Malaysia Strategy:
Demographic Dividends

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Investment summary

- KLCI target of 1,800pts for end-2015
- Malaysia's demographic dividend positive for the long term
- 2015 headwinds – GST and earnings disappointments
- Sector selections: construction, transport and utilities
- Stock selections: top picks and smaller-cap picks

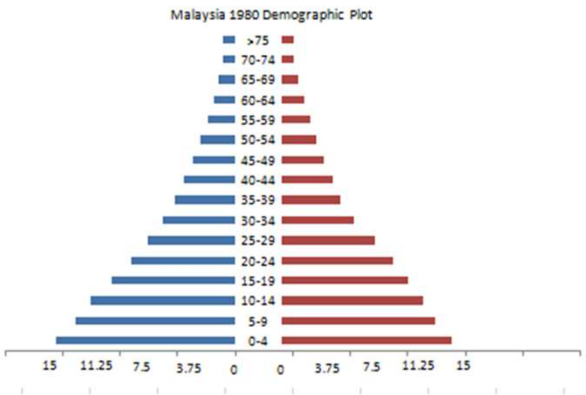
Demographic dividend

Two stages of dividends

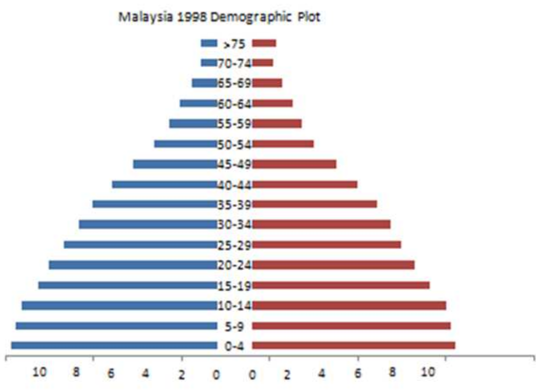
	1st Dividend	2nd Dividend
Early Stage	**Intermediate Stage**	**Late Stage**
No. of children ↑ Infant mortality ↓	Fertility rate ↓ No. children ↓ Working age population ↑	Low mortality Low fertility Life expectency ↑ Share of older population ↑

Malaysia's demographic transition

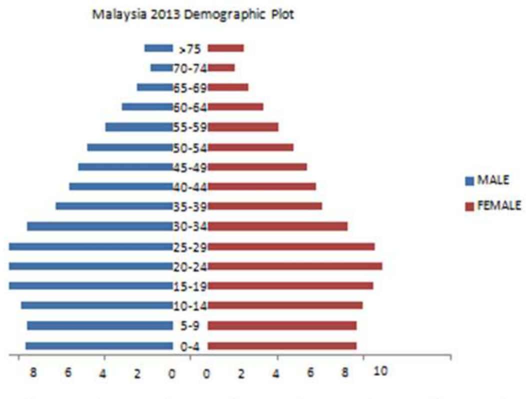
1980



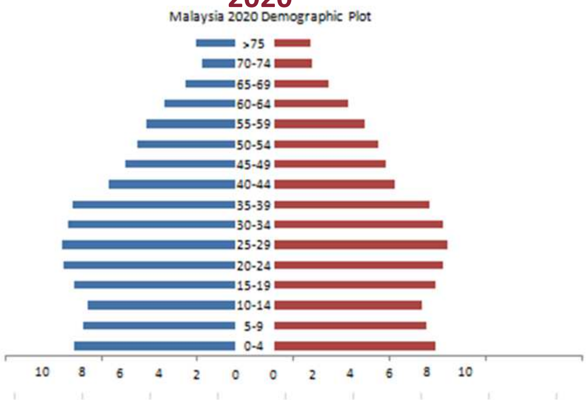
1988



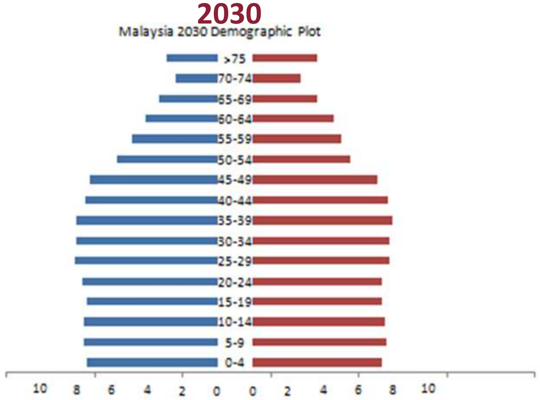
2013



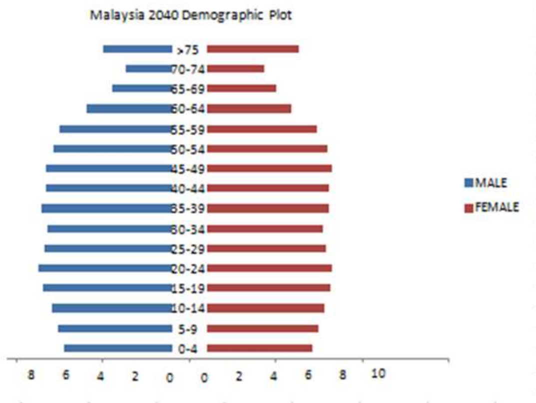
2020



2030



2040



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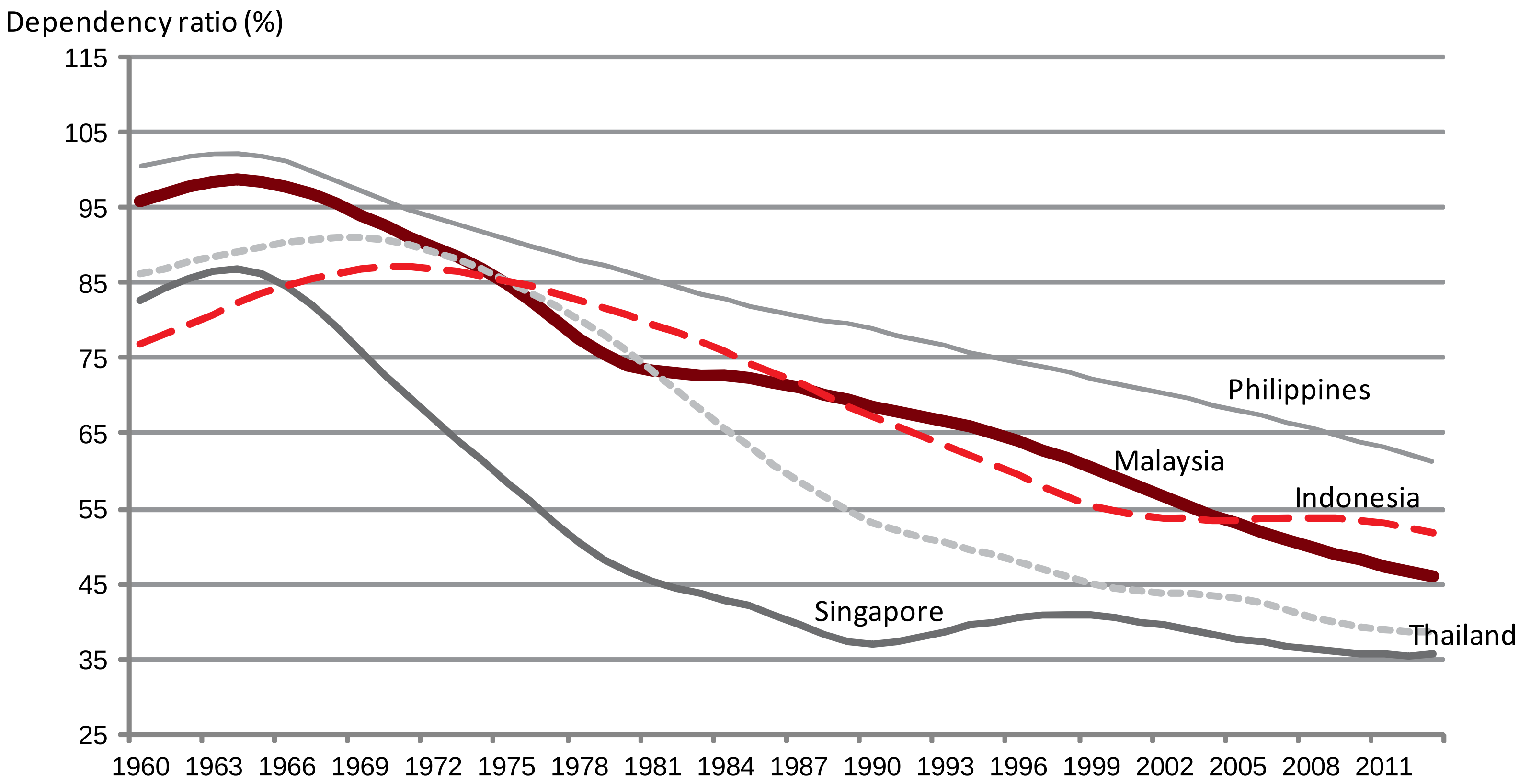
Dependency ratio falling



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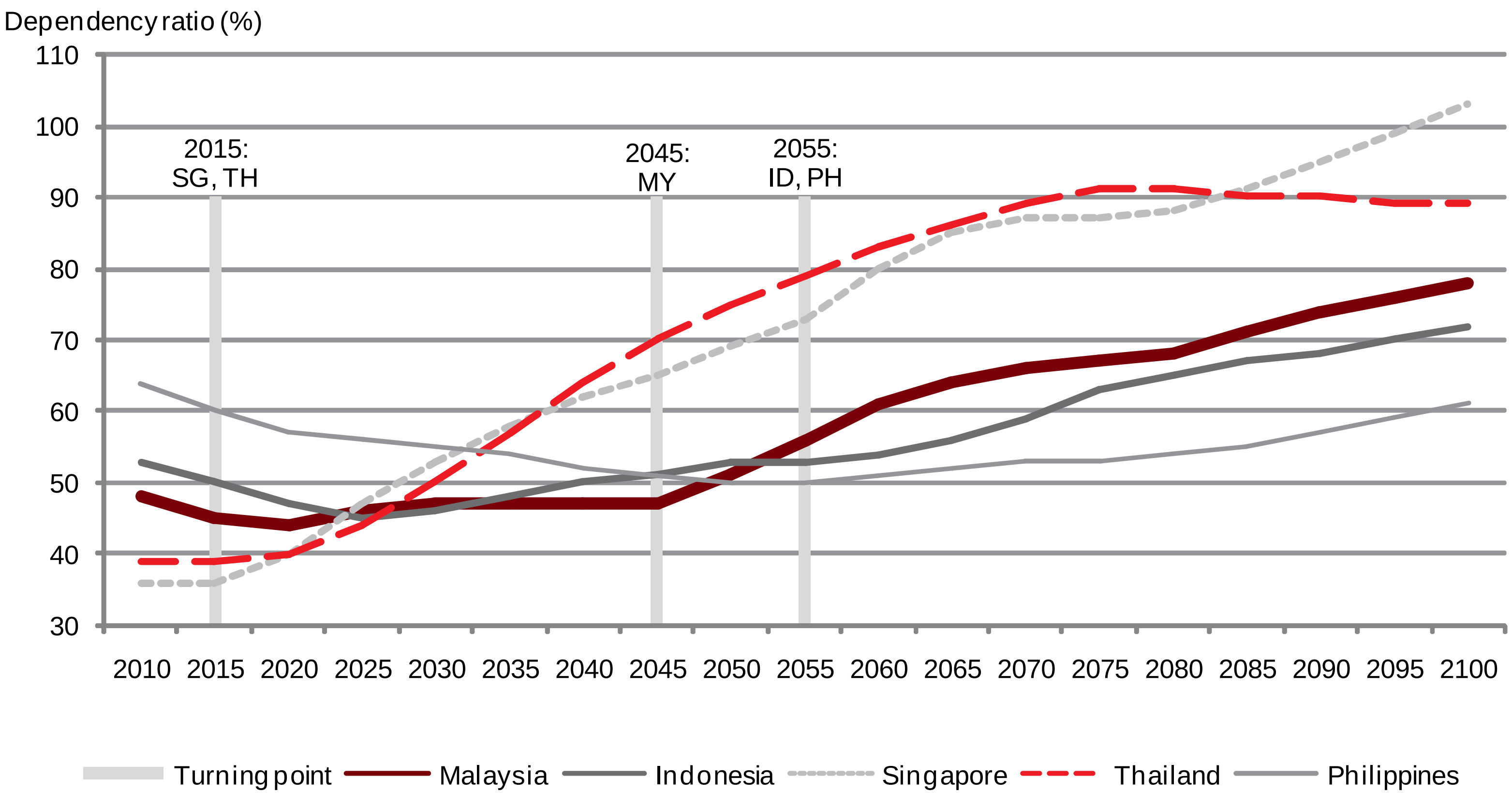
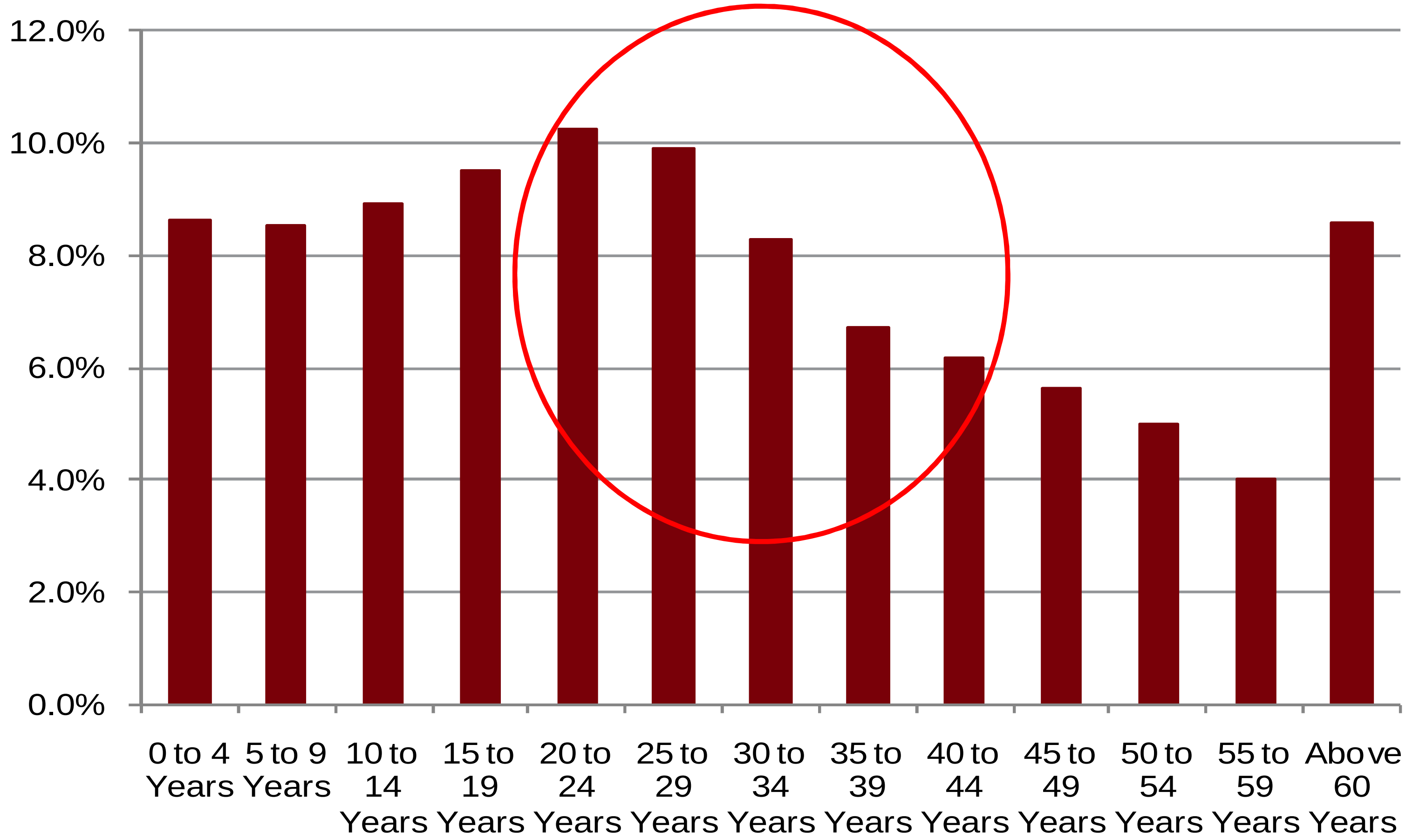
Dependency ratio projections



Impact on sectors

Sector	Impact	Comments
Automotive	Positive	Young adults entering colleges and workforce will drive demand for new vehicle purchases
Aviation	Positive	Discretionary air travel will rise during the demographic dividend
Banking	Positive	Younger population in the 15-24 age group will drive credit demand over the next 10 years
Brewery	Positive	Higher demand from the younger generation who are more willing to spend
Building mat	Positive	Beneficiary of public transport infrastructure projects
Construction	Positive	Incentive for government to push for public transport upgrades
Gaming	Positive	Bigger addressable market for NFO operators for non-Muslim punters after they turn 21
Gloves	Neutral	Gloves are mostly exported
Healthcare	Neutral	Demand only peaks after demographic dividend has ended
Media	Positive	Young population will drive online content demand and lead to higher digital platform adex
Oil & gas	Positive	Young adults purchasing new vehicles will drive fuel sales at the pumps
Plantations	Neutral	Malaysia exports most of its palm oil output
Property	Positive	20% of the population is in the 15-24 age group which will drive demand till 2025
REITS	Positive	Demographic dividend will translate into increased traffic at shopping malls
Shipping	Neutral	No impact
Technology	Neutral	Malaysian semicon companies export all of their products
Telcos	Positive	High mix of young population will drive SIM addition and smartphone adoption
Timber	Neutral	Timber is an export-oriented sector
Tobacco	Neutral	Higher willingness to spend likely to be offset by the impact of higher health awareness
Utilities	Positive	Greater demand for commercial buildings which will further drive electricity usage

Population bulge good for properties



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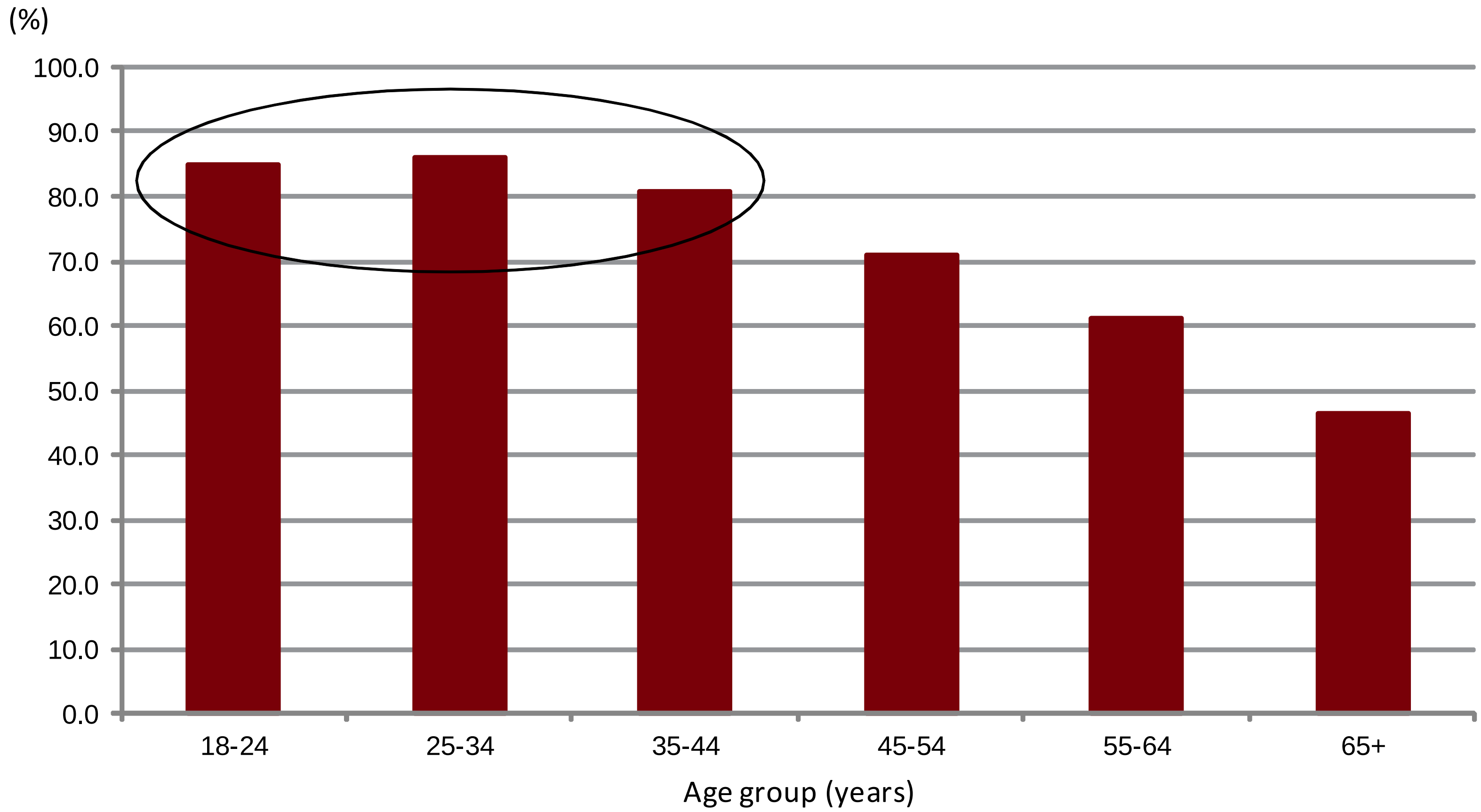
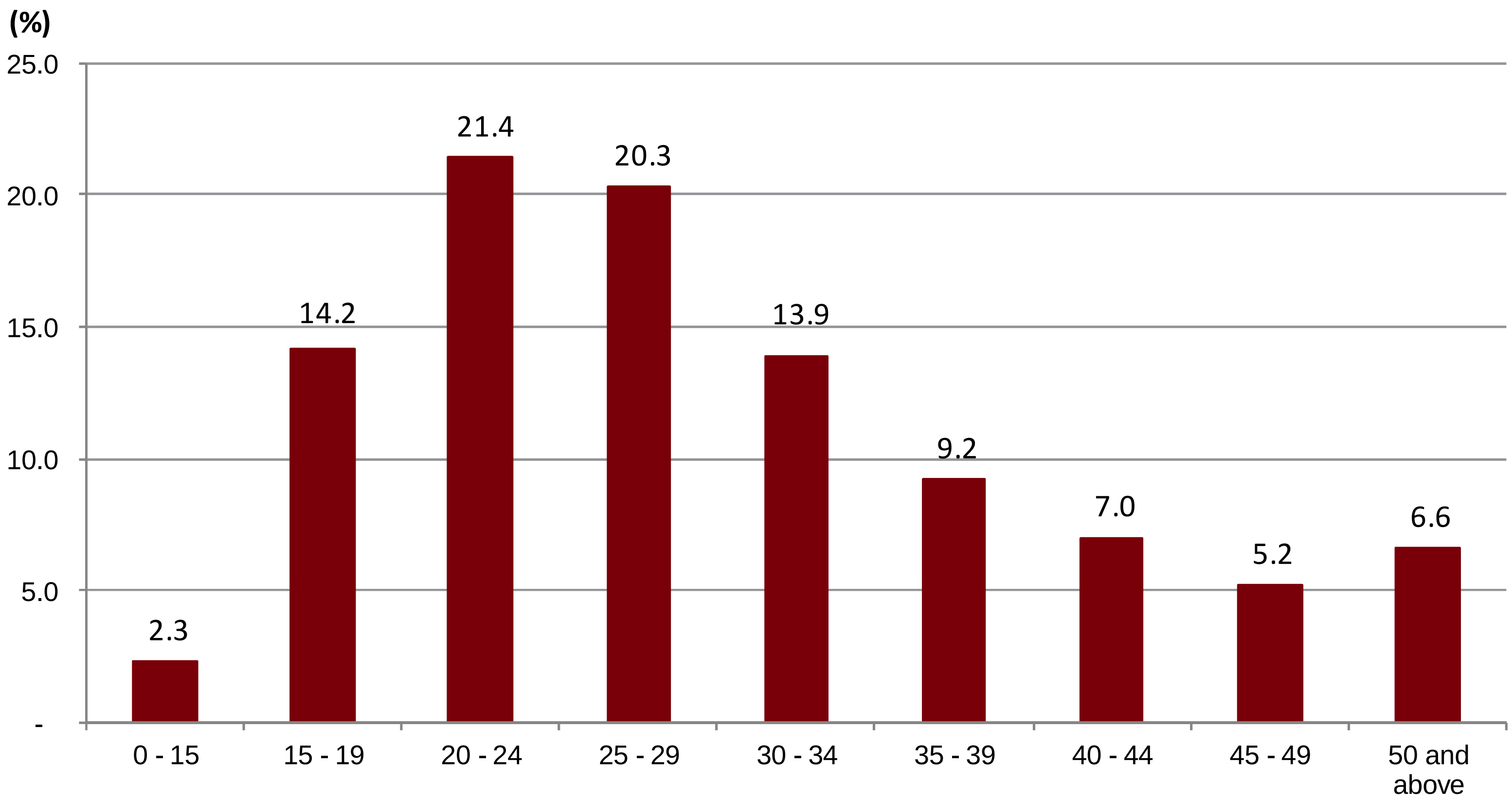
USA smartphone usage



Malaysian Internet users



Key risks in 2015

GST

• 6% goods and services tax comes into force 1 Apr 2015.

• Prices to rise on the back of profiteering?

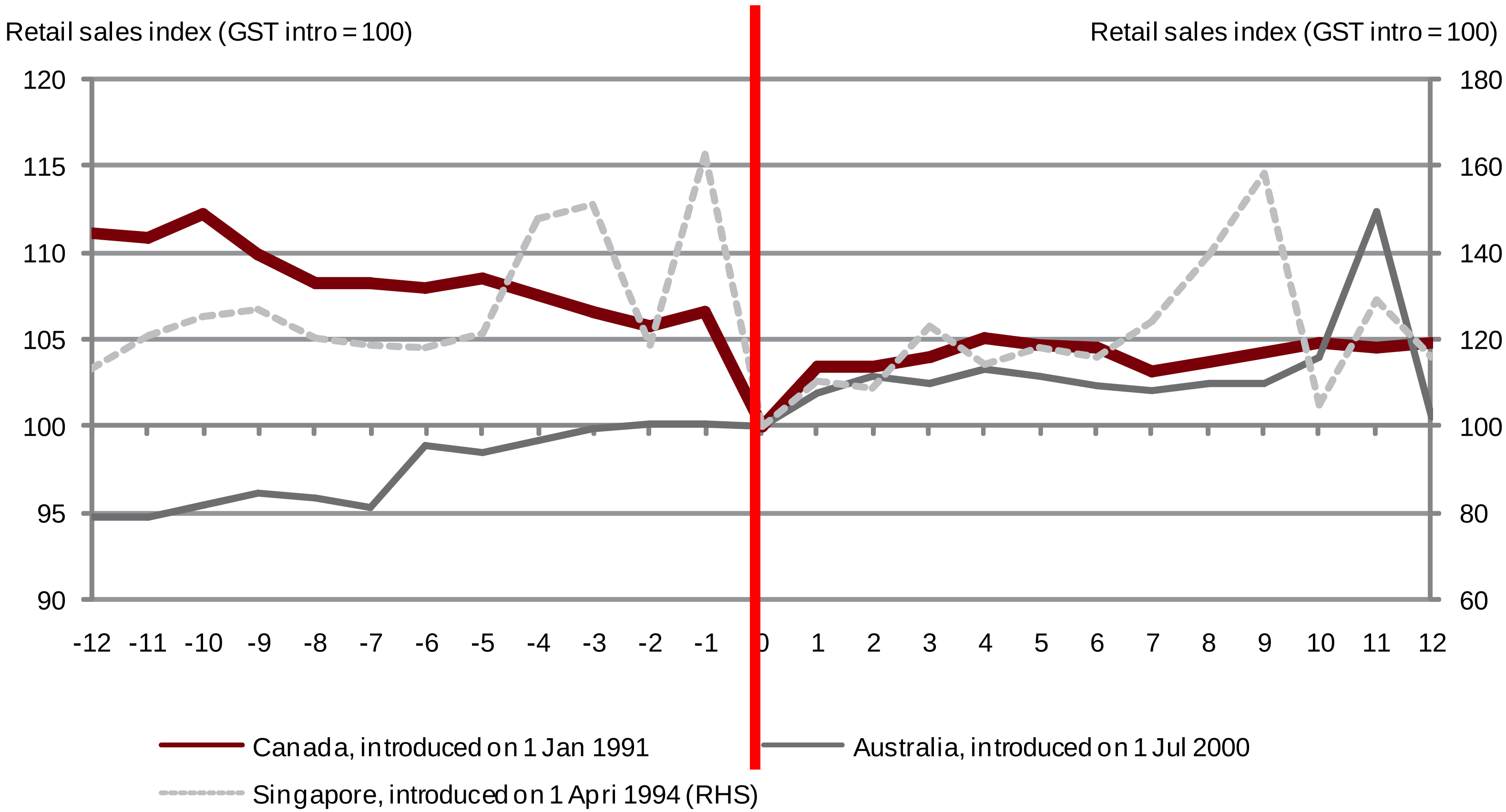
• Pre-GST front-loaded buying seems rather subdued. Malaysians are saving ahead of GST.

• Post-GST price hikes will dampen demand.

• Post-GST absence of price hikes (or inability to raise prices) will lead to compressed margins.

• Rising costs (sticky on the downside) and subdued demand will put pressure on profits.

GST implementation (Spore-1994. Canada-1991, Australia-2000)



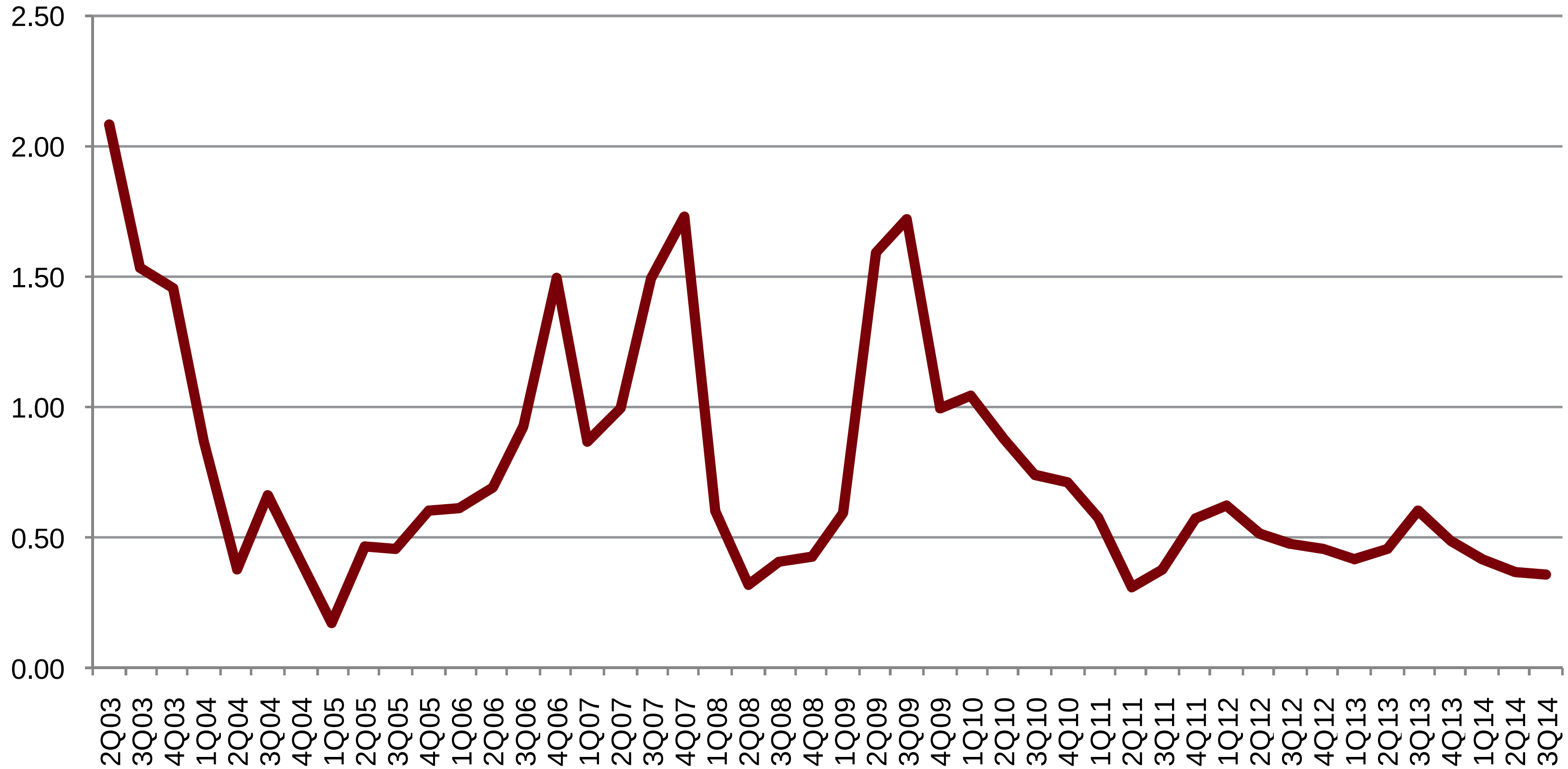
Impact of GST on sectors (neutral for export sectors)

Sector	Impact	Comments
Automotive	Positive	Slight positive for autos if GST replaces 10% sales tax
Aviation	Negative	Negative for airlines as domestic flights will be charged GST
Banking	Negative	Higher costs could shave 1-2% off net earnings
Brewery	Negative	Will further weigh on the weakening sales volume
Building mat	Negative	Ability to pass on cost is limited by the competitive landscape
Construction	Negative	Upside risks to building materials cost and other input costs
Gaming	Negative	Negative for casino and NFO operators if they absorb the GST
Gloves	Neutral	No impact on rubber glove as almost 100% of its products are exported
Healthcare	Negative	Hospitals may absorb GST to increase patient volume at newly-open hospitals
Media	Neutral	GST will be paid by the advertisers
Oil & gas	Positive	RON95 petrol, diesel and cooking gas are exempted
Plantations	Neutral	Claw back the tax through rebates as most of the palm products are exported
Property	Negative	Commercial property prices to rise by 6% while residential property costs to increase
Shipping	Neutral	International shipping should be zero-rated, so no impact
Technology	Positive	Tax incentives encourage SMEs to invest in GST training/software, benefit IFCA MSC
Telcos	Positive	Mobile operators can pass on sales tax on to prepaid users
Timber	Neutral	Overall impact on earnings is minimal as timber products are mostly exported
Tobacco	Negative	Will further weigh on the weakening sales volume
Utilities	Neutral	Consumption not subject to GST raised from 200 to 300 units, benefits 70% households

Earnings puzzle

- 4+ years of earnings disappointments while GDP growth has been good.
- 3Q14 results were bad, revision ratio depressed at 0.36x while 2014 core market EPS growth forecast cut to below 1%.
- 2014 profit growth dragged down by the banking, plantation and telco sectors.
- 10-12 companies suffered earnings contractions in 2012-2014.
- Risk to 2015's 8% core market EPS growth forecast.
- Risk to 2015's assumption for 0.8% pt increase in margins.

Earnings disappointments unabated (revision ratio)



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Stock market outlook

Politics

- 14^{th} general election only due in 2018, another 3+ years.
- GE13 was BN's worst-ever performance.
- Opposition has its own set of problems. Can it stay intact?
- Khalid Ibrahim and Selangor fiasco reflect badly on opposition.
- What will happen if opposition leader DS Anwar Ibrahim is jailed?
- Implications of Dr. Mahathir withdrawing support for PM Najib?
- Issues to watch out for: GST and delineation exercise

Economics (5.0% GDP growth in 2015)

Malaysia's GDP forecast by supply and demand side (% yoy)

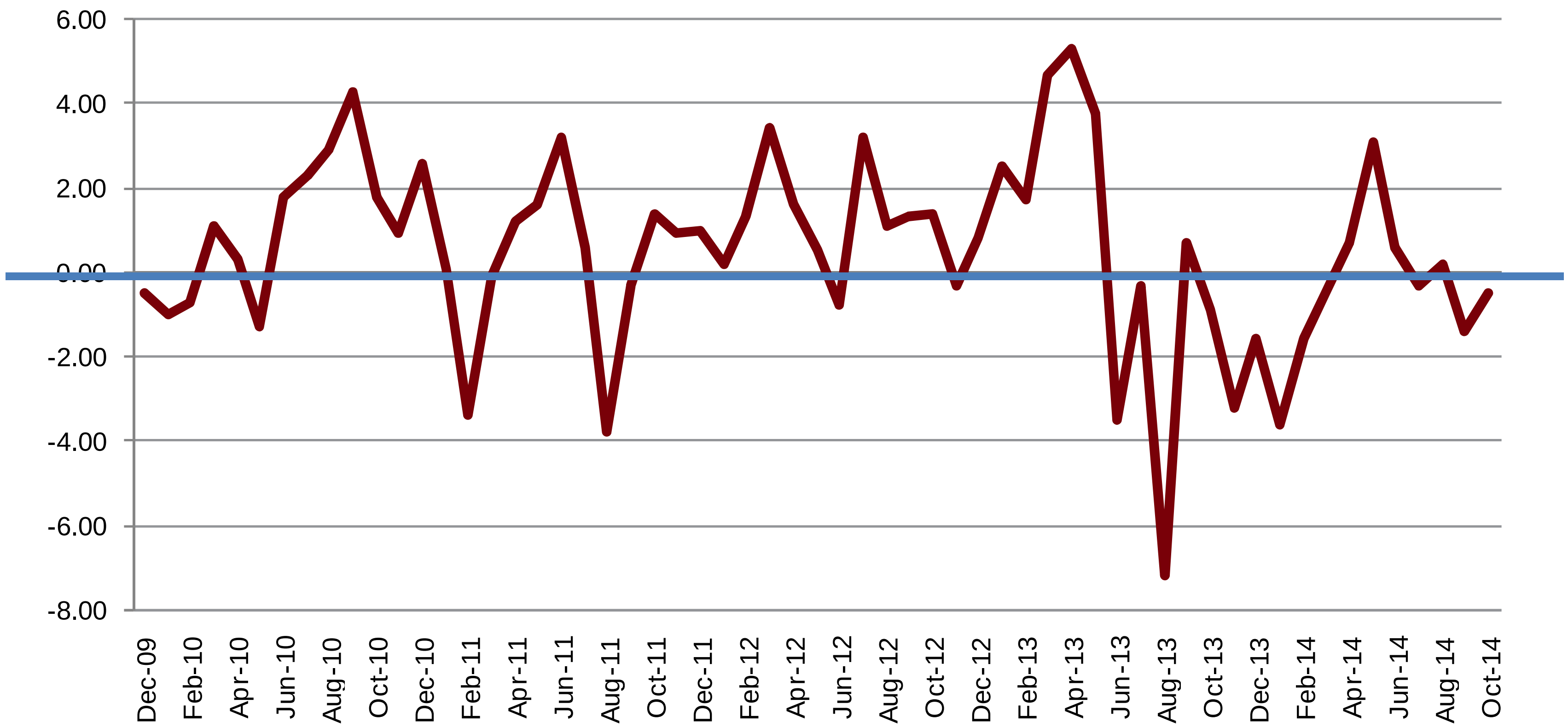
Real GDP by demand side	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015F**
Real GDP	6.3	4.8	-1.5	7.4	5.2	5.6	4.7	6.0	5.0
Private consumption	10.4	8.7	0.6	6.9	6.9	8.2	7.2	6.5	5.5
Public consumption	6.6	6.9	4.9	3.4	16.2	5.0	6.3	4.2	3.8
Private investment	13.6	0.1	-7.4	18.4	9.4	22.8	13.1	10.5	11.0
Public investment	6.6	5.2	2.9	4.9	2.6	14.6	2.2	-1.6	4.7
Exports	3.8	1.6	-10.9	11.1	4.5	-1.8	0.6	4.0	3.0
Imports	5.9	2.3	-12.7	15.6	6.2	2.5	2.0	3.2	4.0
Real GDP by supply side	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015F**
Real GDP	6.3	4.8	-1.5	7.4	5.2	5.6	4.7	6.0	5.0
Agriculture	1.4	3.8	0.1	2.4	5.8	1.3	2.1	3.8	3.2
Mining	2.1	-2.4	-6.5	-0.3	-5.4	1.0	0.7	1.5	2.1
Construction	8.5	4.4	6.2	11.4	4.7	18.6	10.9	12.0	10.6
Manufacturing	3.1	0.8	-9.0	11.9	4.7	4.8	3.5	6.0	5.5
Services	10.0	8.6	2.9	7.4	7.1	6.4	5.9	6.1	5.2

Indicator	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015F**
Real GDP (% yoy)	6.3	4.8	-1.5	7.4	5.2	5.6	4.7	6.0	5.0
Exports (% yoy)	2.6	9.7	-16.7	15.6	9.2	0.7	2.4	7.1	5.0
Imports (% yoy)	5.0	3.5	-16.4	21.7	8.5	5.8	7.0	6.3	6.6
Currrent account balance (RM bn)	102.2	131.4	110.7	87.2	102.4	54.5	39.9	52.5	48.0
Currrent account balance (% of GDP)	15.4	17.1	15.5	10.9	11.6	5.8	4.0	4.9	4.1
International reserves (US$ bn)	101.4	91.4	96.7	106.5	133.6	139.7	134.9	126.4	124.5
Inflation (%)	2.0	5.4	0.6	1.7	3.2	1.6	2.1	3.2	4.0
Loan growth (% yoy)	8.6	12.8	7.8	12.7	13.6	10.4	10.6	9.0-10.0	9.0-10.0
Fiscal balance (% of GDP)	-3.1	-4.6	-6.7	-5.4	-4.8	-4.5	-3.9	-3.5	-3.0
Public debt-to-GDP (%)	40.1	39.8	50.8	51.1	51.5	53.3	54.7	54.1	53.1
External debt-to-GDP (%)*	-	-	54.5	54.5	60.7	63.9	70.6	-	-
Overnight policy rate (% p.a.)	3.50	3.25	2.00	2.75	3.00	3.00	3.00	3.25	3.25
Ringgit (per US$1, end-period)	3.31	3.47	3.43	3.06	3.17	3.06	3.28	3.38	3.50

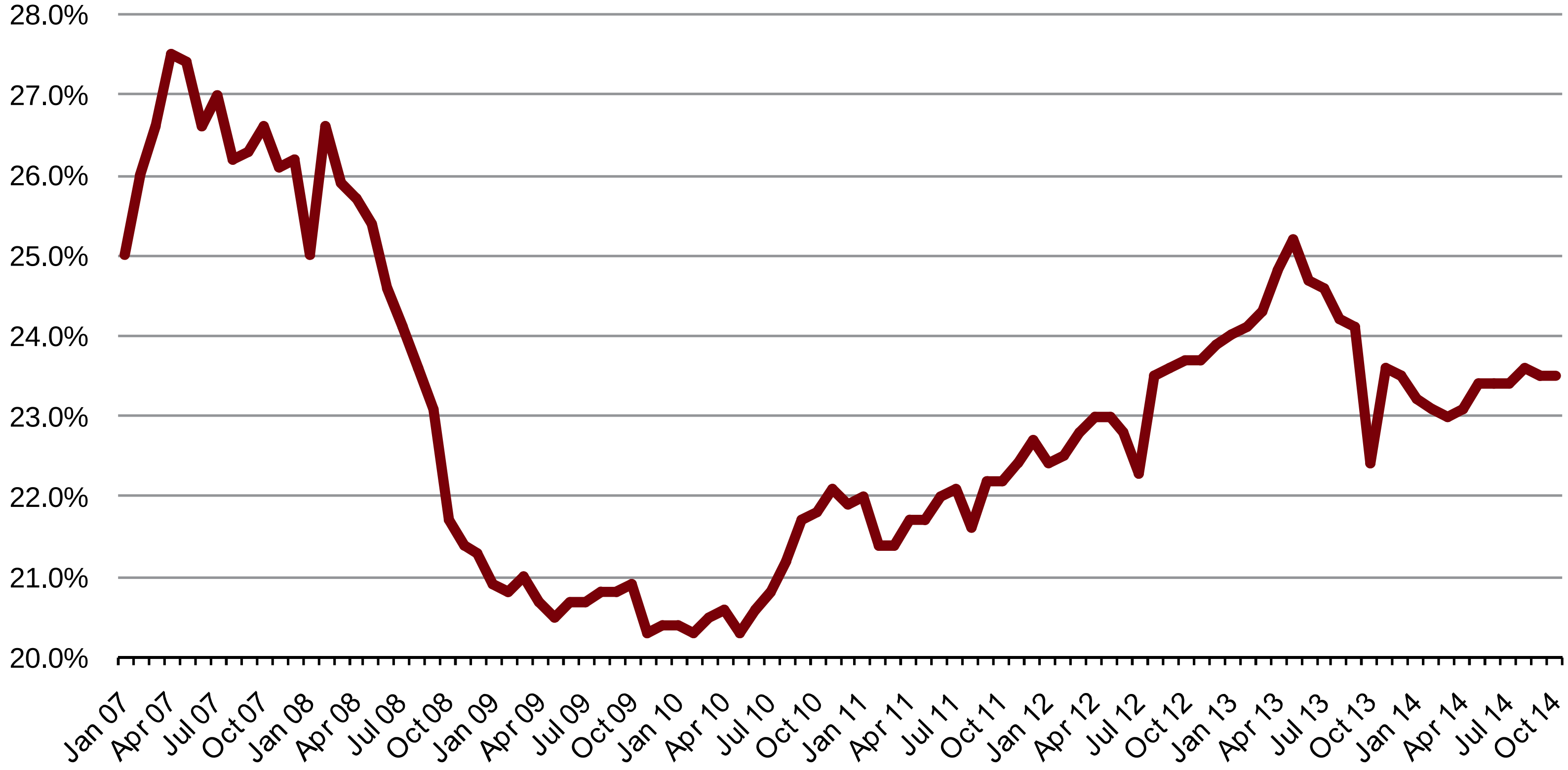
Valuations (2015 16.5x/2016 15.0x P/E)

FBMKLCI Statistics	2011	2012	2013	2014F	2015F	2016F
Basic P/E (x)	15.9x	16.2x	17.8x	17.5x	16.5x	15.0x
Core P/E (x)	15.3x	16.2x	18.4x	17.8x	16.5x	15.1x
FD Core P/E (x)	15.3x	16.2x	18.5x	18.0x	16.6x	15.2x
Core EPS growth (%)	11%	4%	-2.8%	0.7%	8.1%	9.5%
Core Net Profit Growth (%)	11%	21%	-6.2%	0.5%	8.9%	9.5%
P/BV (x)	2.2x	2.3x	2.4x	2.3x	2.2x	2.1x
Dividend yield (%)	3.7%	3.4%	3.0%	3.2%	3.4%	3.7%
EV/EBITDA (x)	8.2x	9.4x	10.7x	10.2x	9.6x	8.7x
P/FCF (x, equity)	14.8x	19.2x	21.0x	16.6x	19.6x	12.6x
P/FCF (x, firm)	16.0x	18.3x	23.2x	14.5x	14.1x	10.2x
Net gearing (%)	15.1%	11.5%	15.1%	11.2%	9.2%	6.4%
ROE (%, recurring)	15.0%	15.8%	13.3%	13.0%	13.6%	14.2%

Foreign net buying/(selling) in RM bn



Foreign shareholdings (in the middle)



Sector weightings

Overweight	Neutral	Underweight
Aviation	Automotive	Banking
Construction	Building materials	Brewery
Food & beverage	Chemicals	Telecommunications
Healthcare	Commodities	Tobacco
Insurance	Consumer	
Oil & gas	Gaming	
Shipping	Media	
Small caps	Property	
Technology	REITs	
Utilities	Rubber gloves	
	Timber	
	Transport infra	

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Top sector picks:

•**Construction:** Companies with newly-secured jobs have the cost advantage due to low crude oil and building material prices. New tenders and job award momentum anchor order book growth. We expect tender and award activity to pick up pace in view of the RM117bn in outstanding jobs mainly from the infra segment.

• **Transport:** The transport sector is a key beneficiary of lower oil prices. Airlines stand to benefit the most as 50-55% of their revenue is fuel cost while petroleum tanker shipping companies should also benefit from lower bunker cost and higher oil restocking activity.

• **Utilities:** Despite the slight setback in sector reforms, we are positive on the utilities sector given its stable earnings and cashflows, which offer a safe haven during the current choppy market conditions.

• **Small caps:** The valuation of the small-cap sector is less demanding after the recent sharp share price correction and the sector generally offers superior growth compared to the overall market. Newsflow should also be positive for selected small-cap stocks in the next few months.

Construction

- 2015 is a better operating environment for contractors. The fall in oil prices means lower cost for cement and steel.
- The fall in oil prices also provides the incentive for the private and government sectors to push for project rollouts to take advantage of pricing.
- Job flow is backed by RM117bn worth of incoming jobs focused on rail, highways, oil & gas/marine infra, commercial buildings, water infra and power plants.
- The risk of job cancellation from potentially lower government revenue due to oil prices is low for big ticket projects with national interest, such as MRT 2, LRT 3 and major highways.
- The KL-Singapore high-speed rail remains a big bonus for the sector if the government is able to establish the project structure and funding mechanism within the next 1 year.
- Gamuda is our top big-cap pick for exposure to MRT and Penang transport infra while we continue to prefer Muhibbah Engineering in the small/mid-cap space.

Transport

- Lower oil prices will provide a huge boost to airlines' profitability as fuel costs generally account for 50-55% of airline revenue.
- Airline yields on short-haul routes have likely bottomed and potential industry capacity rationalisation in 2H15 should lead to higher yields.
- The likely boom in crude oil restocking activity by China and India amid low oil prices should drive crude tanker shipping demand in 2015.
- A tariff hike for Port Klang ports is highly likely, in our view. The establishment of the Ocean Three alliance will also increase transhipment volume for Westports.
- Top picks: Westports, AirAsia and MISC.

Utilities

- The lower energy price outlook in 2015 implies that Tenaga's fuel costs will be reduced in FY15.
- The lower fuel costs will not have any impact on Petronas Gas given that it is mainly a processor and transporter of gas and is thus not exposed to the fluctuations in gas prices.
- We project more new generation tender bids in 2015, which will give YTL Power the opportunity to own a new power plant after its existing PPA expires in 2015.
- Petronas Gas is our top pick for the utilities sector due to its stable earnings and cashflows by virtue of its long-term agreement with Petronas.

Smaller caps

- Valuations are less demanding and share price downside capped following the correction in the small-cap sector a few months back.
- Selected small caps offer superior growth compared to the market and some companies should outperform the market, with expected positive newsflow in the coming months.
- The sector is generally defensive and not likely to be badly affected by any consumer demand slowdown post GST implementation in Apr 2015.
- Top picks : MyEG, Prestariang, IFCA, Karex and Berjaya Food.
- Wild cards: SMRT/Masterskill and Salcon.

Top picks

CIMB top picks

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY2015	Core P/E (x) CY2016	3-year EPS CAGR (%)	P/BV (x) CY2015	Recurring ROE (%) CY2015	Dividend Yield (%) CY2015
Gamuda	GAM MK	Add	5.06	5.99	3,377	13.5	12.4	7.3%	1.74	13.1%	2.3%
Genting Malaysia	GENM MK	Add	4.10	5.90	6,651	16.2	11.8	6.2%	1.38	8.8%	2.4%
IJM Corp Bhd	IJM MK	Add	6.57	7.95	2,799	13.6	12.8	29.3%	1.54	10.9%	2.5%
Mah Sing Group	MSGB MK	Add	2.25	3.21	950	8.1	7.4	14.7%	1.32	17.2%	4.4%
Malayan Banking Bhd	MAY MK	Add	8.87	12.50	23,647	11.3	10.4	8.0%	0.86	13.1%	6.2%
MISC Bhd	MISC MK	Add	6.99	8.22	8,926	15.0	14.2	12.0%	1.53	7.3%	1.5%
Petronas Gas	PTG MK	Add	21.98	27.11	12,442	24.8	24.5	2.3%	1.55	16.6%	2.5%
SapuraKencana Petroleum	SAKP MK	Add	2.52	6.84	4,320	8.4	7.8	28.7%	1.55	21.8%	1.2%
Westports Holdings	WPRTS MK	Add	3.36	4.57	3,278	23.6	20.3	7.9%	3.99	27.2%	3.2%
YTL Corporation	YTL MK	Add	1.62	2.34	4,803	11.6	11.3	6.1%	2.32	10.0%	6.2%
Average						**14.6**	**13.3**	**12.3%**	**1.78**	**14.6%**	**3.2%**

CIMB smaller cap picks

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY2015	Core P/E (x) CY2016	3-year EPS CAGR (%)	P/BV (x) CY2016	Recurring ROE (%) CY2015	Dividend Yield (%) CY2015
Berjaya Auto	BAUTO MK	Add	3.31	4.44	766	11.3	10.2	31.1%	4.67	47.2%	3.6%
Berjaya Food Berhad	BFD MK	Add	2.89	4.33	305	21.7	15.8	31.1%	2.90	15.1%	2.3%
GHL Systems Bhd	GHLS MK	Add	0.71	1.06	129	25.4	15.8	71.5%	9.44	13.9%	0.0%
IFCA MSC	IFCA MK	Add	0.76	1.05	103	13.3	11.7	100.2%	0.90	34.2%	1.1%
Karex Berhad	KAREX MK	Add	3.10	4.08	359	17.4	14.4	29.6%	0.90	26.6%	1.4%
MY E.G. Services	MYEG MK	Add	4.25	5.28	717	26.5	16.9	49.8%	9.44	41.4%	1.2%
Pharmaniaga Bhd	PHRM MK	Add	4.30	6.15	318	13.1	11.2	16.8%	2.66	15.9%	4.6%
Prestariang	PRES MK	Add	1.60	2.94	222	12.1	10.4	18.6%	0.90	34.9%	5.3%
Signature International	SIGN MK	Add	1.57	3.12	54	7.0	6.0	39.2%	3.30	19.9%	3.8%
Tune Ins Holdings Bhd	TIH MK	Add	1.80	3.00	387	14.6	12.8	17.9%	3.96	21.2%	2.5%
Average						**16.2**	**12.4**	**43.0%**	**3.94**	**26.0%**	**2.5%**

Technical Analysis

Capital flows is key

- First sign is the forex market
- Second sign is the bond markets
- Third and last sign is the stock market (where most of the public is)

US$-RM3.56 (weekly MACD/RSI no positive divergence yet)

Dollar Index still rising, strong US$(93.7)

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Malaysia 10-years MGS monthly yield chart (3.92%), must not break above 4.12%), 45% MGS owned by foreigners

Gold price (US$1258), support at US$1180, positive divergence

Crude oil (US$52), oversold , REBOUND from US$43 low, but no positive divergence

S&P500 monthly chart (2,050), monthly technical indicators turning down STL 2,100 broken

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KLCI monthly (1,800), monthly indicators negative for now, key support 1,630-1,640

KLCI weekly chart (resistance at 1,803)

KLCI daily chart (resistance at 1,831)

FBM Small Cap Index monthly (16,000). Key support 15,100. Monthly indicators negative

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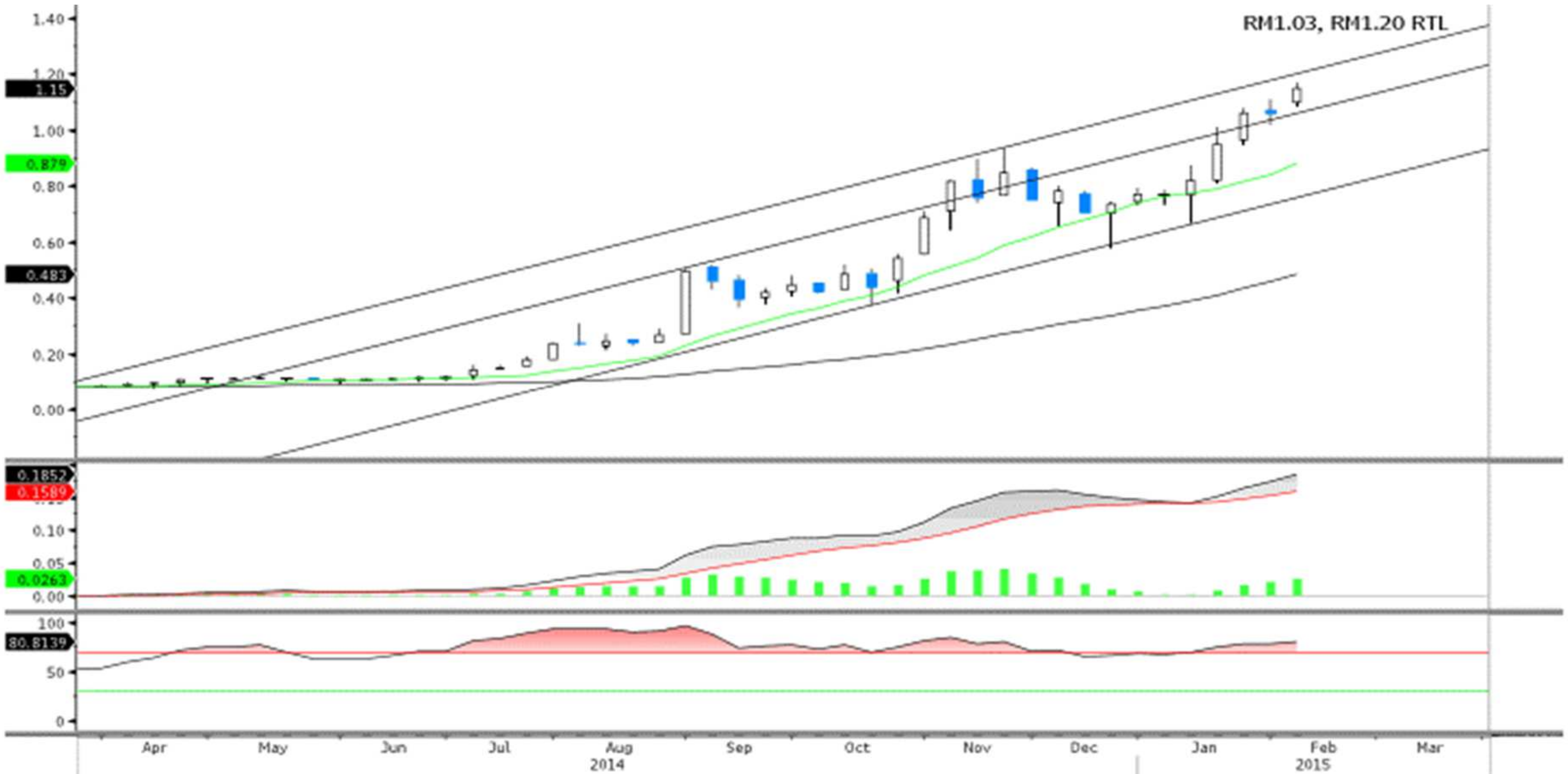
Small cap picks: Prestariang (RM1.86), TP RM2.94

Small cap picks: MyEG (RM2.61), triangle, TP RM3.90

Small cap picks: IFCA (RM1.15), TP RM1.48



Small cap picks: BERJAYA FOOD (RM2.92), TP RM3.68

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Small cap picks: SALCON (RM0.70),70% SHARE PRICE IS NET CASH

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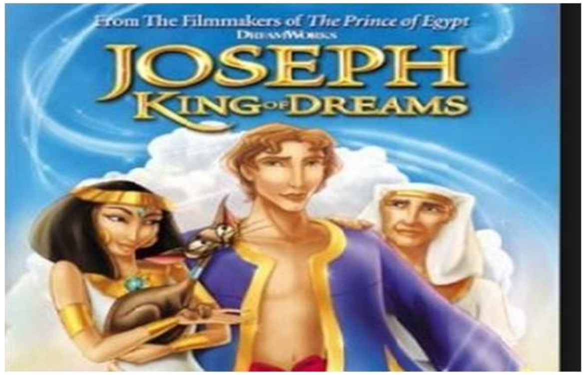
JOSEPH CYCLE – BUSINESS CYCLE BOTTOM IN 2015?



KLCI 7 YEAR JOSEPH CYCLE?

Conclusion

- Fundamentally cautious outlook in 2015. KLCI target only 1,800. Stock picking market, bullish on transport, utilities and selected small caps
- Watch the Ringgit and bond yields, external factors world wide
- Long term technical indicators are down for now. Trade the markets, not time to “Buy and Hold”

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