

MALAYSIA



## STRATEGY FLASH NOTE

SHORT TERM (3 MTH) LONG TERM

TRADING BUY

TRADING SELL

NEUTRAL

CIMB Analyst(s)



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### Highlighted Companies

#### AirAsia

Most of AirAsia's aircraft financing is non-Shariah compliant but is the cheapest forms of financing. AirAsia is likely to continue to secure new conventional debt financing as it is in the best interest of shareholders. As at 31 December 2012, AirAsia's conventional debt comprised 38.5% of its total assets. AirAsia is expected to take action to increase its Islamic debt but we think that this will not be enough to reverse its non-Shariah compliant status.

#### Oriental Holdings

Oriental Holdings has total cash of RM2.6bn and its cash to assets ratio is above the 33% threshold. It is conserving the cash for M&A purposes in Indonesia as it seeks to double its plantation landbank. Although this event is likely to occur in the near term due to the current macro conditions in Indonesia, Oriental Holdings will still wait for the right valuations and will not accelerate its plans because of non-compliance with the cash to assets threshold.

#### SP Setia

SP Setia has total borrowings of RM4.54bn and its debt to asset ratio of 37% as at 31 July 2013 is above the 33% Shariah threshold. The group will seek ways to address the issue but this will likely take some time. The likely departure of CEO Tan Sri Liew Kee Sin in Mar 2014, when the third put option for the sale of his remaining stake in SP Setia is due, is of greater concern to us.

## Shariah non-compliant stocks

Last week, the Securities Commission released a list of companies that are no longer Shariah compliant based on new regulations related to cash and debt levels. Unsurprisingly, the share prices of the non-compliant companies took a hit.

Figure 1: Companies that are not Shariah compliant

AirAsia	Unlikely to become shariah compliant as conventional aircraft financing is cheaper
Ann Joo Resources	Ann Joo is still in discussions, no immediate plans to become syariah compliant
Bumi Armada	BAB is looking at Islamic financing but it has to be in US\$, which may be restrictive
MRCB	FY12 accounts are not shariah compliant, but FY13 YTD numbers are compliant
Media Chinese Int'l	Difficult as MCIL cannot guarantee that its non-Halal revenue will not exceed 5%
Oriental Holdings	No immediate plans to address non-compliance. Conserving cash for plantation M&A
SP Setia Bhd	Will seek to address the non-compliance, but may take quite a while
Tan Chong Motor	Plans to run up inventory going into 2014 and cash levels will fall by the end of 2013
Tasek Corporation	Will utilise more Islamic trade financing in the short term to be compliant
Wellcall Holdings	Complied recently, transferred more than 1/3 cash holdings to shariah FD
YTL Power	The issue with its debt is being looked into but unlikely to be compliant anytime soon

SOURCES: CIMB, COMPANY REPORTS

Most of the companies under our coverage that are no longer Shariah compliant are taking steps to meet the new requirements as Shariah-compliant funds have a six-month grace period before they have to take action. There are no changes to our end-2014 KLCI target of 1,920pts and preference for the oil & gas, construction and property sectors.

### What Happened

On 29 Nov, the Securities Commission (SC) approved an updated list of stocks that were classified as Shariah compliant based on a revised methodology. 16 companies have been added to the approved list while 158 companies have been removed from the previous list that was issued in May 2013. The SC now adopts a 2-tier quantitative approach, measuring: 1) the business activity benchmark, where companies' exposure to certain businesses cannot exceed 5% or 20%, and 2) the financial ratio benchmark, where the cash/debt over total assets that are not in Islamic accounts and

financing cannot exceed 33%. Investors are given six months from 29 Nov to dispose of securities that are not in compliance if the market price is equal or higher than their investment cost. If the market price is below the investment cost, investors are allowed to hold the stock until the market price is equal to the cost.

### What We Think

There are 11 companies under our coverage that have been removed from the previous list and are now not Shariah compliant. Most of the companies are seeking ways to meet the new rules in the next six months but several may not meet the deadline. We believe that these would include AirAsia, Ann Joo, Oriental and SP Setia.

### What You Should Do

As these new SC rules are not a surprise, any excessive selldown of non-compliant stocks may provide investors a buying opportunity as the underlying fundamentals of these companies have not changed.

**Figure 2: Companies not on Shariah-compliant list**

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)	Recurring ROE (%)	Dividend Yield (%)
			(local curr)	(local curr)		CY2013	CY2014		CY2014	CY2014	CY2014
AirAsia Bhd	AIRA MK	Neutral	2.39	2.55	2,062	10.6	11.1	-7.5%	1.09	12.0%	2.5%
Ann Joo Resources	AJR MK	Neutral	1.14	1.23	177	31.5	7.2	na	0.54	1.9%	5.3%
Bumi Armada	BAB MK	Outperform	3.97	5.17	3,610	22.0	17.2	19.6%	3.32	21.5%	0.8%
Malaysian Resources Corp	MRC MK	Neutral	1.36	1.43	697	na	46.7	7.1%	1.82	-8.7%	1.8%
Media Chinese Int'l	MCIL MK	Underperform	1.00	0.96	521	10.4	11.4	-10.7%	2.43	21.9%	16.4%
Oriental Holdings	ORH MK	Underperform	8.61	8.04	1,657	26.6	24.5	0.4%	1.15	4.5%	0.5%
SP Setia	SPSB MK	Neutral	2.85	3.59	2,173	14.3	13.0	20.3%	1.26	10.5%	3.7%
Tan Chong Motor Holdings	TCM MK	Outperform	6.40	7.73	1,296	11.8	11.1	39.2%	1.73	18.0%	3.3%
Tasek Corporation	TC MK	Neutral	15.24	16.14	573	19.2	18.8	3.1%	1.80	10.0%	3.9%
Wellcall Holdings	WELL MK	Outperform	3.42	3.72	141	18.2	16.8	9.8%	5.21	31.0%	5.3%
YTL Power International	YTLP MK	Outperform	1.94	2.55	3,994	15.5	12.7	-1.6%	1.47	11.2%	1.8%
<b>Average</b>						<b>18.8</b>	<b>17.9</b>	<b>11.1%</b>	<b>2.07</b>	<b>12.3%</b>	<b>4.5%</b>

SOURCES: CIMB, COMPANY REPORTS

**Figure 3: Shariah non-compliant companies**

	Nov-29 Price chg	Mkt Cap (RM m)	Net cash/(debt) over total assets	Avg daily value units	Avg daily volume (RM)
AirAsia Bhd	-0.4%	6,644.0	-41.9%	24,627,520	8,577,446
Ann Joo Resources Bhd	-0.9%	570.8	-35.6%	190,299	144,936
Bumi Armada Bhd	-1.2%	11,628.8	-59.8%	7,721,889	1,967,062
Malaysian Resources Corporation Bhd	-3.5%	1,887.4	-7.5%	5,045,400	3,283,613
Media Chinese International Ltd	-3.4%	1,678.8	-17.7%	838,471	750,371
Oriental Holdings Bhd	-2.3%	5,341.3	25.1%	1,216,160	130,527
SP Setia Bhd	-3.4%	5,716.2	-24.1%	6,957,688	2,096,272
Tan Chong Motor Holdings Bhd	-2.3%	4,178.0	-19.2%	2,050,143	317,434
Tasek Corporation Bhd	0.0%	1,851.3	53.2%	131,030	8,383
Wellcall Holdings Bhd	-1.2%	453.4	46.8%	203,350	70,866
YTL Power	0.0%	13,778.4	-41.6%	14,802,370	8,339,232

SOURCES: CIMB, COMPANY REPORTS

**Figure 4: Percentage of companies that are Shariah compliant**

<b>Pasaran Utama/ Pasaran ACE Main Market/ ACE Market</b>	<b>Bilangan sekuriti patuh syariah Number of Shariah-compliant securities</b>	<b>Jumlah sekuriti* Total securities*</b>	<b>Peratus sekuriti patuh Syariah (%) Percentage of Shariah-compliant securities (%)</b>
Barangan pengguna <i>Consumer products</i>	106	133	80
Barangan industri <i>Industrial products</i>	194	261	74
Perlombongan <i>Mining</i>	1	1	100
Pembinaan <i>Construction</i>	36	44	82
Dagangan/Khidmat <i>Trading/Services</i>	143	206	69
Hartanah <i>Properties</i>	59	86	69
Perladangan <i>Plantation</i>	34	39	87
Teknologi <i>Technology</i>	71	95	75
Infrastuktur <i>Infrastructure (IPC)</i>	5	6	83
Kewangan <i>Finance</i>	2	36	6
SPAC <i>SPAC</i>	2	2	100
Hotel <i>Hotels</i>	Tiada Nil	4	Tiada Nil
Dana tertutup <i>Closed-end fund</i>	Tiada Nil	1	Tiada Nil
<b>Jumlah Total</b>	<b>653</b>	<b>914</b>	<b>71</b>

SOURCE: SC

**Figure 5: List of Shariah-compliant stocks**

	New	Excluded
<b>CONSUMER PRODUCTS</b>	PPB Group Bhd	Asia Brands Bhd
	Takaso Resources Bhd	Biosis Group Bhd
		C.I. Holdings Bhd
		CAB Cakaran Corporation Bhd
		China Stationery Ltd
		Dutch Lady Milk Industries Bhd
		Guang Chong Bhd
		Huat Lai Resources Bhd
		Hytex Integrated Bhd
		Hup Seng Industries Bhd
		Maxwell International Holdings Bhd
		Multi Sports Holdings Ltd
		Oriental Holdings Bhd
		Panasonic Manufacturing Malaysia Bhd
	Silver Bird Group Bhd	
	Tan Chong Motor Holdings Bhd	
	Teo Seng Capital Bhd	
	TPC Plus Bhd	
<b>INDUSTRIAL PRODUCTS</b>	ABM Fujiya Bhd	Ablegroup Bhd
	DRB-Hicom Bhd	Advanced Packaging Technology (M) Bhd
	YKGI Holdings Bhd	Ae Multi Holdings Bhd
		Ann Joo Resources Bhd
		Asia Knight Bhd
		B.I.G. Industries Bhd
		Boon Koon Group Bhd
		Century Bond Bhd
		China Automobile Parts Holdings Ltd
		Dolomite Corporation Bhd
		Dufu Technology Corp. Bhd
		Focus Lumber Bhd
		Goodway Integrated Industries Bhd
		GSB Group Bhd
		Hiap Teck Venture Bhd
		Ho Wah Genting Bhd
		Ingress Corporation Bhd
		Integrated Rubber Corporation Bhd
		IRM Group Bhd
		Kinsteel Bhd
		Latex Partners Bhd
		Leader Steel Holdings Bhd
		Lion Corporation Bhd
		Malaysia Smelting Corporation Bhd
		Malaysian Ae Models Holdings Bhd
		Maxtral Industry Bhd
		Melewar Industrial Group Bhd
		Metal Reclamation Bhd
		Metrod Holdings Bhd
		Muar Ban Lee Group Bhd
		Muda Holdings Bhd
		Mycron Steel Bhd
		Octagon Consolidated Bhd
		Pensonic Holdings Bhd
		Perwaja Holdings Bhd
		PNE PCB Bhd
		Premier Nalfin Bhd
		Press Metal Bhd
		Prestar Resources Bhd
		Sarawak Cable Bhd
	Scomi Engineering Bhd	
	Sealink International Bhd	
	SKP Resources Bhd	
	Southern Steel Bhd	
	Sunchirin Industries (M) Bhd	
	Ta Win Holdings Bhd	
	Tasek Corporation Bhd	
	Tatt Giap Group Bhd	
	Tiger Synergy Bhd	
	Uchi Technologies Bhd	
	VTI Vintage Bhd	
	Watta Holding Bhd	
	Wawasan TKH Holdings Bhd	
	Wellcall Holdings Bhd	
	Ya Horng Electronic (M) Bhd	
	Yung Kong Galvanising Industries Bhd	

SOURCES: CIMB, SC

Figure 6: List of Shariah-compliant stocks

	New	Excluded
<b>CONSTRUCTION</b>		Bina Puri Holdings Bhd Fututech Bhd Malaysian Resources Corporation Bhd Pesona Metro Holdings Bhd Zelan Bhd
<b>TRADING / SERVICES</b>	AirAsia X Bhd Barakah Offshore Berjaya Auto Bhd Caring Pharmacy Group Naim Indah Corporation Solid Automotive Bhd UMW Oil & Gas Westports Holdings YFG Bhd	AirAsia Bhd Amway (Malaysia) Holdings Bhd Berjaya Food Bhd Bumi Armada Bhd Chuan Huat Resources Bhd Emas Kiara Industries Bhd Engtex Group Bhd Esthetics International Group Bhd George Kent (Malaysia) Bhd Global Carriers Bhd Haisan Resources Bhd Hexagon Holdings Bhd Kejuruteraan Samudra Timur Bhd Konsortium Logistik Bhd Luxchem Corporation Bhd Media Chinese International Ltd Ogawa World Bhd Pantech Group Holdings Bhd Parkson Holdings Bhd Petrol One Resources Bhd PJI Holdings Bhd SAAG Consolidated (M) Bhd Samchem Holdings Bhd Seni Jaya Corporation Bhd Texchem Resources Bhd Tiong Nam Logistics Holdings Bhd Transocean Holdings Bhd Turbo-Mech Bhd Vastalux Energy Bhd Yinson Holdings Bhd
<b>PROPERTIES</b>	Matrix Concepts Meda Inc. Bhd Tiger Synergy Bhd	BCB Bhd Country View Bhd Dijaya Corporation Bhd Ivory Properties Group Bhd Keladi Maju Bhd MKH Bhd Pan Malaysian Industries Bhd Perduren (M) Bhd Plenitude Bhd Sapura Resources Bhd Selangor Dredging Bhd SP Setia Bhd Trinity Corporation Bhd YTL Land & Development Bhd
<b>PLANTATION</b>	Gopeng Bhd	Chin Teck Plantations Bhd Kluang Rubber Co (M) Bhd Sungei Bagan Rubber Co (M) Bhd The Ayer Molek Rubber Company Bhd
<b>TECHNOLOGY</b>		Excel Force MSC Bhd Industronics Bhd Key Asic Bhd Patimas Computers Bhd Willowglen MSC Bhd
<b>INFRASTRUKTUR</b>		YTL Power
<b>FINANCE</b>	BIMB Holdings Bhd Syarikat Takaful	
<b>SPACSPAC</b>	Sona Petroleum Bhd	

SOURCES: CIMB, SC

**Figure 7: List of Shariah-compliant stocks**

New	Excluded
<b>ACE MARKET</b>	AT Systematization Bhd
	ES Ceramics Technology Bhd
	Sanichi Technology Bhd
<b>TECHNOLOGY</b>	Ariantec Global Bhd
	Cworks Systems Bhd
	Ideal Sun City Holdings Bhd
	iDimension Consolidated Bhd
	Infortech Alliance Bhd
	Malaysian Genomics Resource Centre Bhd
	MLABS Systems Bhd
	mTouche Technology Bhd
	N2N Connect Bhd
	Opcom Holdings Bhd
	Rexit Bhd
	Solution Engineering Holdings Bhd
	YTL e-Solutions Bhd
	Advance Information Marketing Bhd
<b>TRADING / SERVICES</b>	Catcha Media Bhd
	Envair Holding Bhd
	Innity Corporation Bhd
	Key West Global Telecommunications Bhd
	M-Mode Bhd
	Pasukhas Group Bhd
	SCC Holdings Bhd
	StemLife Bhd

SOURCES: CIMB, SC

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
<b>Description:</b>		Excellent	Very Good	Good	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 October 2013		
1251 companies under coverage for quarter ended on 31 October 2013		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	49.8%	7.1%
Neutral/Hold	34.0%	5.7%
Underperform/Sell/Trading Sell/Reduce	16.2%	4.6%

As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

### CIMB Recommendation Framework #1

Stock Ratings	Definition
<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.

Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition
<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition
<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

### CIMB Stock Recommendation Framework #2 \*

<b>Outperform</b>	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
<b>Neutral</b>	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.
<b>Underperform</b>	The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.
<b>Trading Buy</b>	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.
<b>Trading Sell</b>	The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

### CIMB Stock Recommendation Framework #3 \*\*

<b>Outperform</b>	Expected positive total returns of 10% or more over the next 12 months.
<b>Neutral</b>	Expected total returns of between -10% and +10% over the next 12 months.
<b>Underperform</b>	Expected negative total returns of 10% or more over the next 12 months.
<b>Trading Buy</b>	Expected positive total returns of 10% or more over the next 3 months.
<b>Trading Sell</b>	Expected negative total returns of 10% or more over the next 3 months.

\*\* This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.**

**AAV** – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.