SUMMARY NOTE

KENANGA RESEARCH ON A SELECTIVE APPROACH MOVING INTO 1Q15

Kenanga Research Releases its 1Q15 Market Outlook

KUALA LUMPUR, 13 January 2015: – Kenanga Research is looking at moderate growth expectations for the year 2015. A high-base effect, impending GST implementation and a generally weak global economy means more moderate growth expectation of 5.1% in 2015 from an estimated 5.8% in 2014. Main contributors to growth would be exports demand especially from the U.S. and the construction sector.

Kenanga Investment Bank Berhad (Kenanga Investment Bank) advocates a Buy On Weakness (B.O.W.) strategy as it turns selective and adopts a more trading-oriented approach in stock picks. We believe that the local equity market will remain choppy and volatile moving into the 1Q15.

Of late, Brent Crude prices have fallen by c.57% to USD50.0/barrel from its peak of USD115.7/barrel on 19 June 2014. While this could be good news for net importers, the Malaysian economy and equity market could face headwinds due to heavy reliance on Petroliam Nasional Bhd (Petronas)'s contributions and capex. As such, these developments have led to expectations of potential downgrade in the country sovereign ratings due to lower-than-expected government revenue despite the impending GST to cushion such a short-fall; hence, further weakening of the Ringgit is seen. The U.S. dollar has been in an up-trending mode, probably due to expectations of rising interest rate in U.S. after the end of QE in September 2014. The strong U.S. dollar has exerted its pressure and contributed to foreign funds outflows.

Although the underlying investment/market sentiment is weak, it is also approaching the lower-end of its historical range. Nevertheless, Kenanga Research has yet to see a climax in selling as per its sentiment analysis. Part of the reasons for such a conclusion could be due to the market valuations. According to Chan Ken Yew, Head of Research at Kenanga Investment Bank, "After rounds of revision, Kenanga Investment Bank's end-2015 Index Target is now pegged at 1,905, implying 17.7x FY16 PER on the back of 1.3%/4.7%/7.4% earnings growth for 2014/15/16. As at 19 December 2014, the YoY and QoQ performances of FBMLKCI were recorded at -7.1% and -7.2%, respectively. As such, the benchmark index is traded at c.9% discount to the consensus' index target of 1,900 which is fairly close to the -1SD-level.

Nonetheless, Kenanga Investment Bank believes a temporary bottom could be formed should oil prices stabilise above USD50/barrel. The research team still believes that there is sufficient liquidity to support the local market as per the underlying excess liquidity condition", added Chan. For short-and-medium term investment strategy, the team will focus on themes such as:

(i) bottom-fishing heavily sold down stocks,

(ii) GST beneficiaries or sectors/stocks those are less sensitive to GST (including export-oriented sectors such as E&E players, OEM manufacturers and Glove makers),

(iii) Selective construction players,

(iv) Back to basic (i.e. resilient sectors such as Telco, Sin, REIT, Power, Pharmaceutical and Consumer Staple Food sectors), and

(v) Selective alpha stocks (especially those with potential corporate exercises).

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Kenanga Investment Bank Berhad **15678-H**

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- comprehensive financial products and services

Kenanga Investment Bank offers a wide range of products and services such as corporate and institutional coverage, corporate finance, debt capital markets, equity capital markets, corporate banking, Islamic finance, equity broking, equity derivatives and structured products, treasury as well as investment research and advisory services.

Previously known as K & N Kenanga Berhad, a universal brokerage house, Kenanga Investment Bank was acquired by K & N Kenanga Holdings Berhad in 1996. In 2007, K & N Kenanga Berhad became Kenanga Investment Bank Berhad after being granted an Investment Banking license by the Ministry of Finance.

***year to date based on Bursa Malaysia's Participating Organisations Trading Summary*

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