OVERVIEW

May 2013

Stock market performance remained positive in May. In local currency terms, the Malaysian stock market was slightly higher, with the FBM KLCI Index rising by 3.62% whilst the FBM EMAS Shariah Index rose 7.18%, for year-to-date gains of 6.48% and 9.36%, respectively. The FTSE All World Index fell 0.16%, bringing its year-to-date performance to 9.47%. US benchmarks on the other hand, continued to slowly rise, with the S&P 500 rising 2.34% whilst the Dow Jones Industrial Average rose by 2.24%, bringing year-to-date returns for these indices to 15.37% and 16.65%, respectively. Meanwhile, the MSCI Emerging Markets Index dropped 2.57% over the month, bringing year-to-date performance to -3.42%.

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Investment Analyst

Malaysia's recently released 1Q GDP results revealed a sharp slowdown in exports, as well as delays in private investment caused by the uncertain outcome of the general elections. However, forecasters expect growth to improve and strengthen to 5.6% year-over-year in the second half of 2013, which will be boosted by domestic demand on the back of project implementation under various economic programmes. Therefore, we believe that domestic demand will likely be the key economic growth driver in Malaysia during 2013. However, we see risks of a larger fiscal deficit this year as a result of several generous government assistance programmes that distributed nearly RM 3.9 billion to the people during the pre-election period. Additionally, the civil servant salary hike starting July will cost the government an additional RM 2 billion.

Inflation is expected to trend up in 2013 – but should remain subdued.

Inflation continued to increase from a low of 1.2% year-over-year in December, to 1.6% year-over-year in March, and reaching an 11-month high of 1.7% in April. This was mainly due to the increases in food and non-alcoholic beverage prices, which accelerated from 3.3% year-over-year in March to 3.8% year-over-year in April. Although inflation is expected to trend up in 2013, it will likely be manageable and not pose a major threat to the economy.

Malaysia's loan growth eased marginally from 10.6% year-over-year in March to 10.5% year-over-year in April but was still higher than the 10.4% year-over-year in December. Weaker corporate loan growth, which eased from 9.6% year-over-year in March to 8.9% year-over-year in April, was the primary culprit. Meanwhile, household loan growth inched up to 12.2% year-over-year in April from 12.1% year-over-year in March due to stronger growth in higher purchase loans for passenger cars, while housing loans were flat.

On May 9th, Malaysia's central bank, Bank Negara Malaysia, opted to maintain the Overnight Policy Rate at 3.0%, which makes the 12th consecutive meeting with no change to rates. This is in line with the central bank's move to support growth while minimizing risks of a build-up in financial imbalances. With growth steady, and inflation subdued at 1.5%

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,404	7.18% ▲	9.36% ▲	20.23% ▲
FBM KLCI (RM)	1,769	3.62% ▲	6.48% ▲	16.09% ▲
S&P 500 (US$)	1,631	2.34% ▲	15.37% ▲	27.38% ▲
Dow Jones Industrial Average (US$)	15,116	2.24% ▲	16.65% ▲	25.26% ▲
FTSE All World (US$)	242	-0.16% ▼	9.47% ▲	27.10% ▲
MSCI Emerging Markets Net TR (US$)	407	-2.57% ▼	-3.42% ▼	14.10% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.10	3.04	3.18
Crude oil (US$)	$91.97	$93.46	$86.53
Crude palm oil (RM)	RM 2360	RM 2249	RM 3070

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year-over-year in 1Q, there's little reason for monetary policy adjustments. According to the central bank, Malaysia's growth this year will be very much supported by domestic demand, on the back of sustained growth in private consumption, government spending, and private investment activities.

Meanwhile in the US, the economy appears to have hit a slow patch in recent months following the 2% increase in the payroll tax and spending cuts that started on March 1. Manufacturing slipped this May for the first time in five months while services activities, which had declined for two months, rebounded in May. US personal consumption expenditure weakened from 0.2% in March to 0.1% in April. However, consumer spending is expected to be resilient with support from the housing sector recovery, as well as improved employment numbers.

COMPANY REVIEW

Maxis Bhd.'s 1Q13 financial results came in within market expectation. Revenue increased by 4.4% year-over-year mainly on higher data revenue and device sales, which slightly reduced its voice and SMS revenue. Core net profit declined by 14.7% year-over-year due to accelerated depreciation (RM 45 million net of tax) as well as lower EBITDA margins of 48.2% versus 50.8% last year. As a part of its expansion plan, Maxis has recently launched its Internet Protocol television (IPTV) service in collaboration with Astro, which we expect to further improve earnings in the oncoming quarters. On its IPTV business, management gives a guidance of 60 to 70 thousand net adds expected in 2013. In addition to this, Maxis has also officially launched its LTE 1,800 MHz band to better support today's popular high-end smart phones. Maxis still offers the highest dividend yield in the sector at 5.7%, which provides downside support despite its premium valuation of 13.3x FY13 EV/EBITDA.

Hartalega's 4Q13 (FYE March) results came in within market expectation with 4Q revenue rising 12.3% year-over-year and net profit up 24.4%. Its 12-month revenue figures improved by 10.8% year-over-year while net profit for the 12 months rose by 16.6%. EBITDA margin widened from 33.3% in 3Q13 to 33.7% in 4Q13. EPS was also up from 8.3sen in 3Q13 to 8.5sen in 4Q13.

PORTFOLIO TACTICS

The local bourse hit its highest level of the year at 1,788.43 points on May 14 after the ruling party Barisan Nasional (BN) won the 13th General Election (GE13). This raised hopes for politically linked companies to resume their current government-sponsored projects. The success of BN also relieved the market of uncertainties associated with a potential victory by the opposition parties. The FBM KLCI index has gained more than 5% year-to-date, boosted by the politically linked companies. 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 and Hartalega), Construction (e.g., Gamuda) and Telcos (e.g., Axiata).

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