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MARKET REVIEW MALAYSIA

OVERVIEW

April 2013

Stock market performance remained positive in April. In local currency terms, the Malaysian stock market was remarkably higher, with the FBM KLCI Index rising 3.19% whilst the FBM EMAS Shariah Index rose 2.74%, for year-to-date gains of 2.76% and 2.03%, respectively. The FTSE All World Index continued to climb, rising 2.97% and bringing its year-to-date performance to 9.63%. US benchmarks also continued to slowly rise, with the S&P 500 rising 1.93% whilst the Dow Jones Industrial Average rose by 1.94%, bringing year-to-date returns for these indices to 12.74% and 14.10%, respectively. The MSCI Emerging Markets Index rose 0.75% over the month, bringing year-to-date performance to -0.88%.

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While the performance of most of other ASEAN countries has been strong — the Philippines and Indonesia, for example, hitting double-digit growth — Malaysia's stock market as of April 30 was among the laggards. This can largely be attributed to uncertainty in the outcome of Malaysia's general election. However, on May 6, the FBM KLCI index surged tremendously, rising by almost 8% in early trade and surpassing the 1,800 level intraday, on the announcement of Barisan Nasional's (BN) victory and its continuation as Malaysia's ruling party for another five years.

Foreign investors currently have more confidence to invest in Malaysia.

Despite receiving a minority of votes nationally, the BN won 133 seats in the 222-member parliament with the opposition alliance taking 89 seats. The ruling coalition's seat tally was seven short of those it won in the 2008 election and well below the two-thirds majority it was aiming for.

Meanwhile, Malaysia's Foreign Exchange Reserves increased by US$0.2 billion in the first half of April to US$139.9 billion, compared to US$0.9 billion in the second half of March. This was mainly due to repatriation of export proceeds and some inflows of foreign portfolio funds, although they were partially offset by the import bills payment. At the current level, foreign exchange reserves are sufficient to finance 9.9 months of retained imports and to cover 4.6x the short-term external debt of the country, compared to 9.5 months of retained imports and 4.0x of short-term external debt cover in the same period last year.

In line with the pick-up in foreign exchange reserves, the ringgit strengthened by 1.9% against the US dollar in the first three weeks of April, after it depreciated by 1.2% in the first quarter. This reflects the easing concerns over Italy's inconclusive election results and the Cyprus banking crisis, as well as China's move to fix the yuan at a higher level against the US dollar on April 17. Besides the ringgit, regional currencies such as the Singapore dollar, Thai baht, and the Indonesian rupiah, were mostly strengthening. Meanwhile, the euro gained 2.1% against the US dollar in the first three weeks of April, compared to a depreciation of 2.8% in the first quarter. The Japanese yen, however, depreciated by 5.2% against the US dollar in the first three weeks of April after falling by 8.5% in the first quarter, which was in line with the bold monetary easing by the Bank of Japan.

In terms of inflation, Malaysia's headline inflation inched up slightly to 1.6% year-over-year in March, after picking up to 1.5% year-over-year in February, which was mainly due to a faster increase in the core inflation rate. We noticed that

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	11,663	2.74% ▲	2.03% ▲	12.87% ▲
FBM KLCI (RM)	1,718	3.19% ▲	2.76% ▲	13.26% ▲
S&P 500 (US$)	1,598	1.93% ▲	12.74% ▲	16.89% ▲
Dow Jones Industrial Average (US$)	14,840	1.94% ▲	14.10% ▲	15.39% ▲
FTSE All World (US$)	243	2.97% ▲	9.63% ▲	15.99% ▲
MSCI Emerging Markets (US$)	1,039	0.75% ▲	-0.88% ▼	3.97% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.04	3.10	3.03
Crude oil (US$)	$ 93.46	$ 97.23	$ 104.87
Crude palm oil (RM)	RM 2249	RM 2372	RM 3472

Continued on next page.

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most of the numbers remained steady except for "furnishing household and equipments," which increased from 1.5% year-over-year to 1.7% year-over-year, as well as transport, which increased from 0.4% year-over-year to 1.0% year-over-year. Despite market anticipation of a higher inflation rate in 2013, it will still likely be manageable. As a whole, the market believes that the Central Bank will likely keep the Overnight Policy Rate unchanged at 3.0% for the year.

In March, US new home sales bounced back to grow by 1.5% month-over-month to an annualized rate of 417,000 units, after dropping by -7.6% to 411,000 units in the previous month. This suggests that the housing sector is improving gradually. Home sales averaged 424,000 in the first quarter, which was the highest since the third quarter of 2008. The number of newly constructed houses on the market increased to 153,000 in March, the most since November 2011, after rising to 150,000 in the previous month.

In China, the unofficial preliminary Purchasing Manager's Index (PMI) for the manufacturing sector slowed to 50.5 in April, a two-month low after rising to 51.6 in March and compared to 50.4 in February. The preliminary manufacturing data was obtained from 85-90% of responses to a survey of more than 400 companies. This marked the sixth consecutive time the index was in expansionary territory, which corresponds to the 50.0 level and higher. The slowdown was due to output and new orders increasing at a slower rate during the month. Similarly, new export orders dropped during the month, signaling uneven recovery during the month in external demand for the country's exports.

In Italy, the parliamentary vote to re-elect President Napolitano may indicate the path to a new government, as the rival forces of the Democratic Party and the People of Liberty came together to support the head of state. The political impasse also could ease following the resignation of Democratic Party General Secretary Pier Luigi Bersani on April 19, who had shunned deals with Berlusconi. Bersani, who won a majority in the Chamber of Deputies in the February election, made good on his pledge to resign after Mr. Napolitano's re-election.

The eurozone's PMI for the manufacturing sector continuously fell to 46.5 in April from 46.8 in March, and 47.9 in February. This suggests that manufacturing activities in the region contracted by a larger magnitude during the month. Output numbers contracted at the strongest rate in four months, while new orders fell for the 23rd consecutive month, prompting manufacturers to retrench workers.

COMPANY REVIEW

KPJ announced to Bursa Malaysia that it is currently acquiring a 100% equity stake in Rawang Specialist for MYR50.6mn. The latest acquisition is in line with KPJ's plan to develop and expand its network of hospitals, which will add 159 licensed beds capacity or 6% of KPJ's total of more than 2,500 operating beds. Over the longer term, KPJ plans to build a new hospital each in Perlis and Miri.

Hartalega's 3Q13 (FYE March) results announced were within expectation. Revenue for the quarter grew by 7.3% year-over-year and 1.8% quarter-over-quarter on higher sales volume (28.6% yoy, 7.9% qoq), which was partially offset by a lower average selling price (-15.2% yoy, -5.5% qoq) due to substantial easing of latex costs (-31.3% yoy, -5.9% qoq). In terms of absolute core profit before tax, the group achieved MYR30.0 per thousand gloves in 3Q12 (0.5% yoy, 1.9% qoq). The group declared its second interim dividend per share of 3.5sen during the quarter, bringing its year-to-date dividend per share to 7.0sen.

PORTFOLIO TACTICS

The local bourse traded sideways during the month of April as investors were a bit cautious in anticipation of the outcome of election results. However, upon the BN's victory, the local bourse improved dramatically as most blue chip and government-related stocks surged. Foreign investors currently have more confidence to invest in Malaysia. However, we fear that the weak results won by BN may only support the local bourse temporarily. Malaysia's economic growth outlook remains tempered by the uncertain external macroeconomic environment, although domestic public spending should provide support. We continue to position towards Consumers (e.g., UMW Holdings), Health Care (e.g., KPJ & Hartalega) and Telcos (e.g., Axiata).

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