the opportunity in Australia with its premium café outlet concept, Oldtown Grand. Among these 3 key highlights, we are most positive on the potential earnings contribution from the e-commerce venture in China. Currently, there are many unauthorised vendors of Oldtown's instant coffee among the online malls and social networks in China. We believe with the official presence in the online market, the penetration rate for its FMCG division will accelerate. On the other side, management acknowledged the challenging local F&B market given the trend of mushrooming specialty café. Nonetheless, it has plan in place to fine tune its food offering to defend its market share going forward. Hence, we maintain our BUY call on Oldtown with TP of RM2.39, post the adjustment of 1-for-4 bonus issue on 23 Jan 2014. Our TP is based on 18x P/E for FY14.

CB Industrial Product (Non-rated)

CBIP has 3 core business segments which are palm oil engineering, special purpose vehicle (SPV) retrofitting, and also oil palm plantations and milling. The group's key earnings driver (making up 75% of 9MFY13 PBT) is palm oil engineering, of which CBIP is a joint-holder of the Modipalm Continuous Sterilisation milling system patented with the Malaysian Palm Oil Board. Currently, the group's palm oil engineering business has an outstanding orderbook of RM483m and the group hopes to secure an additional RM400m of jobs during 2014. The outlook is exciting, as there is an increasing demand for their mills in new areas like Africa and Papua New Guinea. Besides those new regions, CBIP continues to have a steady flow of demand from large planters in Malaysia and Indonesia, like Felda and Wilmar.

In their SPV segment, the outlook is also exciting going forward and it was highlighted that growth in the segment has been exponential since its inception in FY11, with PBT growing from RM2.8m to RM17.6m in 9MFY13. The segment, which is a 51% owned subsidiary, has an outstanding orderbook of RM284m, focused on bulky supply of specialised vehicles for government authorities and agencies. Orderbook is expected to grow from more of such orders going forward, and also ventures into new supply contracts with government agencies.

As for the plantation business, it will be a slower area of growth for CBIP as their 65,041ha in Kalimantan is largely unplanted. The segment will require capex of RM100m per annum going forward to plant 6,000-8,000ha per annum. The group continues to look for more land in Indonesia and has earmarked an additional 19,000ha. As for their associate/jointly controlled estates, CBIP did not rule out the possibility to sell these back to the majority shareholder (Tradewinds) provided pricing is attractive. As such, this could be a development to look out for in the future.

DISCLOSURE

Stock rating definitions

Strong buy	- High conviction buy with expected 12-month total return (including dividends) of 30% or more
Buy	- Expected 12-month total return of 15% or more
Neutral	- Expected 12-month total return between -15% and 15%
Sell	- Expected 12-month total return of -15% or less
Trading buy	- Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

Overweight	- Industry expected to outperform the market over the next 12 months
Neutral	- Industry expected to perform in-line with the market over the next 12 months
Underweight	- Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation

EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax

PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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