



OVERVIEW

Global stock markets staged a sell-off in August 2015, amid mounting worries over the Chinese economy, continued low oil prices, and the possibility of a US interest rate hike. The sudden two percent devaluation of the Chinese yuan against the US dollar exacerbated these events. As a result, the FTSE All World Index ended the month down -6.74% month-over-month and down -5.57% over a year ago. Year-to-date, the index has declined by roughly -2.99%. By contrast, the S&P 500 and the Dow Jones Industrial Average fell -6.03% and -6.20%, respectively, month-over-month. Emerging markets fared even worse than developed markets as the MSCI Emerging Market Index declined -9.05% in August. The Dow Jones ASEAN Islamic Total Return Index (US dollar-denominated) mirrored the performance of emerging markets as it declined -9.90% during the month. In ringgit terms, however, the index fell only -1.09% as the ASEAN currencies continued to strengthen against the ringgit.

Malaysia

Second quarter GDP grew 4.9% year-over-year, beating expectations of 4.5% growth, despite weak commodity prices and domestic demand. Despite the positive GDP results, investors remained focused on ringgit weakness and the ongoing political turmoil during August. As a result, the FBM KLCI index closed the month down -5.99% month-over-month (down -10.87% year-over-year). Meanwhile, foreign reserves continued to decline and stood at US\$94.5 billion as of 15 August, below the critical US\$100 billion level. In ringgit terms, foreign reserves stood at MYR356.4 billion, sufficient to finance just 7.5 months of retained imports and equal to 1.0 times the short-term external debt. The trade surplus came in at MYR2.4 billion for the month of July, down -70.0% from the previous month. Notably, the Malaysian ringgit continues to weaken against the US dollar and ended the month at a 17-year low of MYR4.20.

Indonesia

The long-awaited cabinet reshuffle finally took place in August as President Jokowi promised to address the issue of stalling growth and delays in infrastructure development. On the economic front, exports and imports both contracted -19% and -28%, respectively, in July, and the trade account recorded an eighth consecutive surplus at US\$1.3 billion. Inflation in August was recorded at 7.2%, below the market's expectation of 7.4%. Foreign investors were net sellers of Indonesian equity during the month. The Jakarta Composite Index settled at 4,509.61, -6.1% lower in local currency and -1.13% in ringgit terms. Year-to-date, the index is down -12.3% in local currency and -7.28% in ringgit terms.

Philippines

The Philippines' second quarter GDP rebounded to 5.6% from the 5.2% achieved in the first quarter, driven mainly by the strong services sector. On the trade front, exports declined for a

August 2015



Monem Salam MBA
President

The sudden devaluation of the Chinese yuan exacerbated a global stock market sell-off.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	11,443	-7.27% ▼	-6.95% ▼	-11.07% ▼
FBM KLCI (RM)	1,613	-5.99% ▼	-6.64% ▼	-10.87% ▼
S&P 500 (US\$)	3,661	-6.03% ▼	-2.88% ▼	0.48% ▲
Dow Jones Industrial Average (US\$)	16,528	-6.20% ▼	-5.68% ▼	-1.00% ▼
FTSE All World (US\$)	262	-6.74% ▼	-2.99% ▼	-5.57% ▼
MSCI All Country World Index (US\$)	397	-6.80% ▼	-3.15% ▼	-5.73% ▼
MSCI Emerging Markets (US\$)	350	-9.05% ▼	-12.85% ▼	-22.95% ▼
Dow Jones ASEAN Islamic (RM)	8,044	-1.09% ▼	0.09% ▲	0.42% ▲
Jakarta Composite Index (RM)	4,510	-1.13% ▼	-7.28% ▼	-25.59% ▼
Philippine Stock Exchange Index (RM)	7,099	0.71% ▲	14.02% ▲	-4.28% ▼
Straits Times Index (RM)	2,921	-2.04% ▼	0.50% ▲	-19.71% ▼
Stock Exchange of Thailand (RM)	1,382	3.53% ▲	4.30% ▲	-18.60% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	4.18	3.83	3.16
Crude oil (US\$)	\$49.20	\$47.12	\$95.96
Crude palm oil (RM)	RM1,928	RM2,120	RM1,937

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third consecutive month in June due to weak commodities. Imports meanwhile rebounded strongly to an annual rate of 22.6% in June driven by the semiconductor sector. Remittances from overseas Filipino workers (OFWs) rose 5.8% year-over-year to US\$2.4 billion in June. Inflation remained benign in July, increasing only 0.8% as food and transport prices continue to ease. This is well below the central bank's target of 2–4%. Foreign investors were again net sellers of equity in August. The Philippines Stock Exchange Index ended the month at 7098.81 points, declining -5.6% in local currency, but gaining 0.71% when measured in ringgit terms.

Singapore

The country's exports shrank in June, renewing fears that the economy will continue to weaken. After rising 4.5% in June, non-oil domestic exports slid -0.8% in July from a year earlier, worse than consensus forecasts of flat growth and due to a -2.1% fall in non-electronic exports. A recent survey by private sector economists pared 2015 forecasted growth to 2.2% from a projection of 2.7% made just three months ago. Further, the Singapore dollar remained weak against the US dollar, which could create import-driven inflation, put pressure on any US dollar-denominated debt, and result in higher interest rates. Stocks listed in Singapore did not escape the broad-based sell down as the Straits Times Index closed down -8.1% in local currency terms at 2,921.4 points, but declining only -2.04% in ringgit terms.

Thailand

The Stock Exchange of Thailand Index closed at 1,382.41 points, down -3.4% in local currency but up 3.53% in ringgit terms. Already facing a difficult economy, Thailand's economic performance could be further derailed by the recent bombing in Bangkok. Although the tourism sector will likely bounce back over time, the short-term outlook might remain bleak. Separately, Thailand's private consumption and investment slipped in July, adding to existing economic pessimism. Further, consumer confidence hit a 15-month low in August as the index fell to 72.3 points from 73.4 in July. However, the government's recently announced THB136 billion stimulus package should strengthen economic growth by 0.7–1.0 percentage points, and the Thai GDP is expected to expand by 2.5% to 2.9% this year.

COMPANY REVIEW

Indocement Tunggal reported second quarter FY15 earnings that came in weaker than expected. Revenue for the first six months declined -6.6% year-over-year to IDR8.874 trillion. Gross profits meanwhile declined -5.2% year-over-year to IDR3.994 trillion. INTP recorded a net profit of IDR2.309 trillion for the first half of FY15, translating into an EPS of IDR627,30.

Robinson Department Store reported its second quarter FY15 earnings. Revenue from sales of goods came in at THB5,860 million, up 6.5% year-over-year. Total income including rentals from the malls grew 9.5% year-over-year to THB6,702 million. Same-store sales growth was -1% in the 2Q, an improvement from -7% a year ago. Net profit for the quarter was THB440 million, flat year-over-year as the company incurred higher selling, general, and administrative costs due to expenses on its newly opened stores and slightly lower share of profits from associates.

Sime Darby reported its FY15 (FYE June 2015) earnings that came in slightly above consensus estimates. Revenue for the full year came in at MYR43,729 million, down -1.9% year-over-year. All of its divisions excluding Motor and Energy & Utilities recorded declines in revenue. Operating profit of MYR3,399 million was -23% lower year-over-year as contribution from its major divisions declined. As a result, margins declined by -2.14% year-over-year. Core net profit for the group came in at MYR2,026 million, down -34% year-over-year but slightly above consensus expectations due to higher earnings from NBPOL (a company it acquired recently) and a lower tax rate. Sime Darby declared a final dividend of MYR0.19, bringing the full year figure to MYR0.25.

PORTFOLIO TACTICS

The surprise yuan devaluation by the People's Bank of China (PBOC) fueled investor fear of a sharp slowdown in the world's second largest economy, leading to a broad based sell-off. Emerging markets certainly took a bigger hit than developed markets given the added currency pressure and growth concerns. Though markets could remain volatile for a while, we believe that the current weakness provides opportunity to buy stocks with strong fundamentals at attractive valuations. Additionally, as we have highlighted previously, infrastructure investments in countries including Indonesia, the Philippines, and Thailand will propel economic growth going forward. We will continue to look for infrastructure-related investment ideas.

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