



# MALAYSIAN TIMBER CONFERENCE 2018

*Towards A Better Tomorrow*



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18 October 2018

# Malaysia Macro

**MALAYSIAN TIMBER 2018 CONFERENCE 2018**

**- Global Economic Scenarios**

Outthink. Outperform.



**AFFIN HWANG**  
CAPITAL

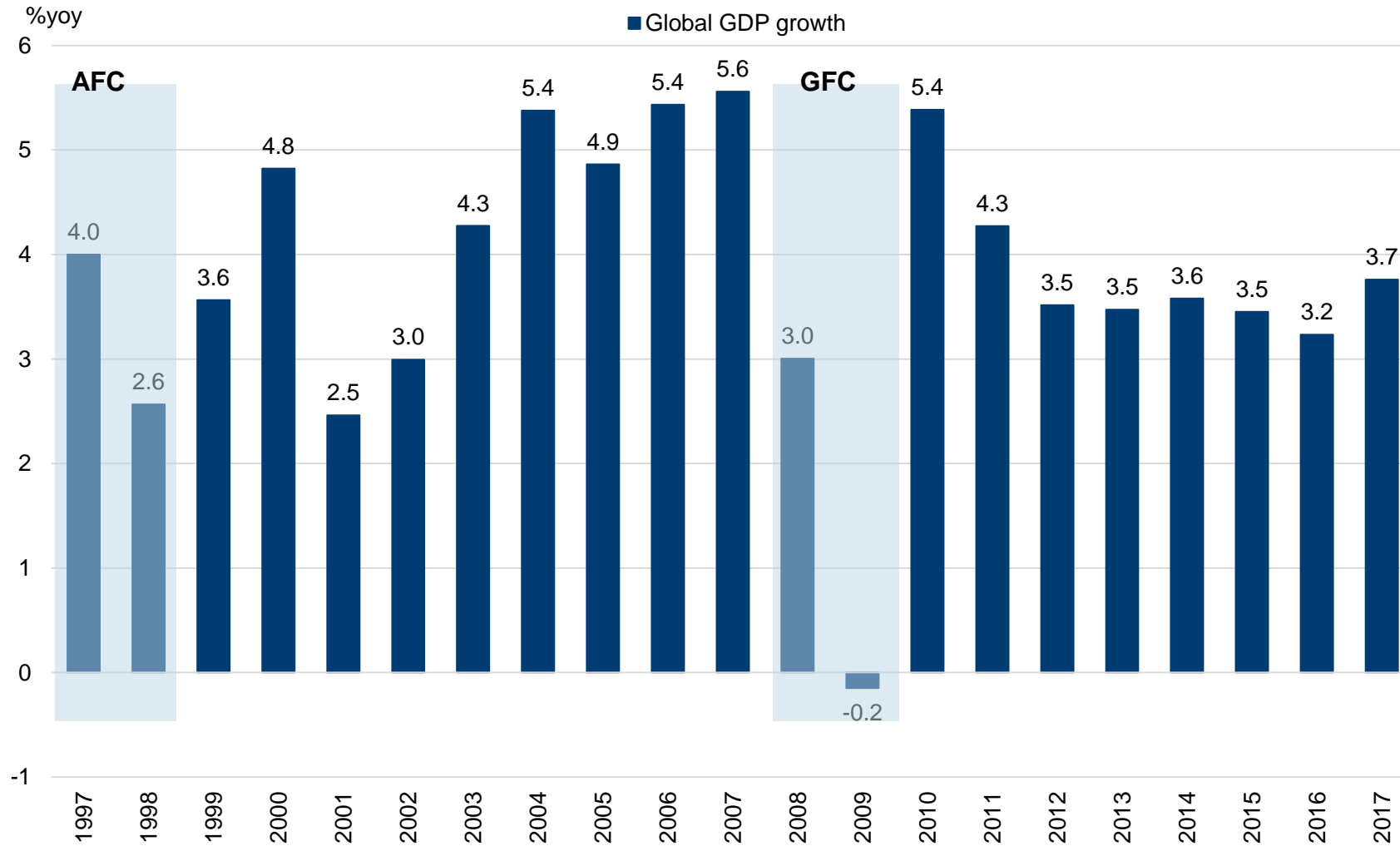
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Legal Entity (Investment Bank / Asset Management)

PP 18616/11/2014(034068)

# Ten-year economic cycle, global GDP growth trends

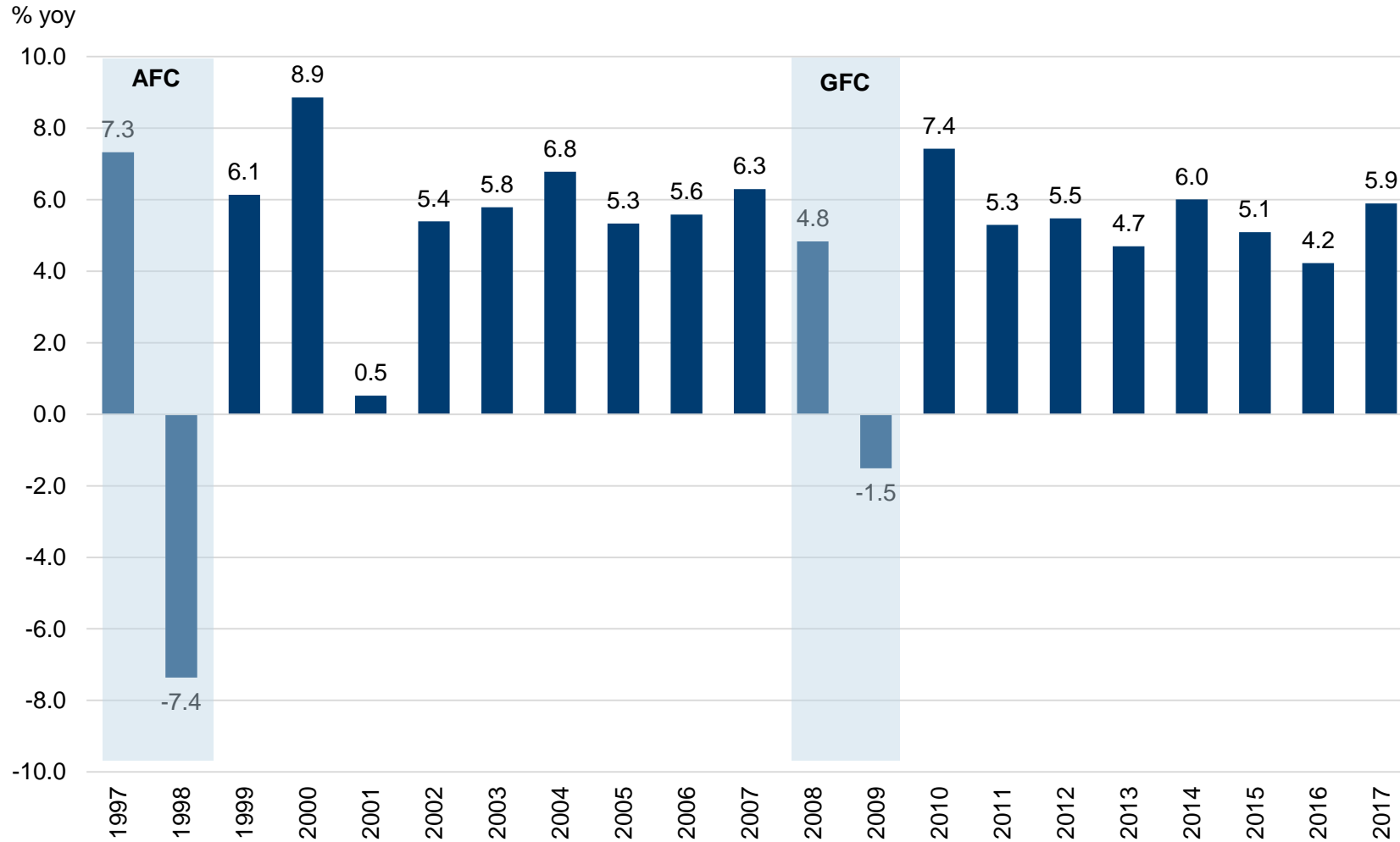
Global GDP growth by IMF



Source: IMF

# Ten-year economic cycle, Malaysia GDP growth trends

If History Repeats Itself – Is the Next Global Economic Crisis Around the Corner?



Source: World Bank

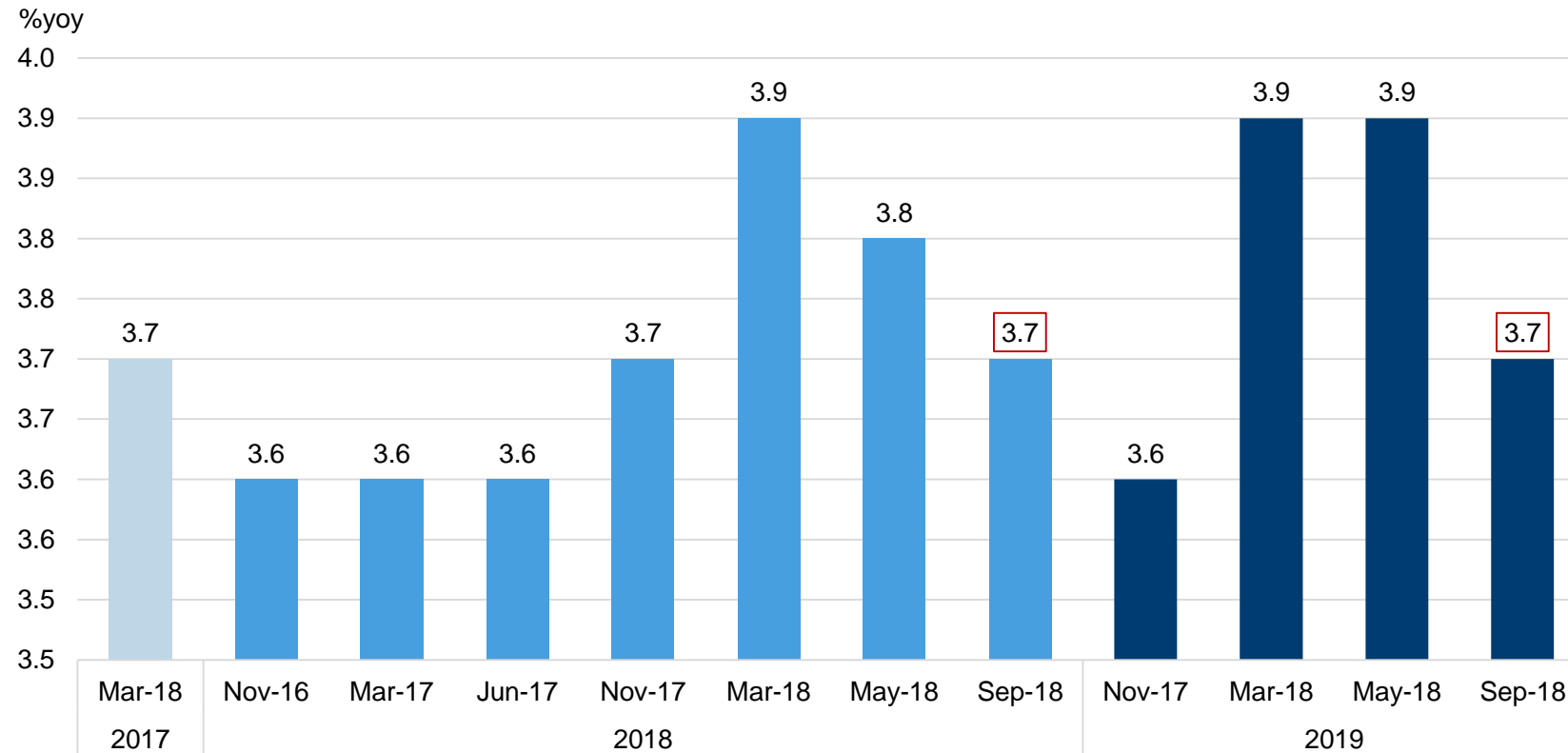
## Global growth forecast comparison, IMF cuts global GDP growth

	IMF				World Bank				ADB			
	Forecasts		*Change		Forecasts		*Change		Forecasts		*Change	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
<b>Global</b>	<b>3.7</b>	<b>3.7</b>	<b>-0.2</b>	<b>-0.2</b>	<b>3.1</b>	<b>3.0</b>	<b>0.0</b>	<b>0.0</b>	-	-	-	-
<b>Advanced economies</b>	<b>2.4</b>	<b>2.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>2.2</b>	<b>2.0</b>	0.0	0.1	<b>2.3</b>	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>
US	2.9	2.5	0.0	-0.2	2.7	2.5	0.2	0.3	2.8	2.4	0.1	0.0
Euro Area	2.0	1.9	-0.2	0.0	2.1	1.7	0.0	0.0	2.0	1.9	-0.2	0.0
Japan	1.1	0.9	0.1	0.0	1.0	0.8	-0.3	0.0	1.1	1.0	0.0	0.0
<b>Developing economies</b>	<b>4.7</b>	<b>4.7</b>	<b>-0.2</b>	<b>-0.4</b>	<b>4.5</b>	<b>4.7</b>	<b>0.0</b>	<b>0.0</b>	<b>6.0</b>	<b>5.8</b>	<b>0.0</b>	<b>0.0</b>
China	6.6	6.2	0.0	-0.2	6.5	6.3	0.1	0.0	6.6	6.3	0.0	-0.1
India	7.3	7.4	0.0	-0.1	7.3	7.5	0.0	0.0	7.3	7.6	0.0	0.0
<b>Asean-5</b>	<b>5.3</b>	<b>5.2</b>	<b>0.0</b>	<b>-0.1</b>	<b>5.4</b>	<b>5.3</b>	<b>0.1</b>	-	<b>5.1</b>	<b>5.2</b>	<b>-0.1</b>	<b>0.0</b>
Indonesia	5.1	5.1	-0.2	-0.4	5.2	5.3	-0.1	0.0	5.2	5.3	0.0	0.0
Malaysia	4.7	4.6	-0.6	-0.4	5.4	5.1	0.2	0.1	5.0	4.8	-0.3	-0.2
Philippines	6.5	6.6	-0.2	-0.2	6.7	6.7	0.0	0.0	6.4	6.7	-0.4	-0.2
Singapore	2.9	2.5	0.0	-0.2	-	-	-	-	3.1	2.9	0.0	0.0
Thailand	4.6	3.9	0.7	0.1	4.1	3.8	0.5	0.3	4.5	4.3	0.3	0.2

Source: IMF (October 2018 WEO), World Bank (June 2018 GEP), ADB (September 2018 update)

## Global growth forecast – Latest downward revision by OECD

Global GDP growth was cut by 0.1ppt for 2018 & 0.2ppt for 2019

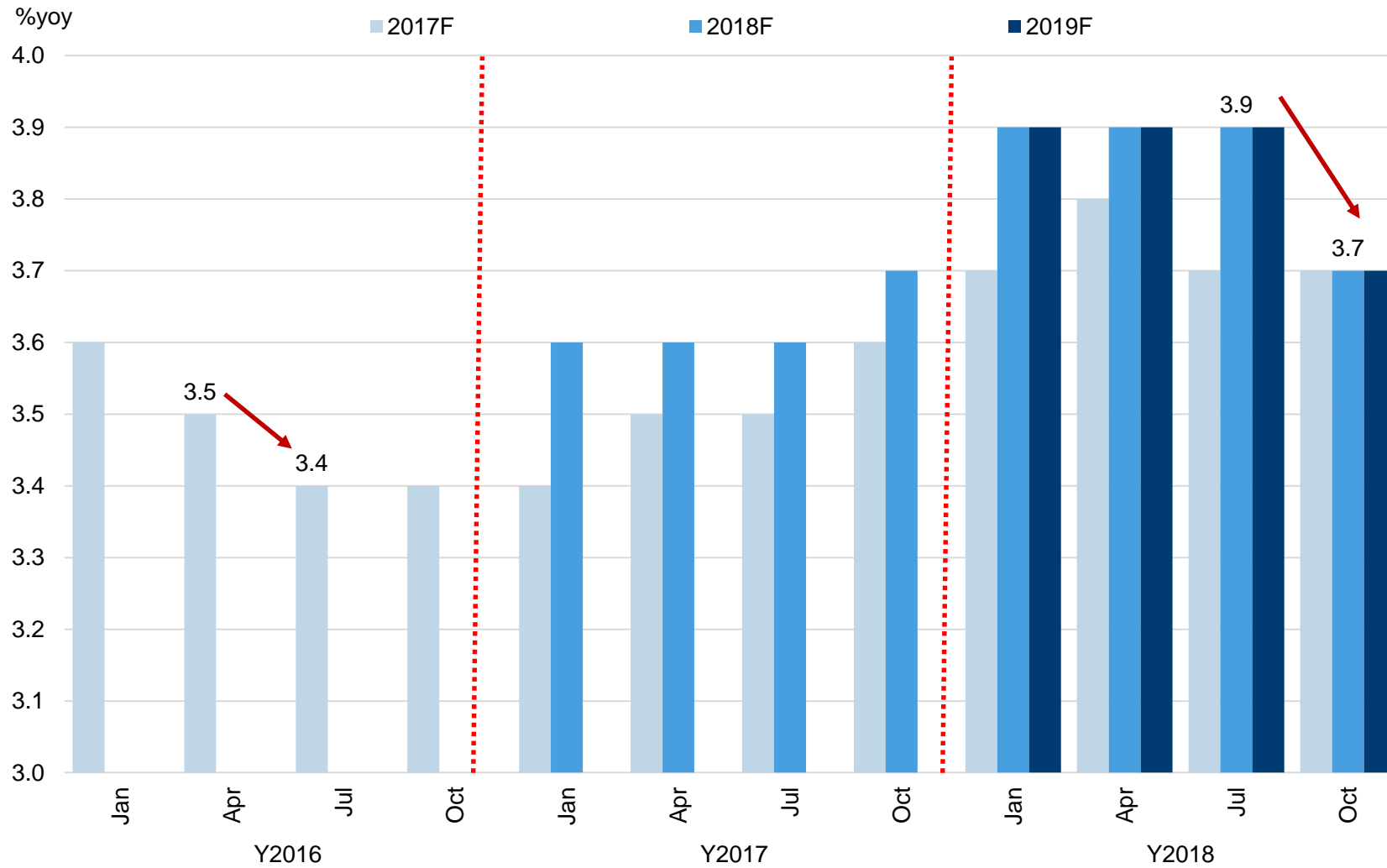


- ▶ Faster-than-expected monetary policy normalisation in advanced economies or a deepening of trade tensions could lead to further financial market pressures on emerging-market economies.

Source: OECD

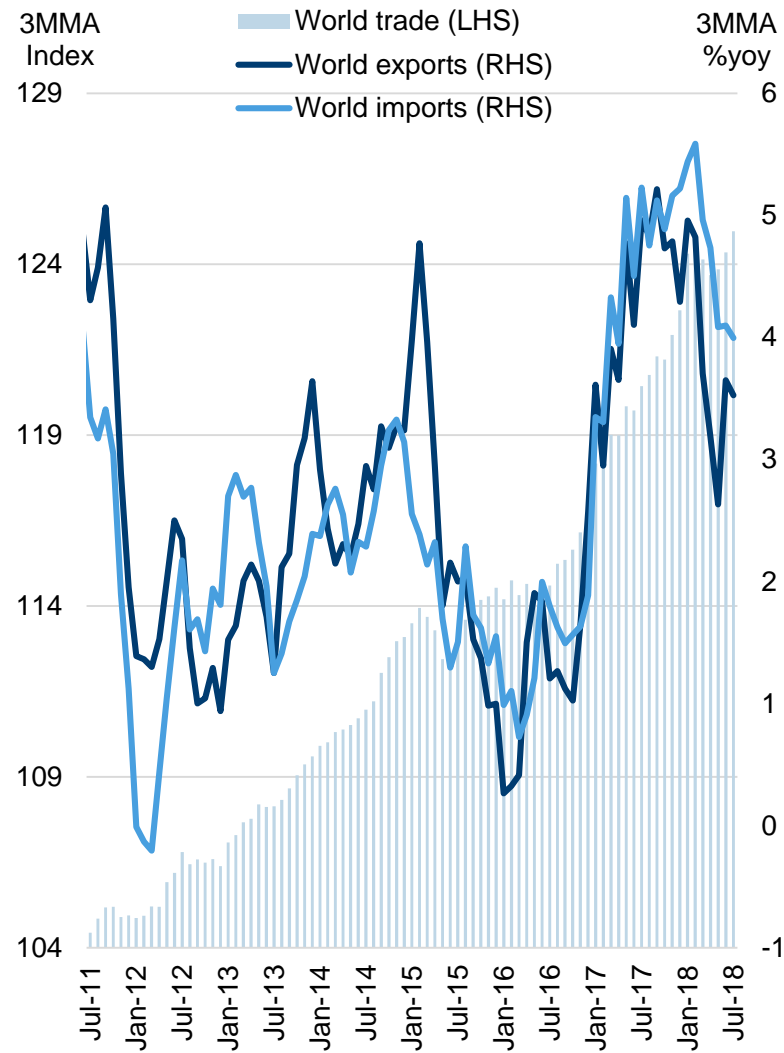
# Global economy remains healthy

The last GDP growth downgrade was in July 2016

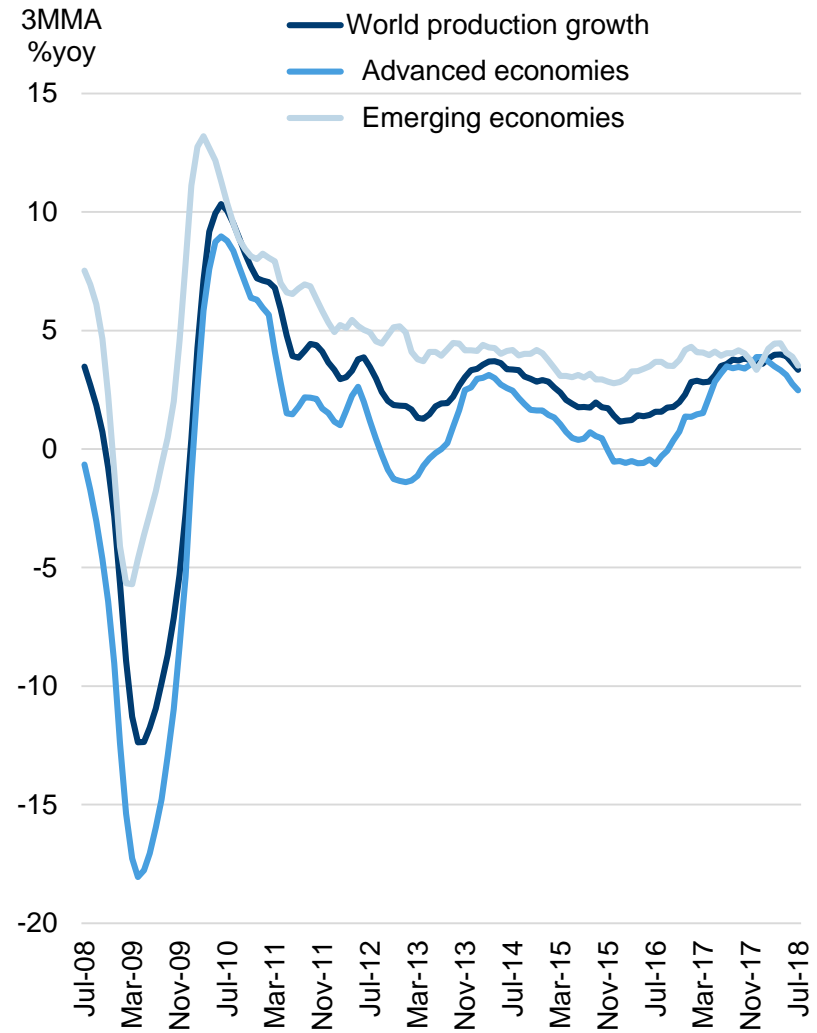


Source: IMF

## Slowdown in global trade activity and output

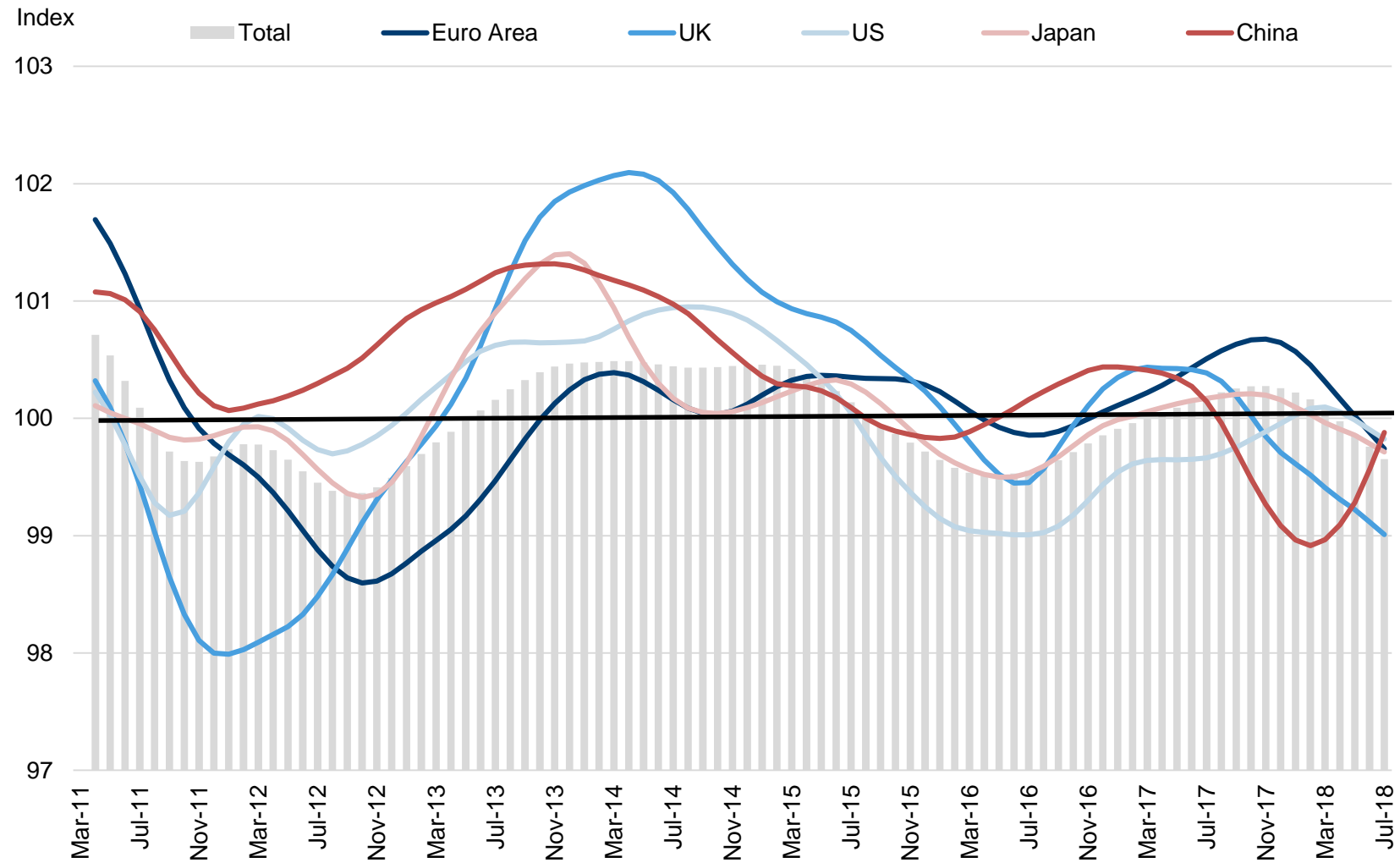


Source: CPB Netherland



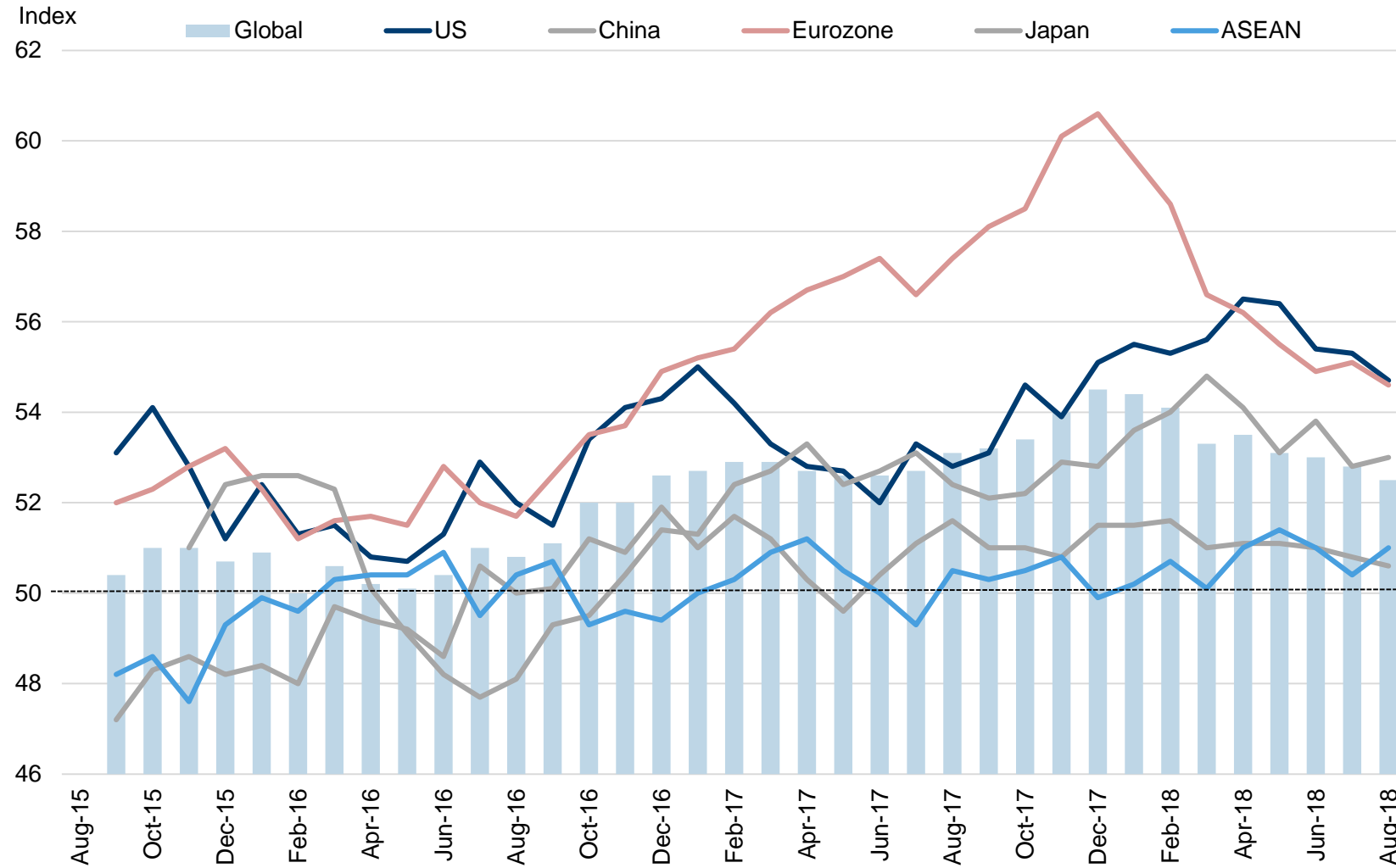


## OECD Composite Leading Index (CLI) has slowed



Source: OECD, Bloomberg

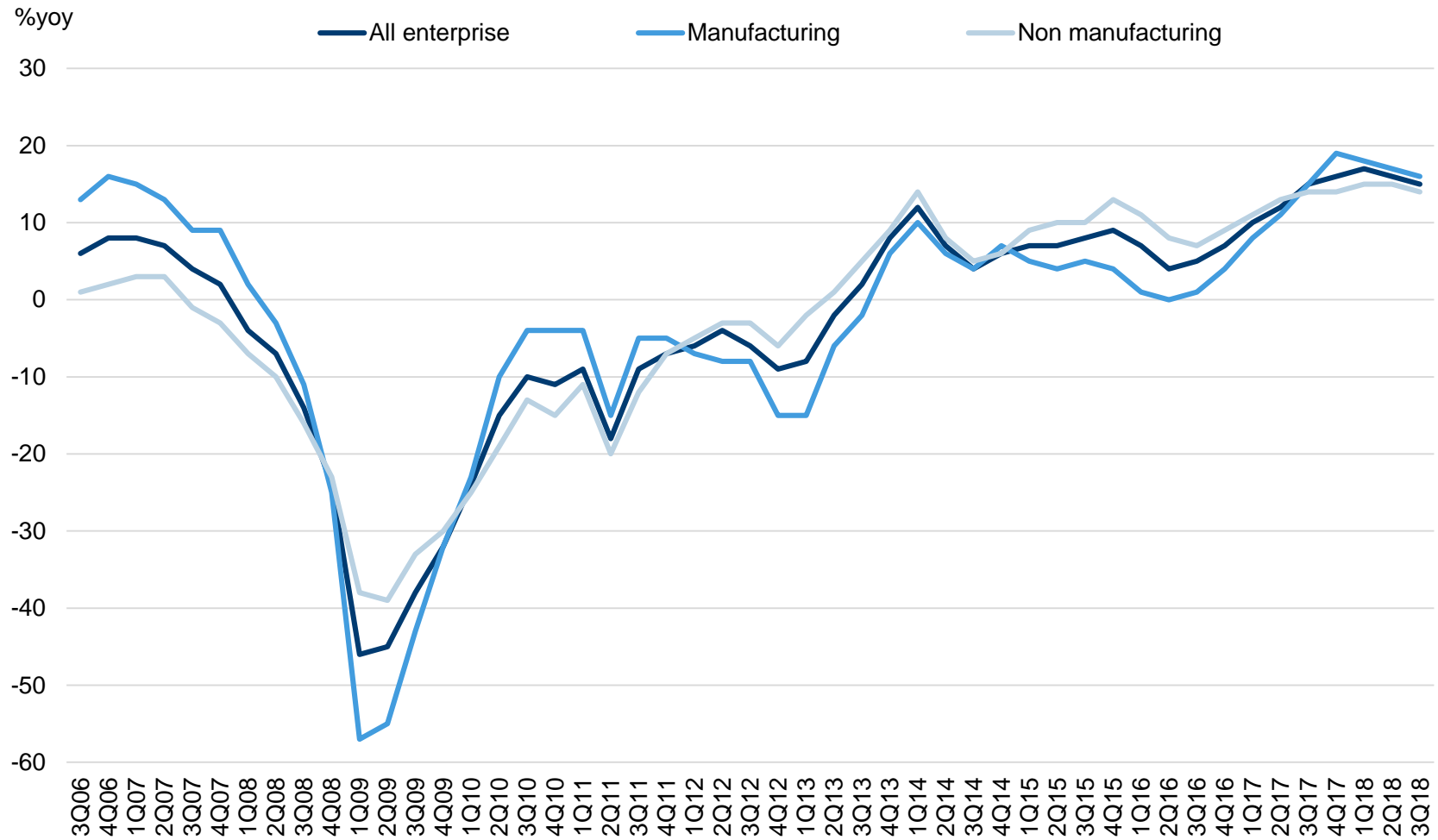
## Sign of slowdown also reflected in global manufacturing PMI, despite sustained above threshold level of 50



Source: IHS Markit, Bloomberg

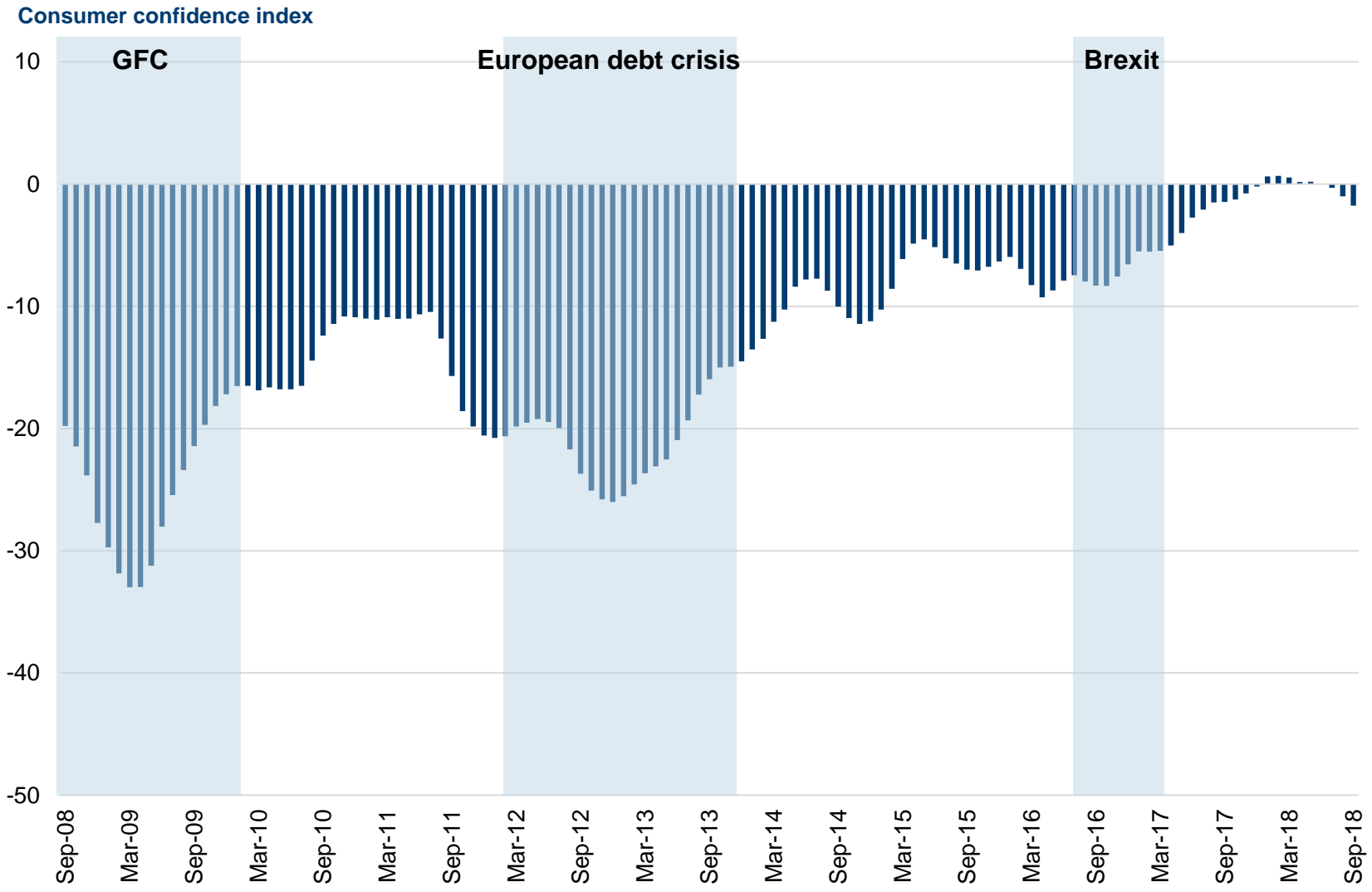
# Japan's economy remaining steady

Tankan survey moderated in 3Q18 but unlikely to fall sharply



Source: CEIC, Bloomberg

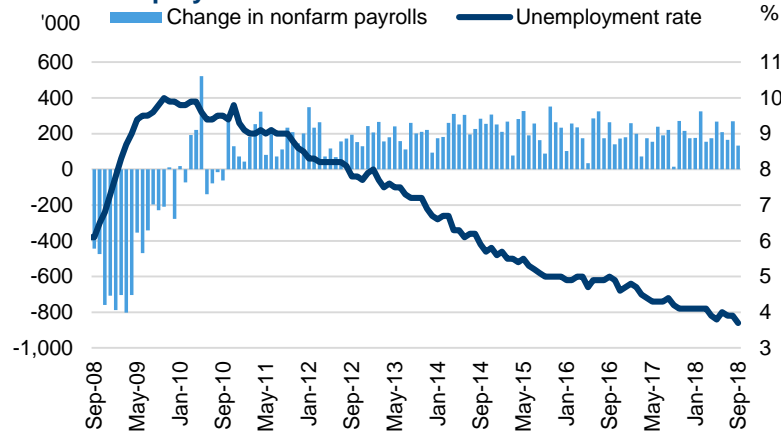
# Euro area consumer confidence holding up



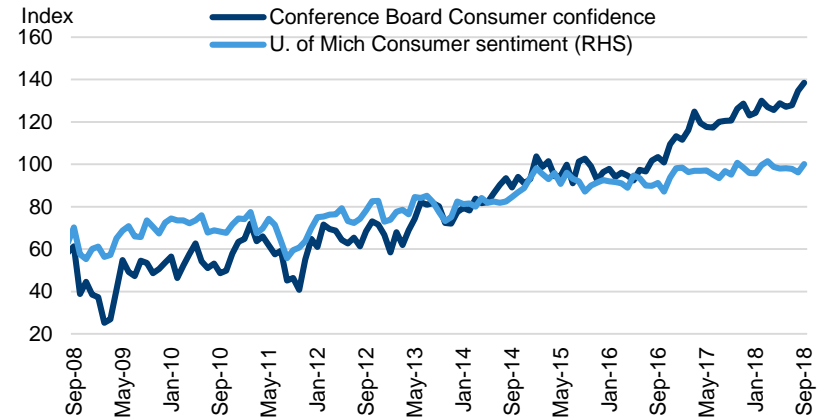
Source: Bloomberg

# US economy continues to stay the course

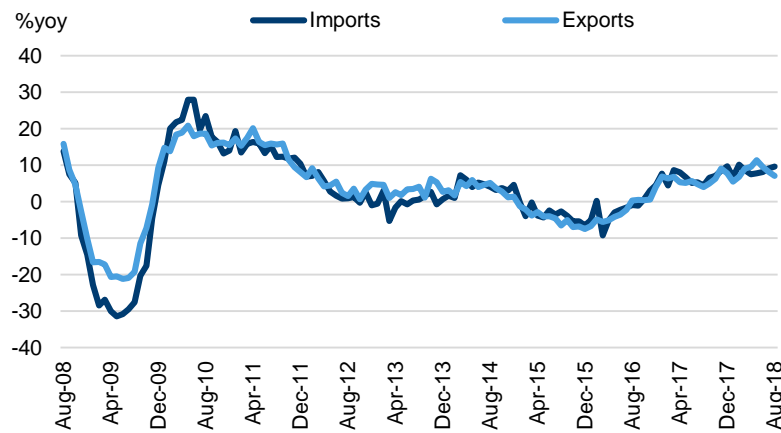
The unemployment rate remained low



..which reflected in steady consumer confidence index

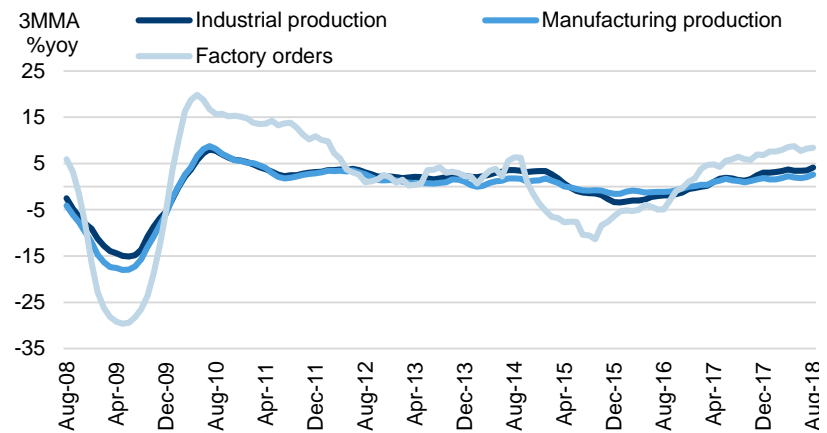


But, exports grew slower in August

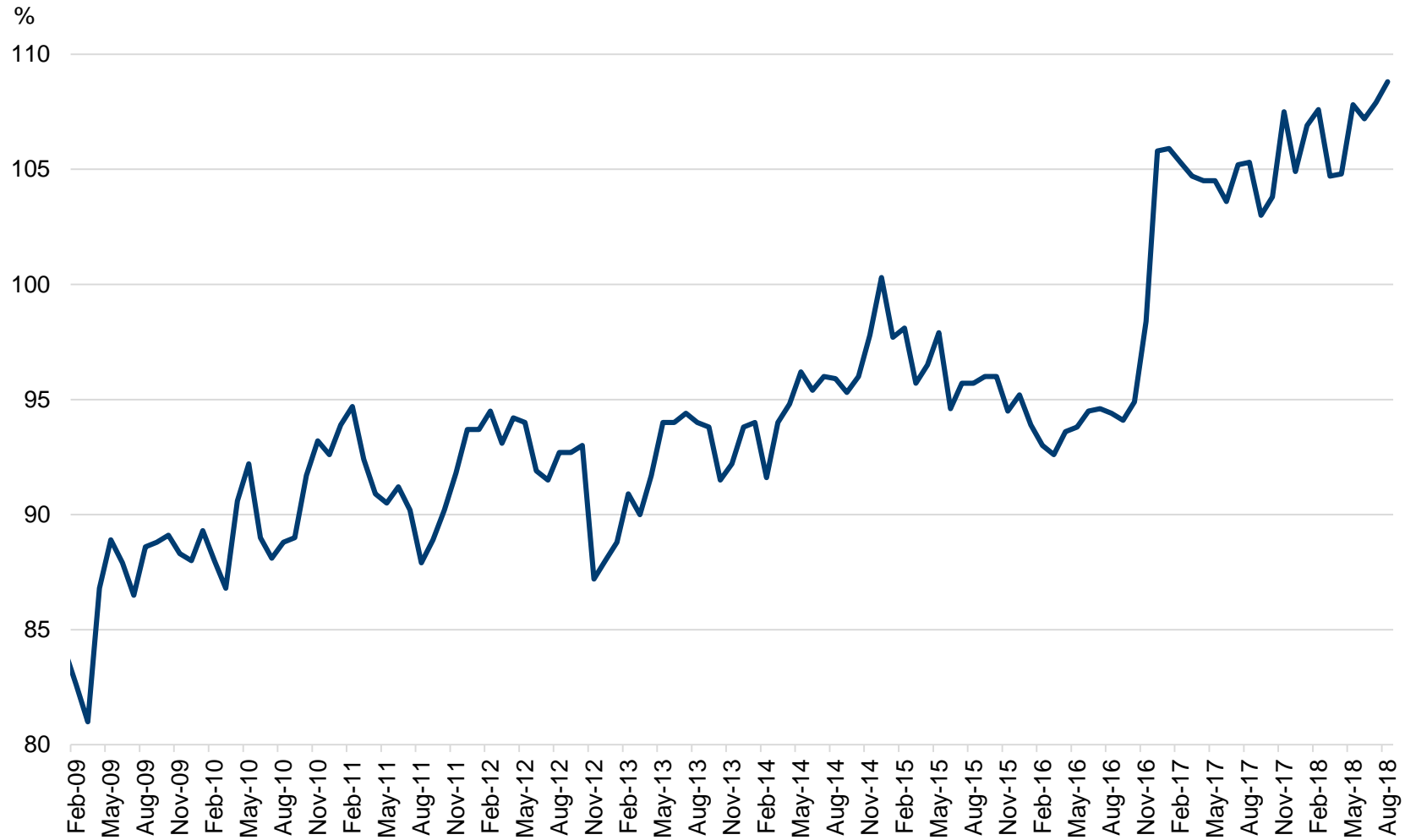


Source: OECD, Bloomberg

...which may affect the production growth in coming months



## US NFIB Small Business Optimism Index soared to 108.8 in August, a new record in the survey's 45-year history



Source: National Federation of Independent Business

## Latest economic projection by the US Fed

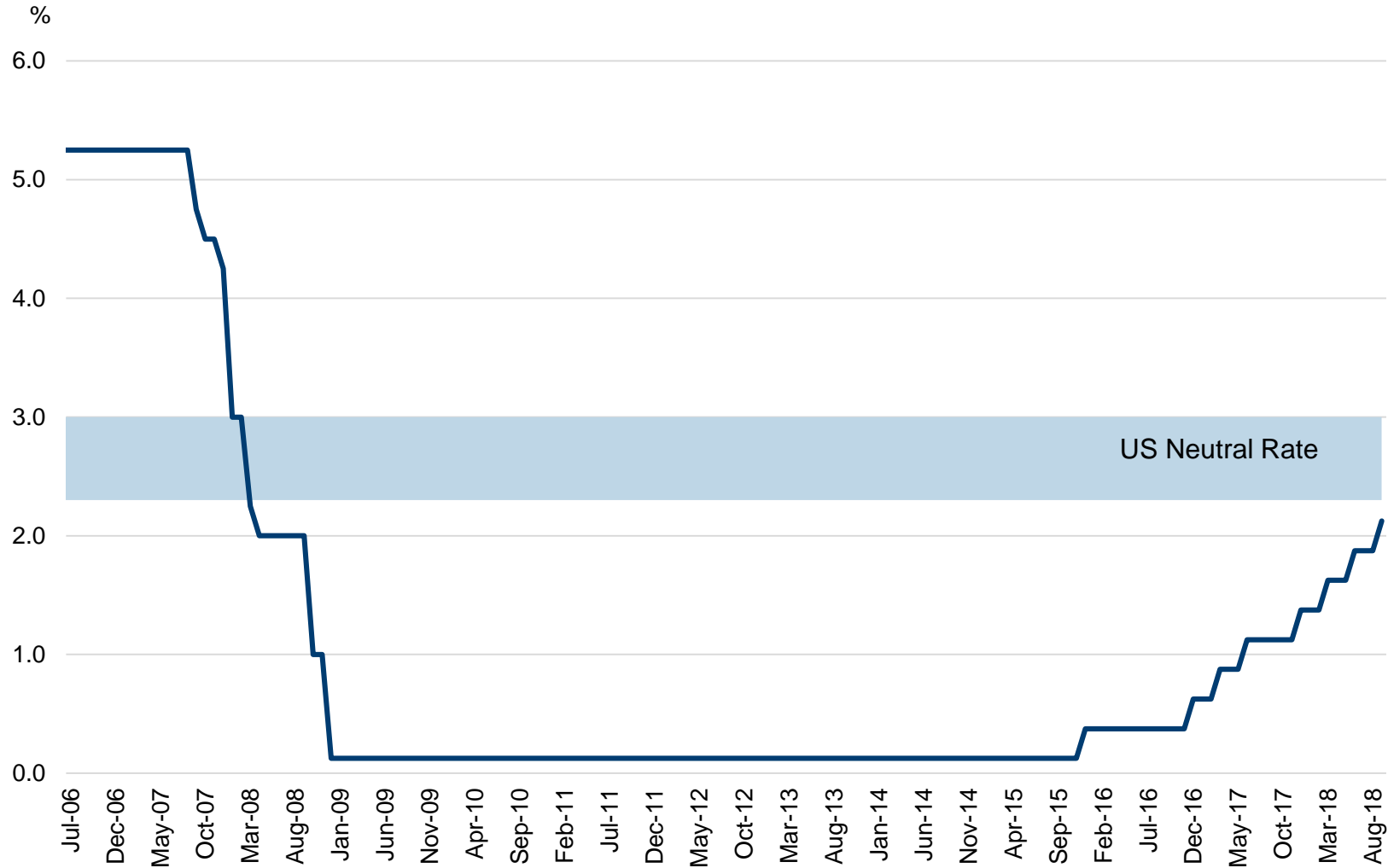
GDP growth was revised higher

	Variable	Central tendency				
		2018	2019	2020	2021	Longer run
Projection in September FOMC	<b>Change in real GDP</b>	3.0 to 3.2	2.4 to 2.7	1.8 to 2.1	1.6 to 2.0	1.8 to 2.0
	<b>June projection</b>	2.7 to 3.0	2.2 to 2.6	1.8 to 2.0	n.a.	1.8 to 2.0
	<b>Unemployment rate</b>	3.7	3.4 to 3.6	3.4 to 3.8	3.5 to 4.0	4.3 to 4.6
	<b>June projection</b>	3.6 to 3.7	3.4 to 3.5	3.4 to 3.7	n.a.	4.6 to 4.6
	<b>PCE inflation</b>	2.0 to 2.1	2.0 to 2.1	2.1 to 2.2	2.0 to 2.2	2.0
	<b>June projection</b>	2.0 to 2.1	2.0 to 2.2	2.1 to 2.2	n.a.	2.0

Source: US Fed

# Fed Funds Rate closer to US neutral rate

Future direction of monetary policy will be dependent on US economic condition

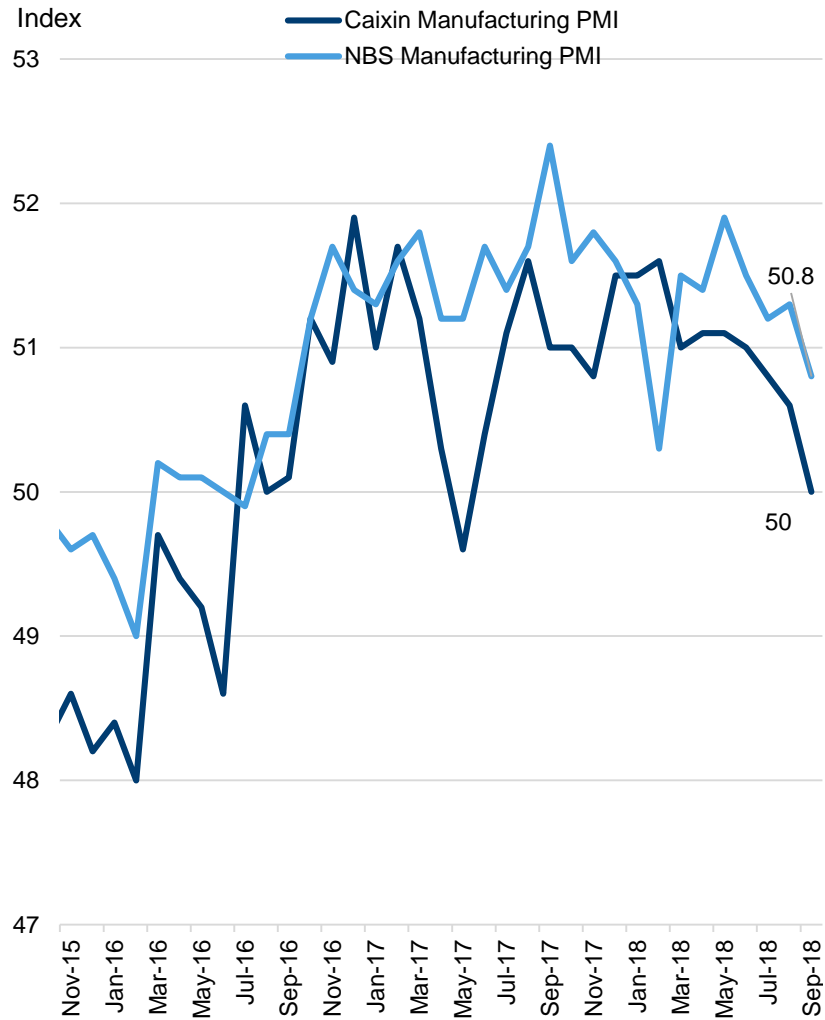


Source: US Federal Reserves



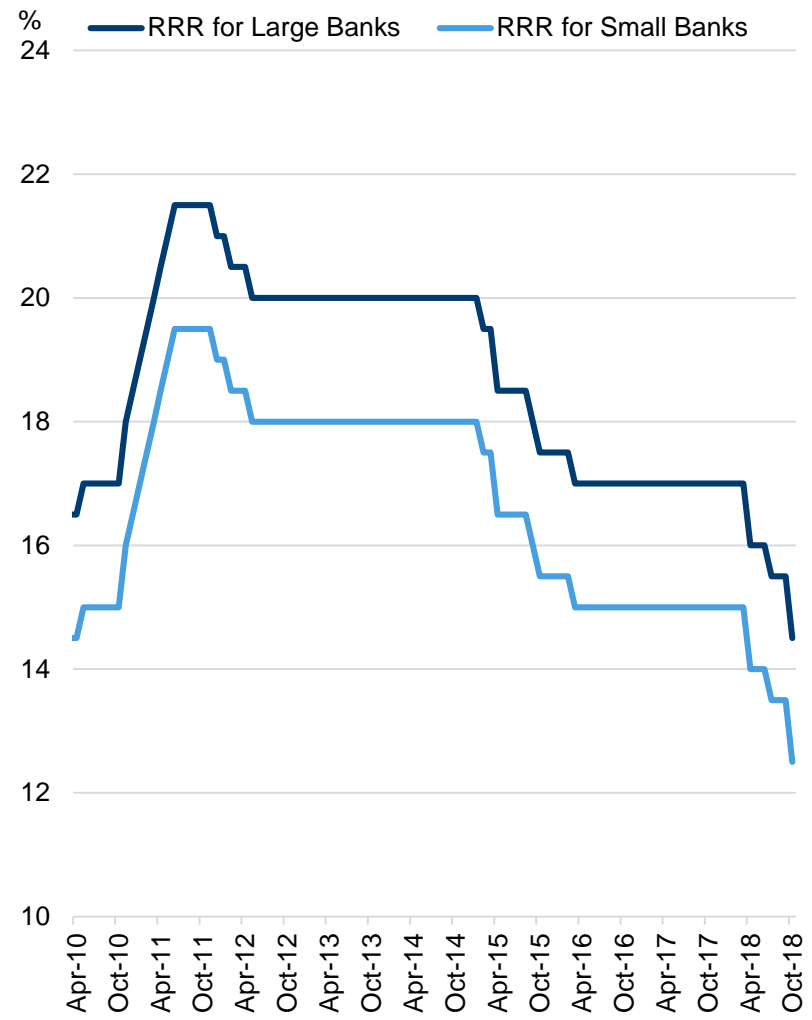
# PBOC lowers RRR for the fourth time in 2018 to boost domestic economy

## Slowdown in China's manufacturing PMIs in September



Source: Bloomberg

## RRR for large and small banks were raised by 1ppt



Source: PBOC

# PBOC set lowest daily yuan fixing rate since May 2017

Yuan per USD

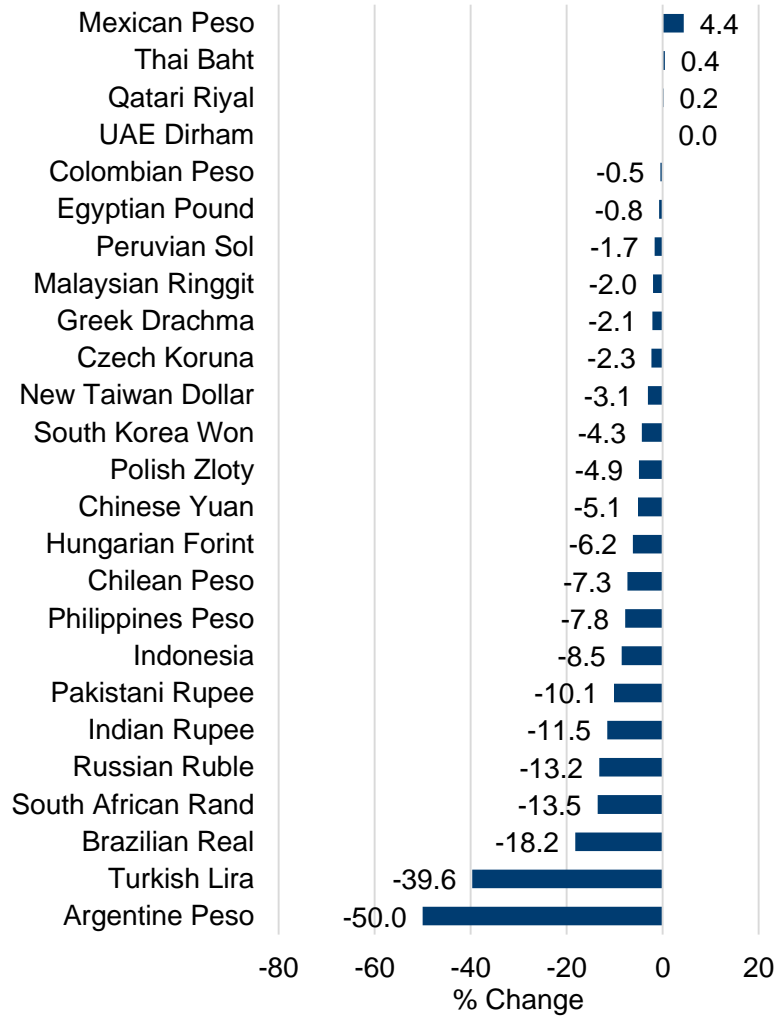


October 9 2018: 6.90

Source: Bloomberg

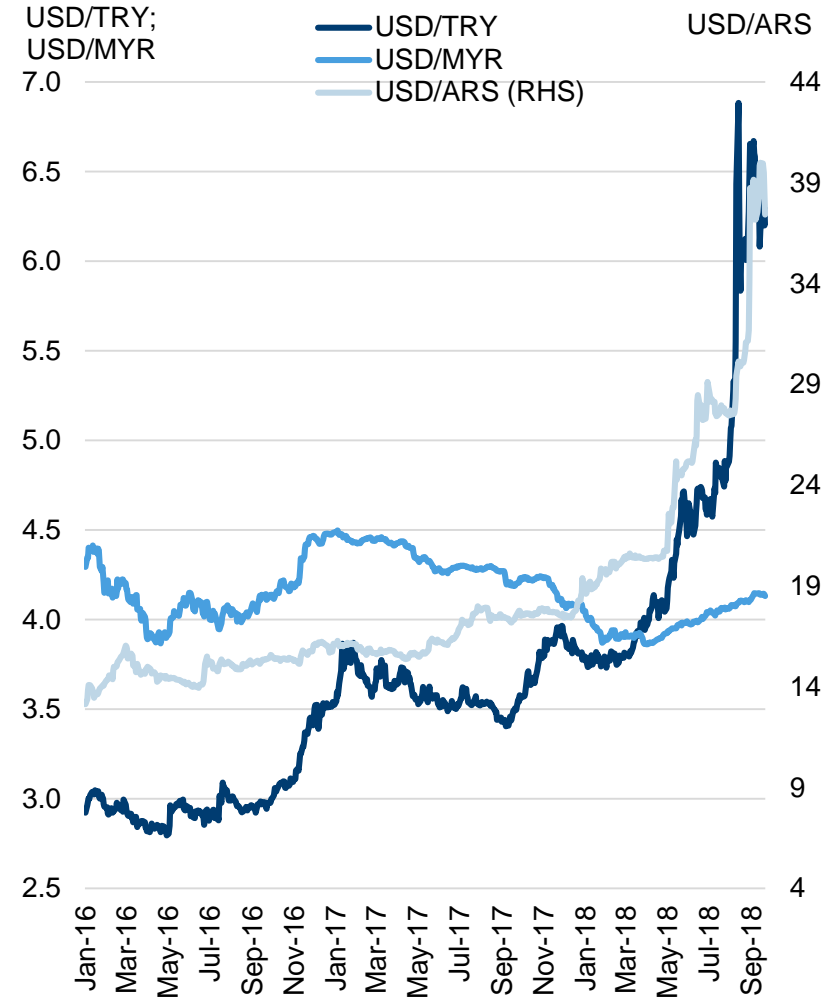
# Argentine peso is the weakest EM currency

Argentine Peso depreciated by 50% between 1 Jan – 21<sup>st</sup> Sep



Source: Bloomberg

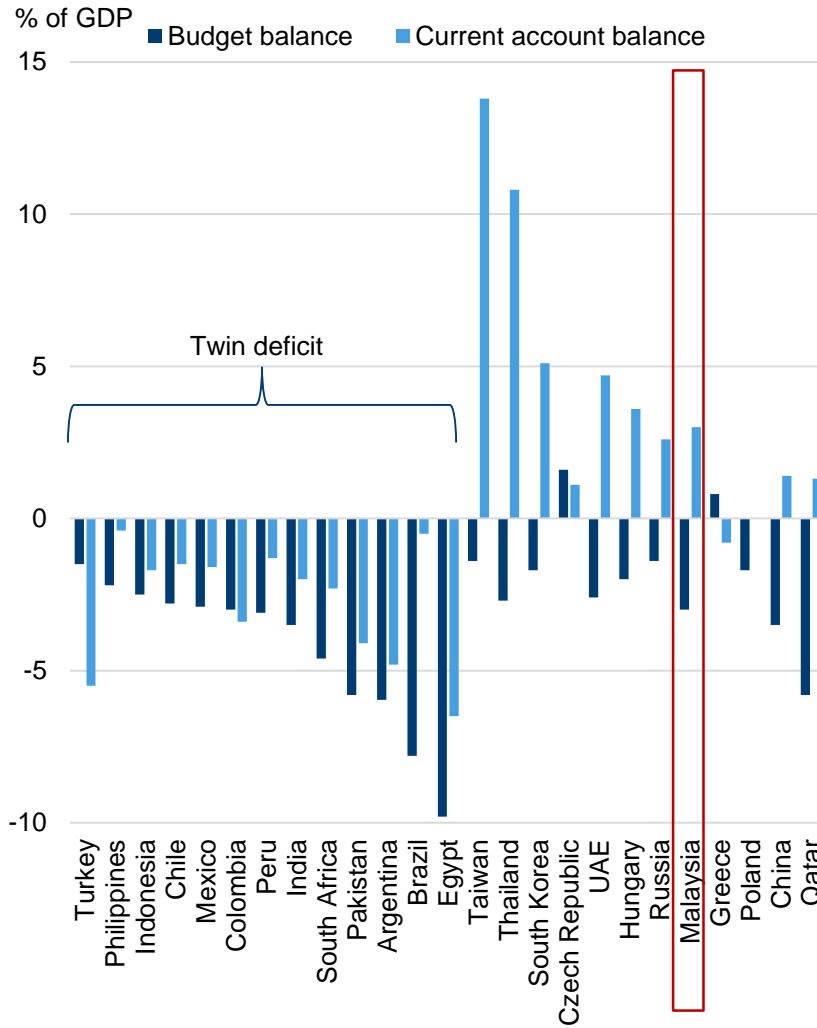
Ringgit only weakened by 2.0% in the same period



Source: Bloomberg

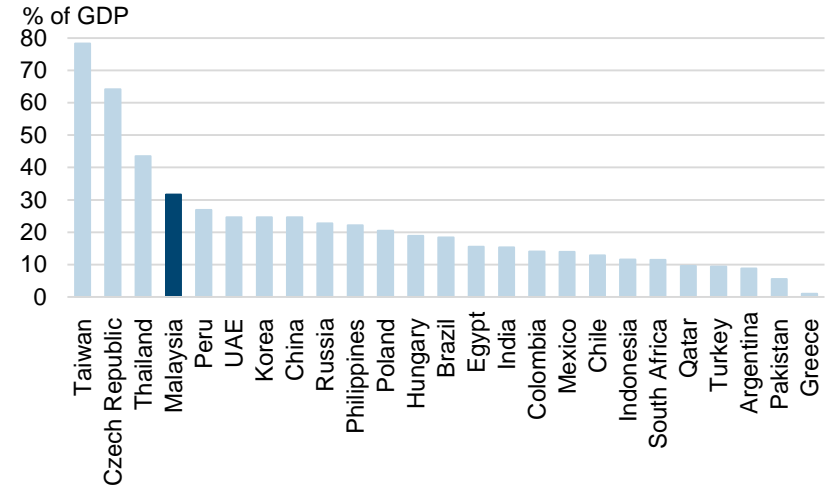
# Malaysia's fundamentals remaining intact with current account surplus

Malaysia among EM countries not running a twin deficit in 2017

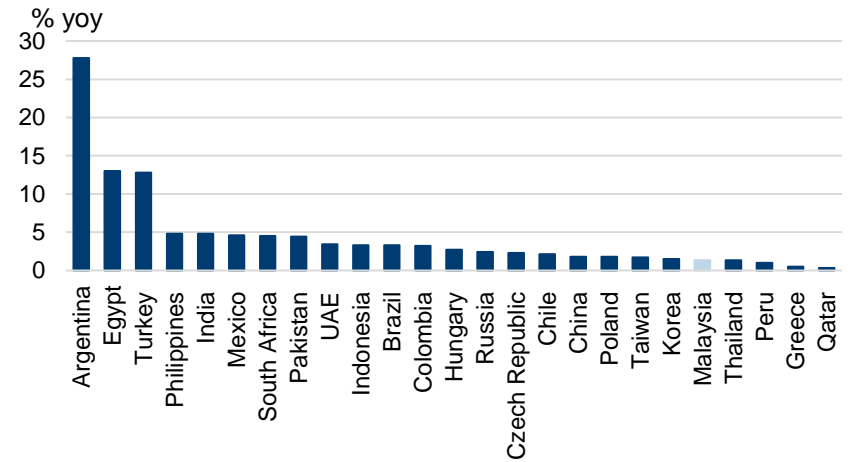


Source: IMF, CEIC

Malaysia's foreign reserves remain healthy in 1Q18



Inflation in Malaysia was stable in 2Q18



## Comparison of strength of EM countries

Malaysia's Fitch rating was maintained at A-

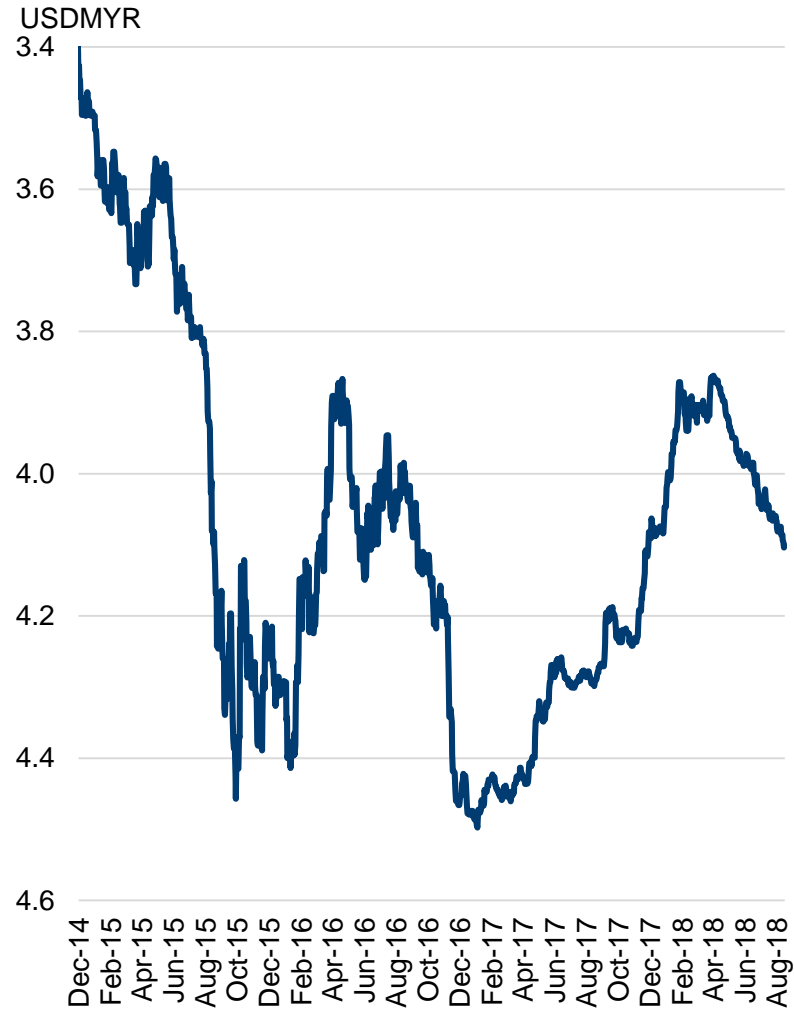
Country	Fitch Rating	Outlook	Current Account Deficit % GDP (2017)	Budget Deficit % GDP (2017)	Foreign Reserves % GDP (1Q18)	CPI, 2Q18 (% yoy)
UAE	AA	Stable	4.7	-2.6	24.7*	3.4
Korea	AA-	Stable	5.1	-1.7	24.6	1.5
Qatar	AA-	Stable	1.3	-5.8	9.6	0.3
Taiwan	AA-	Stable	13.8	-1.4	78.3	1.7
Czech Republic	A+	Positive	1.1	1.6	64.1	2.3
China	A+	Stable	1.4	-3.5	24.6	1.8
Chile	A	Stable	-1.5	-2.8	12.8	2.1
<b>Malaysia</b>	<b>A-</b>	<b>Stable</b>	<b>3</b>	<b>-3</b>	<b>31.6</b>	<b>1.3</b>
Poland	A-	Stable	0	-1.7	20.5	1.8
Mexico	BBB+	Stable	-1.6	-2.9	14.0	4.6
Peru	BBB+	Stable	-1.3	-3.1	27.0	1.0
Thailand	BBB+	Stable	10.8	-2.7	43.5	1.3
Colombia	BBB	Stable	-3.4	-3	14.1	3.2
Indonesia	BBB	Stable	-1.7	-2.5	11.6	3.3
Philippines	BBB	Stable	-0.4	-2.2	22.2	4.8
Hungary	BBB-	Positive	3.6	-2	18.9	2.7
Russia	BBB-	Positive	2.6	-1.4	22.7	2.4
India	BBB-	Stable	-2	-3.5	15.4	4.8
South Africa	BB+	Stable	-2.3	-4.6	11.5	4.5
Turkey	BB	Negative	-5.5	-1.5	9.4	12.8
Brazil	BB-	Stable	-0.5	-7.8	18.4	3.3
Egypt	B	Positive	-6.5	-9.8	15.6	13.0
Greece	B	Positive	-0.8	0.8	1.0	0.5
Argentina	B	Stable	-4.8	-6.0	8.9	27.8
Pakistan	B	Negative	-4.1	-5.8	5.6*	4.4

Source: Bloomberg

Note: \*2017 Foreign Reserves % of GDP

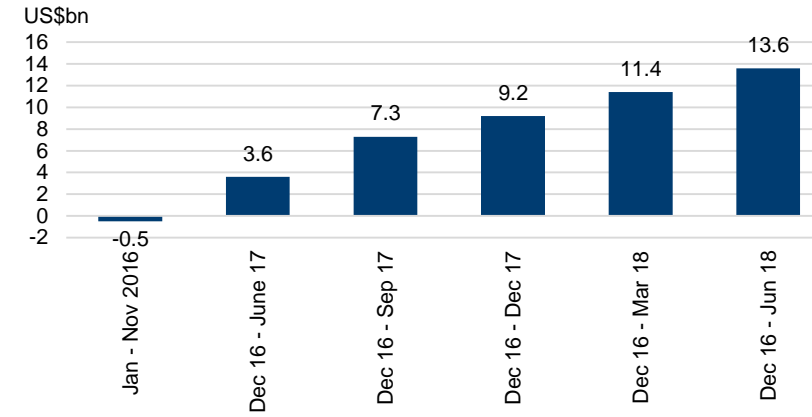
# Ringgit likely to remain weak against US Dollar by end-2018

Ringgit against US Dollar performance

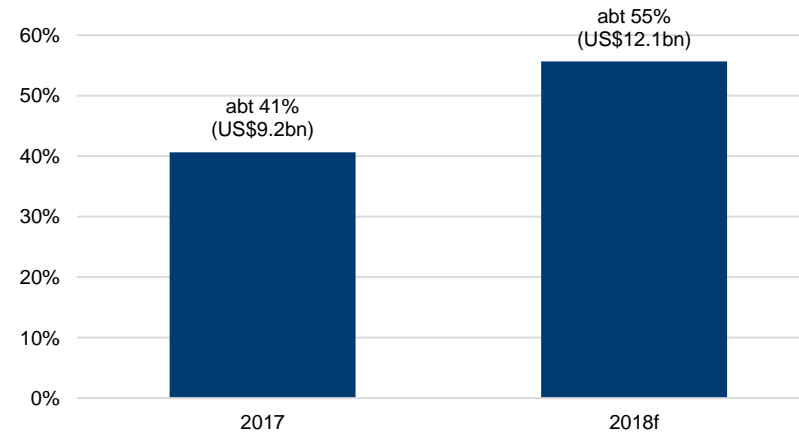


Source: Bloomberg, BNM

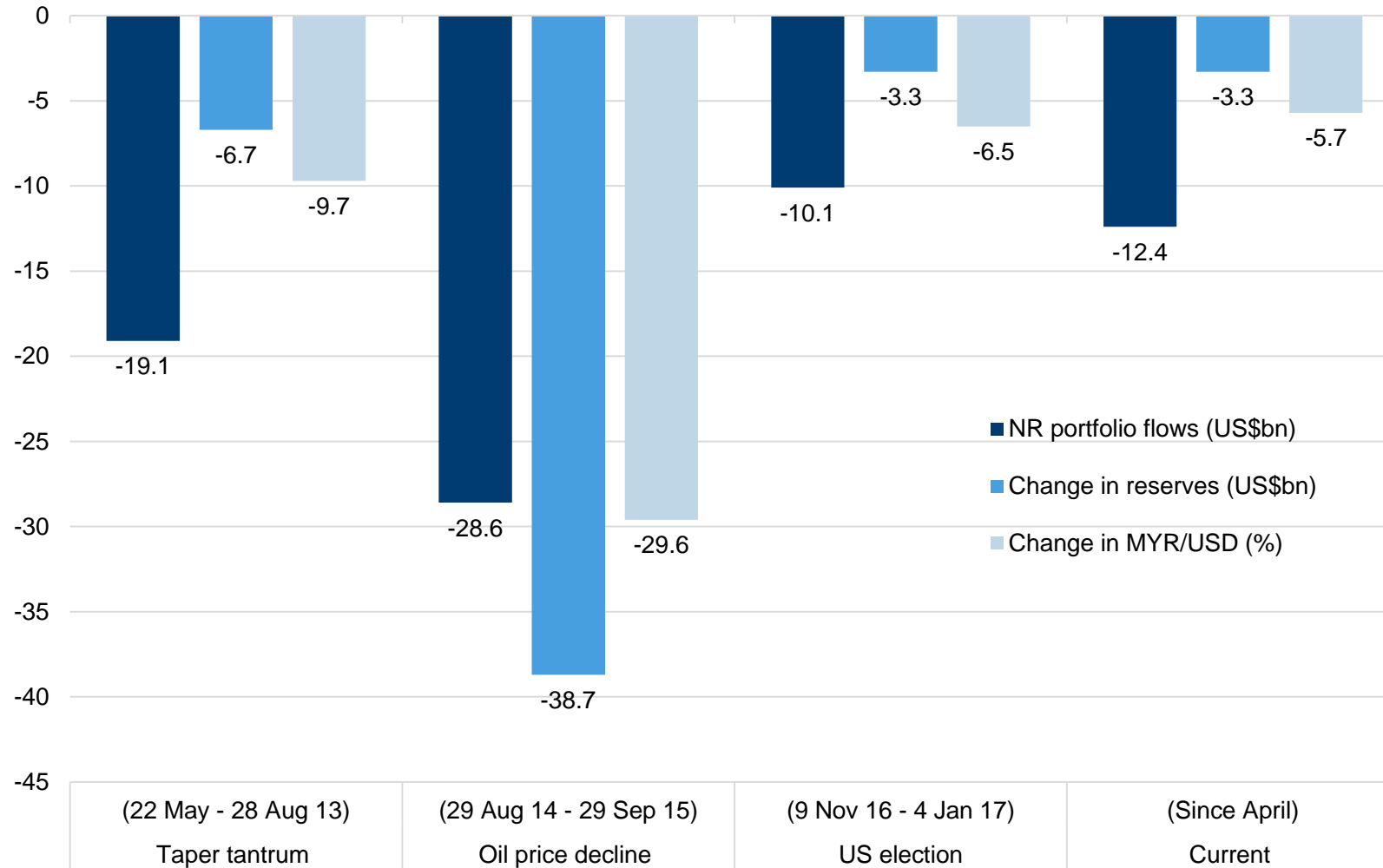
Net FX exports conversion



Net FX exports conversion ratio



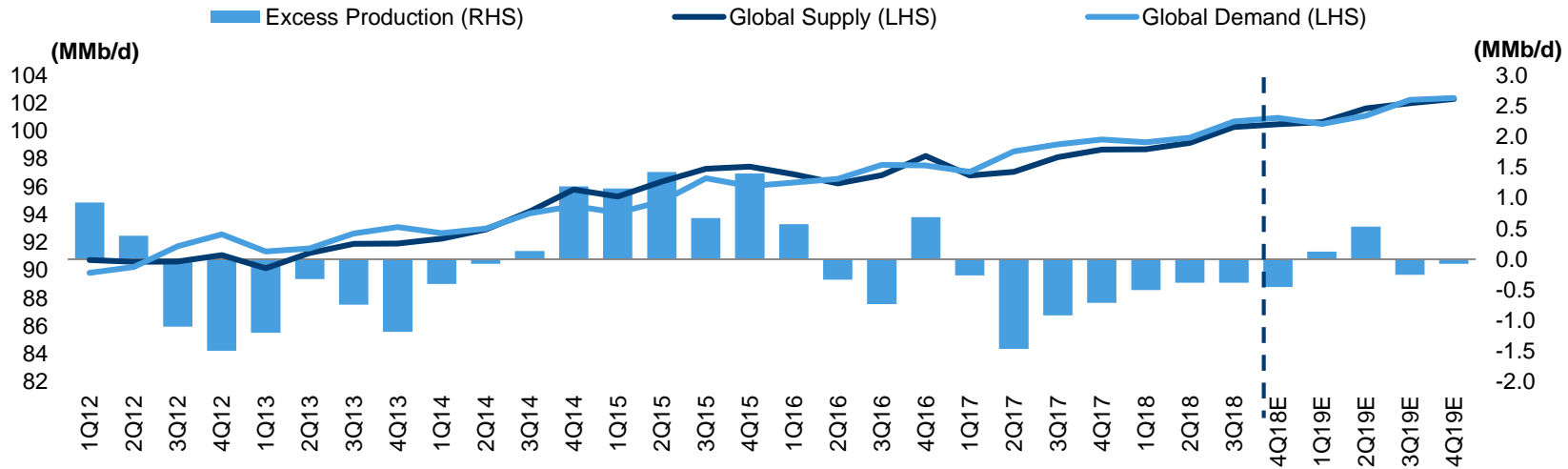
## But, Malaysia has shown the ability to manage episodes of financial shocks



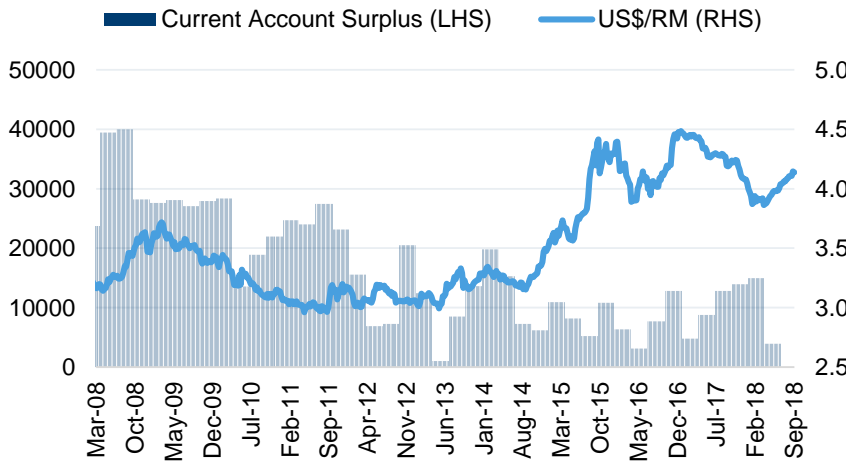
Source: BNM

# 4Q2018 Outlook: Favourable oil price outlook

Dd/Ss dynamics are supportive of firm oil prices

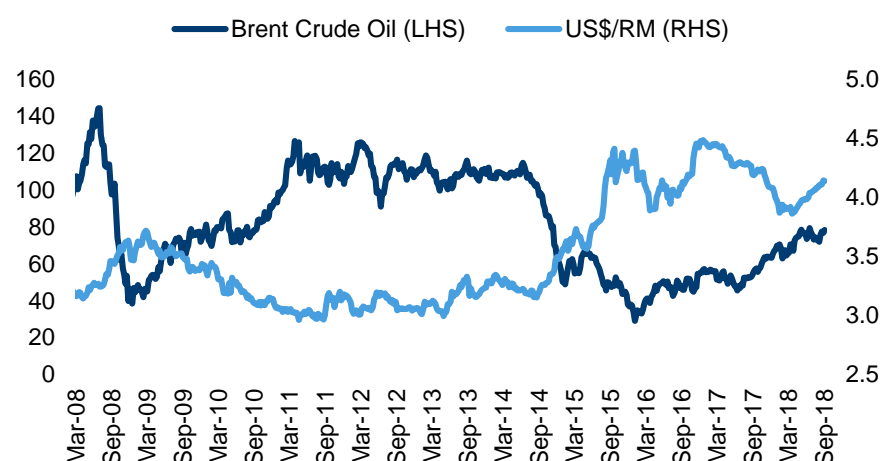


Supportive of the current account surplus



Source: CEIC, Bloomberg

RM should strengthen with firmer oil prices



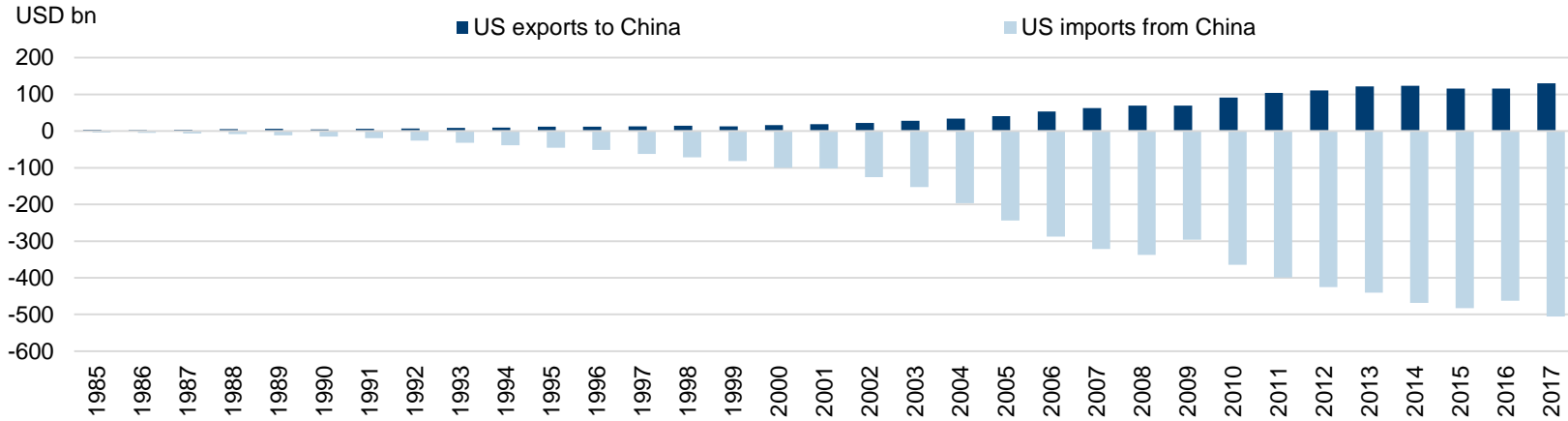
Source: Bloomberg



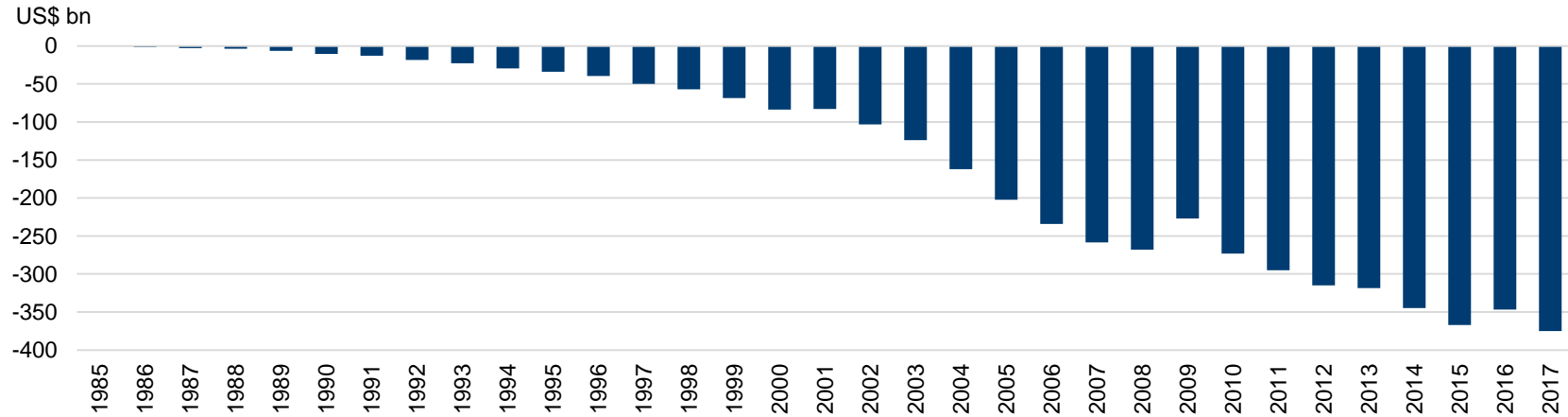
# Trade war

# Trade War Tensions between US-China

## Rising imports from China



## US trade deficit with China



Source: CEIC

## Rapid escalation of US-China trade dispute from mid-June

- The trade tensions between the US and China escalated on 15 June 2018, when the US announced that the Government would impose a 25% tariff on 818 Chinese imports worth US\$34bn with effect from 6 July 2018. President Trump had earlier announced a tariff of 25% on US\$50bn worth of Chinese imports, where tariffs on an additional US\$16bn worth of Chinese imports will need to undergo public review.
- China retaliated immediately, declaring a 25% tariff on US\$34bn of US imports, which will also take effect on 6 July 2018. China plans to impose additional tariffs of 25% on chemical products, medical equipment and energy, with a value of US\$16bn imported from the US starting August 23.
- President Trump has not backed down since, having requested the United States Trade Representative (USTR) to identify US\$200bn worth of Chinese imports for additional tariffs of 10%, or as high as 25%.
- On July 20, President Trump said he's ready to go for US\$500bn, where the immediate impact of such an action would be felt on port operators, shipping companies and the people who work for them.

*Source: Various medias*

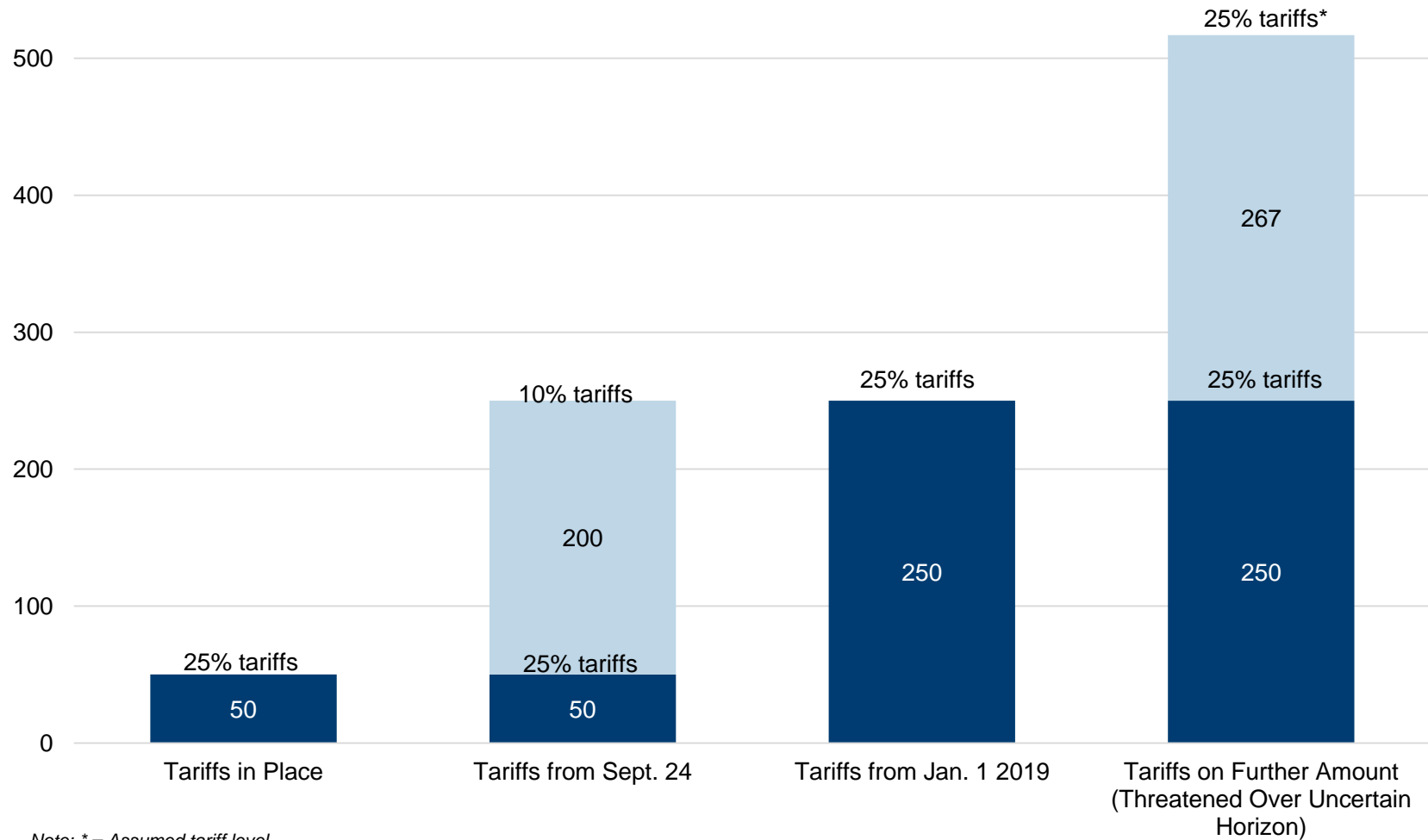
## Second phase of tariffs take effect on September 24

- On Sept.7, Trump said he's willing to slap tariffs on an additional US\$267bn in Chinese goods, on top of duties of US\$200bn in imports is already considering.
- On Sept. 17, President Trump finalised the list of US\$200bn imports from China which will be subjected to a 10% tariff. Also announced was the eventual increase in the tariff to 25% on January 1 2019.
- The next day on Sept. 18, China finalised its tariffs on US\$60bn of imports from the US ranging from 5% to 10%, down from 5% to 25%, previously. Tariffs imposed are mainly on intermediate inputs and capital equipment.
- Both US and China tariffs announced on Sept 17 and 18 were taken into effect on Sept. 24.
- As trade tariff escalate, on Sept. 21, China decided to cancel trade talks which were supposed to take place the following week.
- In a bid to protect its consumers amid rising US tariffs, China announced on Sept. 26 that it would cut import tariffs on some non-US goods such as electrical equipment, machinery, and textiles effective Nov. 1.

*Source: Various medias*

## Developments of US-China trade war

USD bn

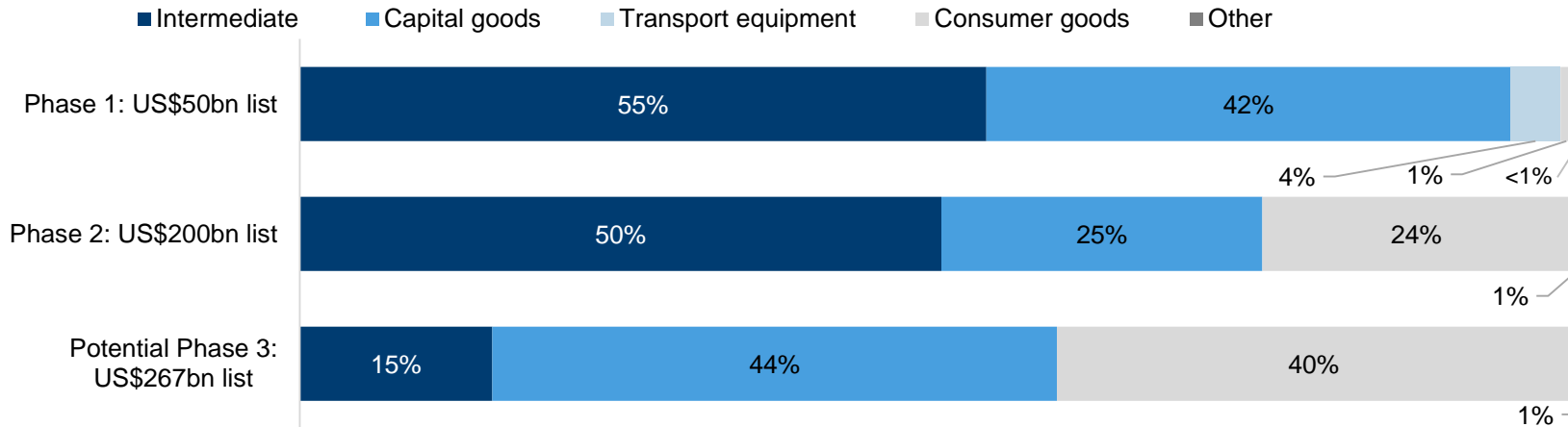


Note: \* = Assumed tariff level

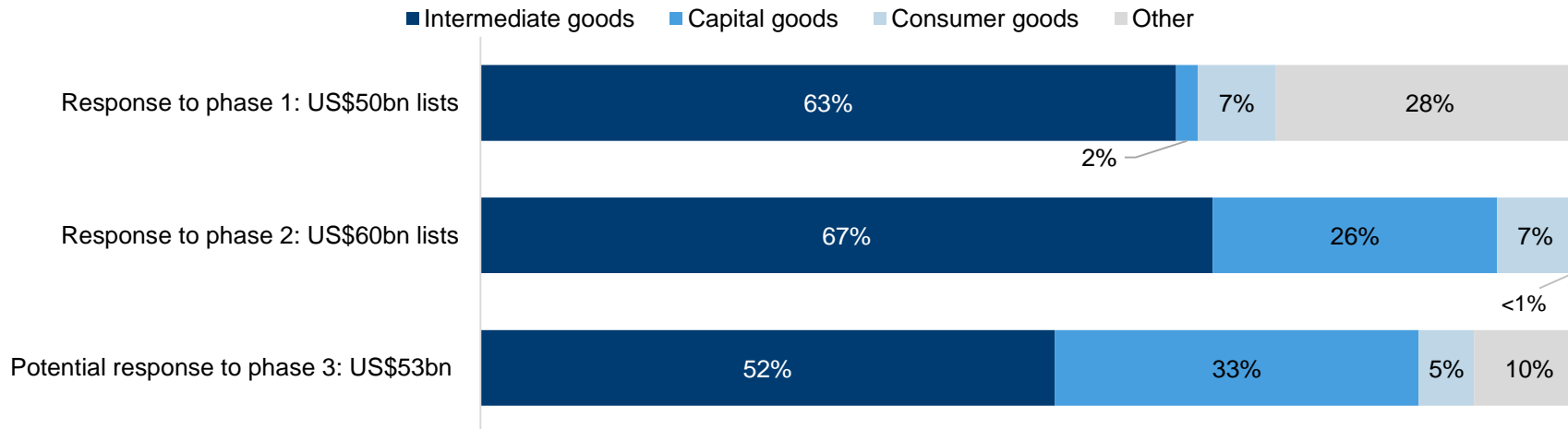
Source: Bloomberg

# US tariffs on China's imports

An increase in US tariffs on Chinese consumer goods in US\$200bn & US\$267bn lists



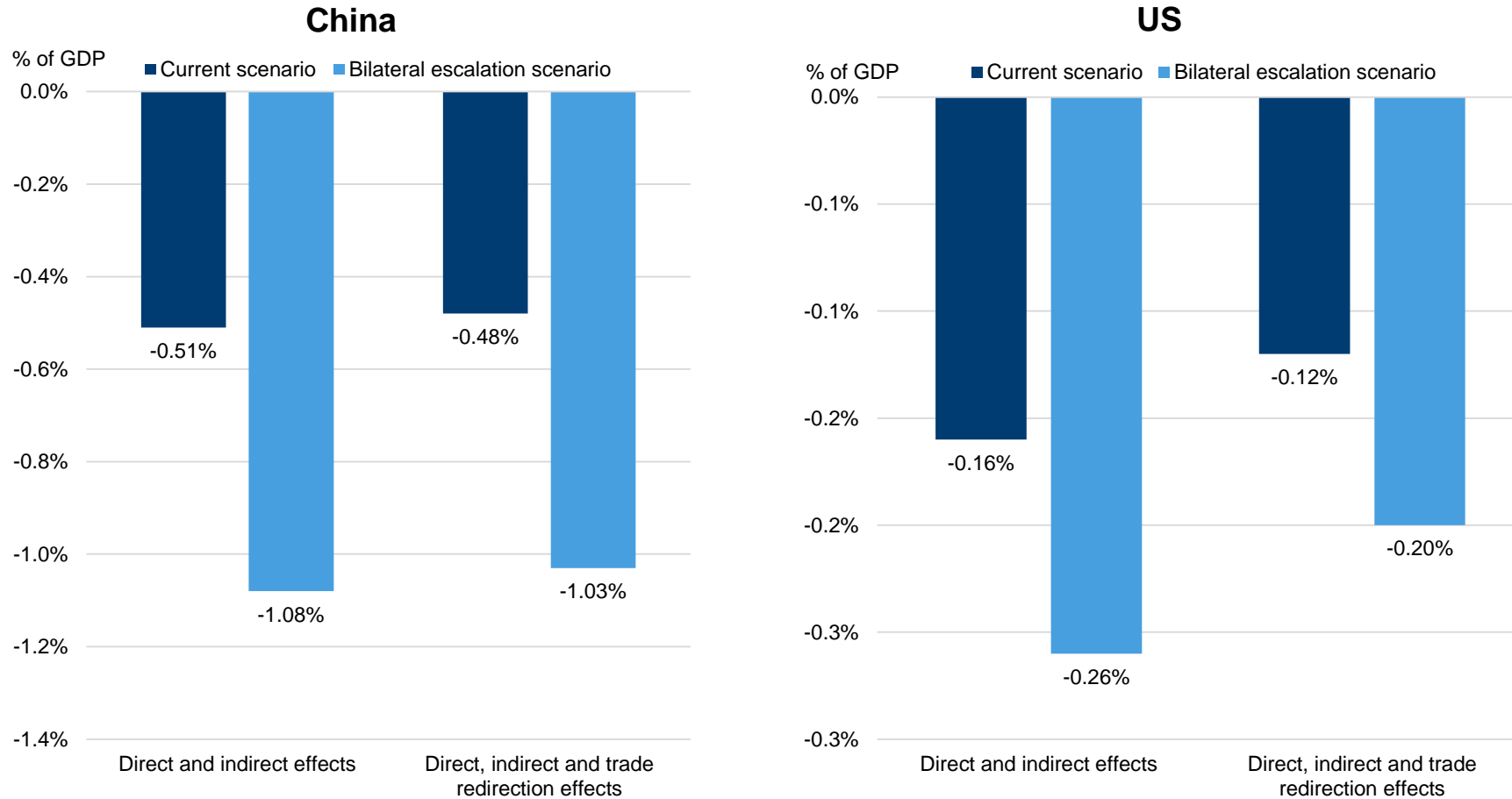
China's tariffs on US\$60 billion of imports shift into covering intermediate inputs and capital equipment



Source: PIIIE

# China's GDP to decline more with trade war

According to ADB, under current trade war scenario, both GDPs of China and US are negatively impacted but China will be experience a larger impact. If escalated, China's GDP to fall further by 1ppt and US GDP will decline by 0.26ppt.

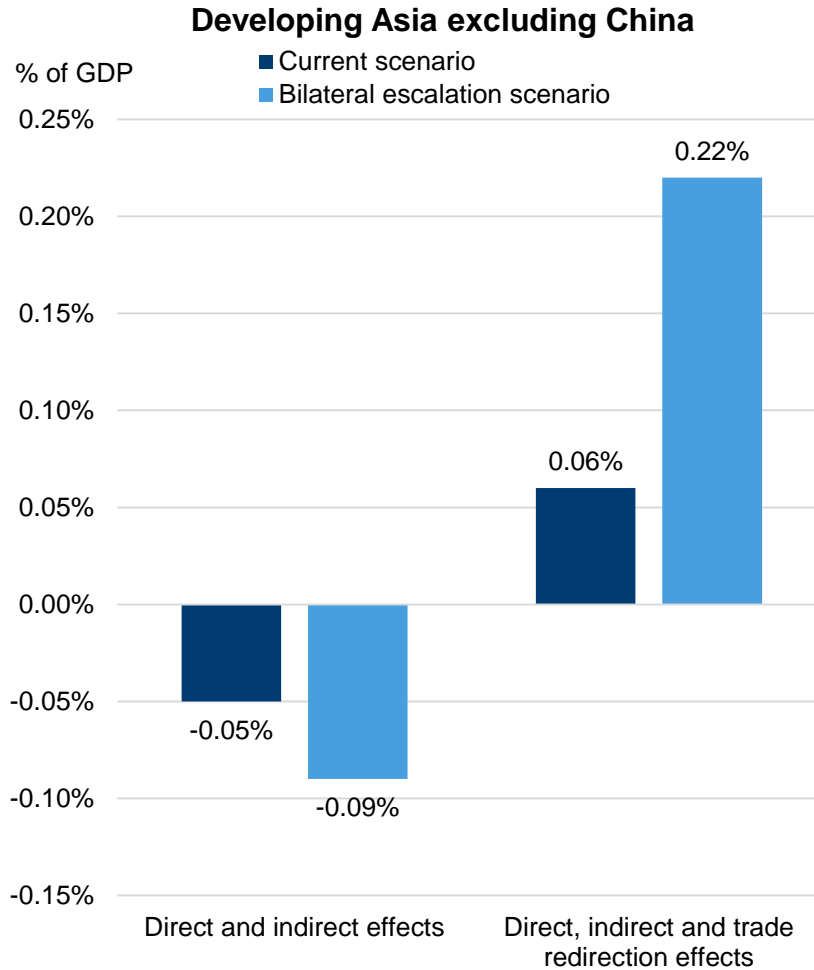


Source: ADB

Note: Direct effects hit the products and countries that are subject to the tariffs; Indirect effects work through local and international supply chains; Trade redirection toward other products in proportion with their shares in the global market

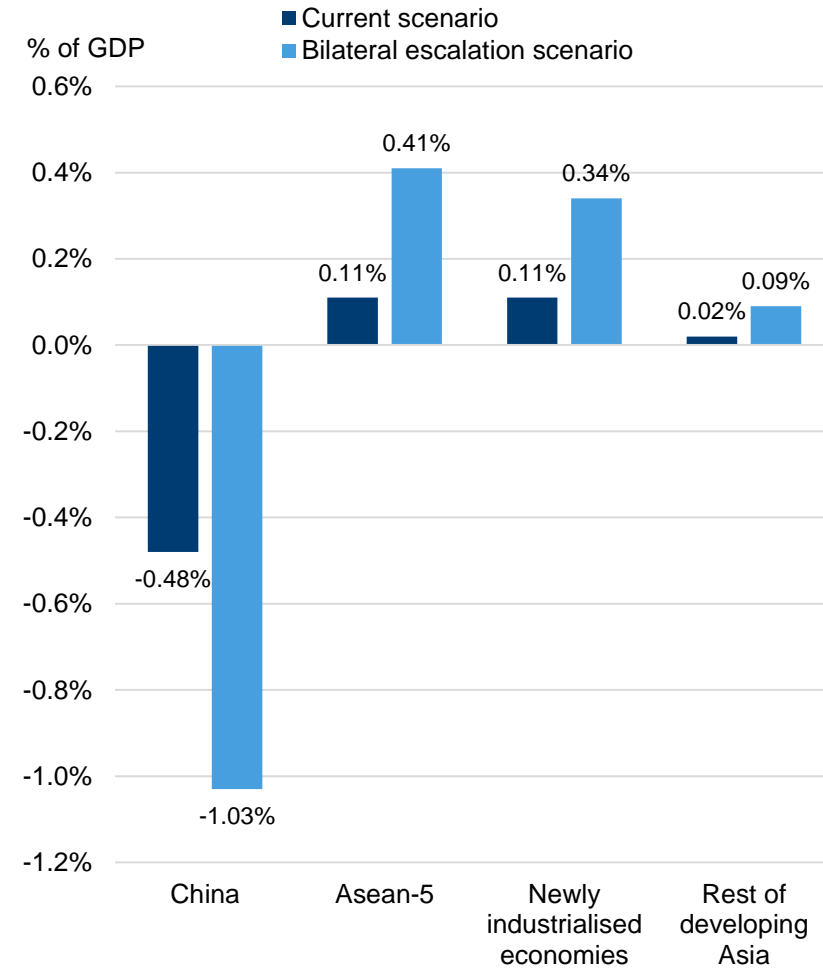
# Trade war to have smaller impact on developing Asia

With trade redirection, the region's GDP will expand by 0.06ppt under the current scenario and 0.22ppt if trade war escalates.



Source: ADB

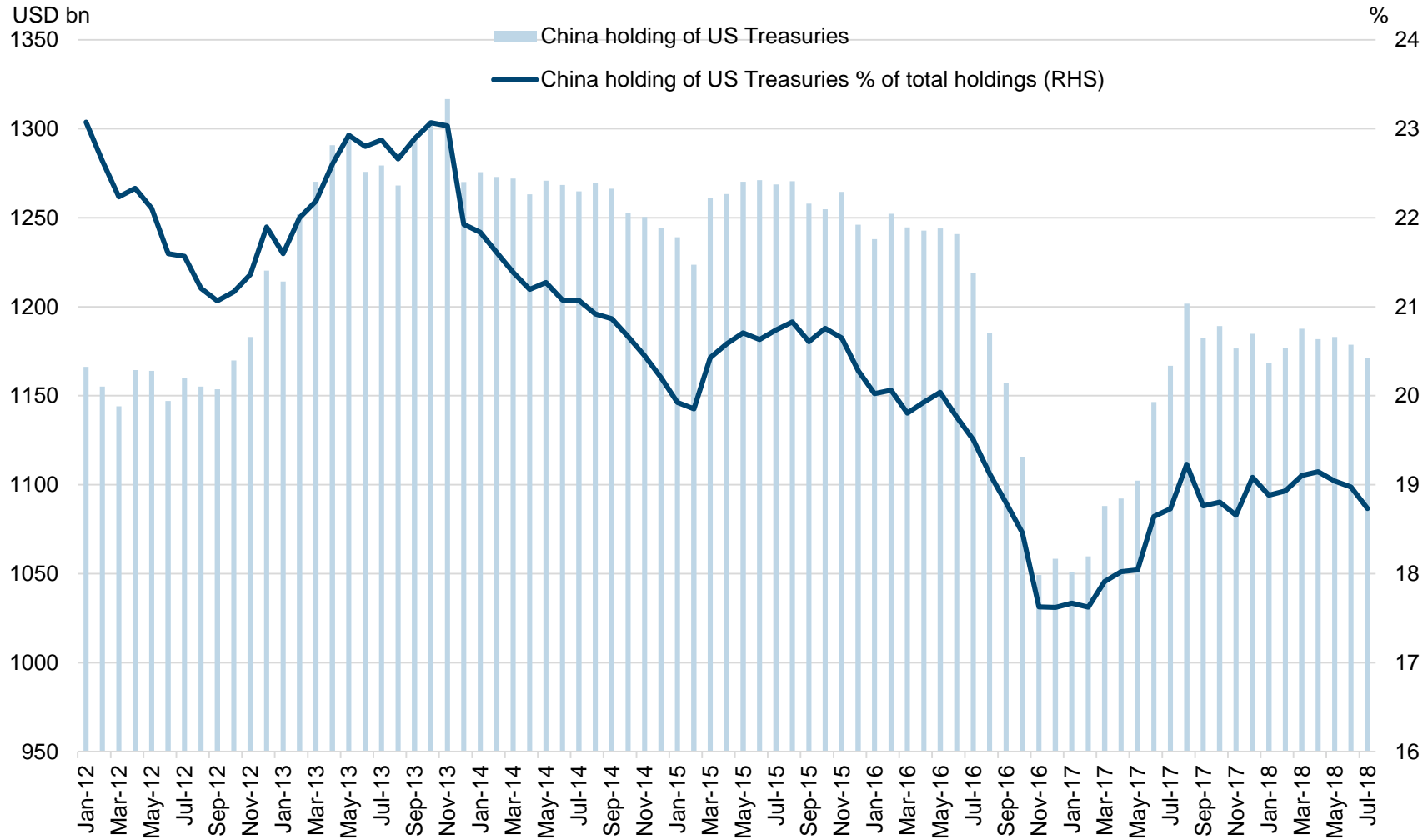
Asean-5 to likely benefit as they produce and export goods similar to those made by China





# China holding of US Treasuries

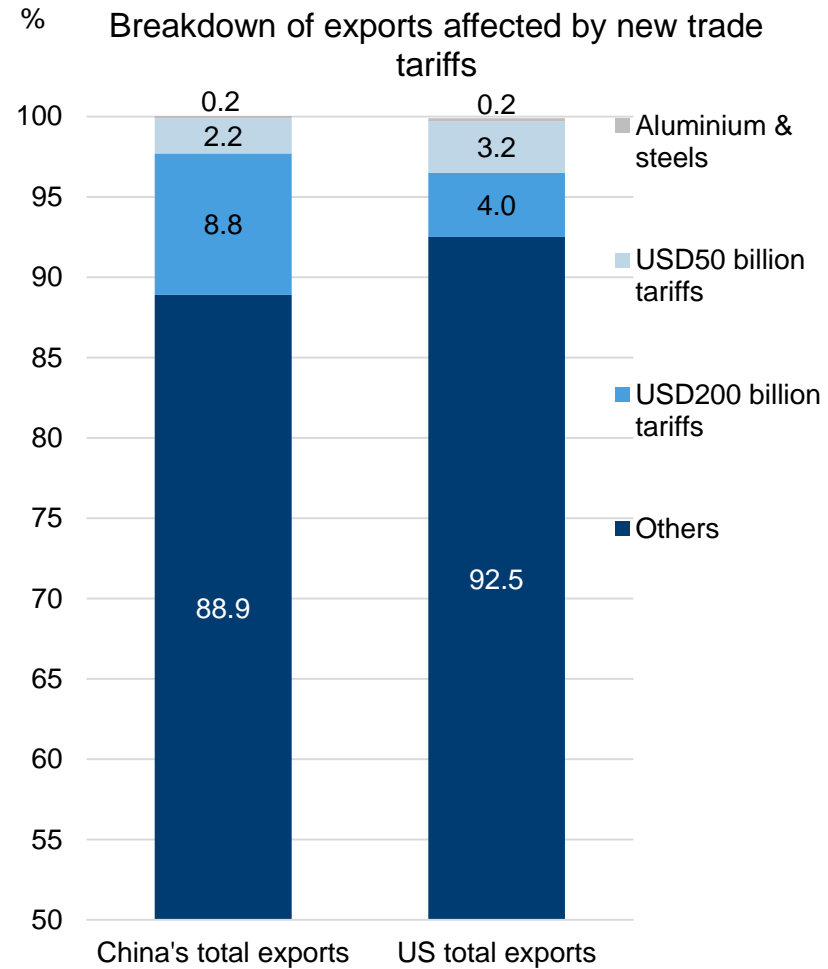
China lessens its holdings to US\$1171bn as trade tensions continue



Source: CEIC

## Direct impact from current trade war actions are limited for Malaysia

...due to low product coverage, but downside risks remain



Source: USTR, MOFCOM, Global Trade Atlas, BNM

- ▶ **Products affected by new tariffs comprise a small portion of US & China's exports**
  - Current trade action affects <4% of the countries' total exports
- ▶ **Greater downside risks arising from potential expansion of US tariffs products:**
  - E.g: Blanket tariffs on automobiles
- ▶ **Nevertheless, impact of current trade tension to Malaysia is expected to remain limited**
  - Diversified market for Malaysian exports
  - Highly varied export product range

## Macro results of a trade war, tariffs on goods between US and the OECD

Simulation results for all-out trade war, main macroeconomic effects (%)

	US	China	EU28	Netherlands	Japan	Korea	Canada	Mexico
<b>5% on all goods between US and the OECD</b>								
GDP (%)	-2.3	-3.1	-1.7	-2.0	-6.4	-9.3	-1.8	-1.9
Export volume (%)	-55.9	-12.5	-3.4	-2.6	-39.1	-48.1	-8.9	-10.5
Import volume (%)	-43.7	-14.0	-3.3	-3.5	-37.1	-53.3	-8.9	-10.6
Terms of trade (%)	0.8	-2.3	-0.2	-0.3	-3.3	-2.9	-0.9	-0.1
<b>10% on all goods between US and the OECD</b>								
GDP (%)	-2.9	-3.8	-2.0	-2.4	-7.7	-11.1	-2.1	-2.3
Export volume (%)	-58.6	-13.6	-3.7	-2.9	-41.3	-51.3	-9.6	-11.2
Import volume (%)	-46.3	-15.3	-3.6	-3.9	-39.3	-56.1	-9.7	-11.3
Terms of trade (%)	0.0	-2.6	-0.2	-0.4	-3.4	-2.1	-1.1	-0.1
<b>15% on all goods between US and the OECD</b>								
GDP (%)	-3.1	-4.0	-2.1	-2.6	-8.1	-11.6	-2.2	-2.5
Export volume (%)	-59.0	-13.8	-3.8	-3.0	-41.7	-51.8	-9.8	-11.4
Import volume (%)	-46.8	-15.6	-3.7	-4.0	-39.7	-56.5	-9.9	-11.5
Terms of trade (%)	-0.4	-2.6	-0.2	-0.4	-3.3	-1.7	-1.2	-0.1

Source: CPB Netherlands, WorldScan

## Implication from US tariff on China's economy

Impact on China's exports and GDP under different US tariff levels

Tariff levels	2.9%( existing)	15%	30%	45%
Exports to the US in 2017 (USDbn)	506			
Tariff impact on exports (USDbn)		-159	-349	-440
Tariff impact on exports (% of exports to the US)		-32	-69	-87
Tariff impact on GDP (USDbn)		-113	-247	-311
Tariff impact on GDP without multiplier effects (% of GDP)		-0.9	-2	-2.5
Tariff impact on GDP with multiplier effects (% of GDP)		-2.5	-5.4	-6.8

Source: USITC, Tariff Analysis Online, Daiwa estimates

# Malaysia: Macro Background

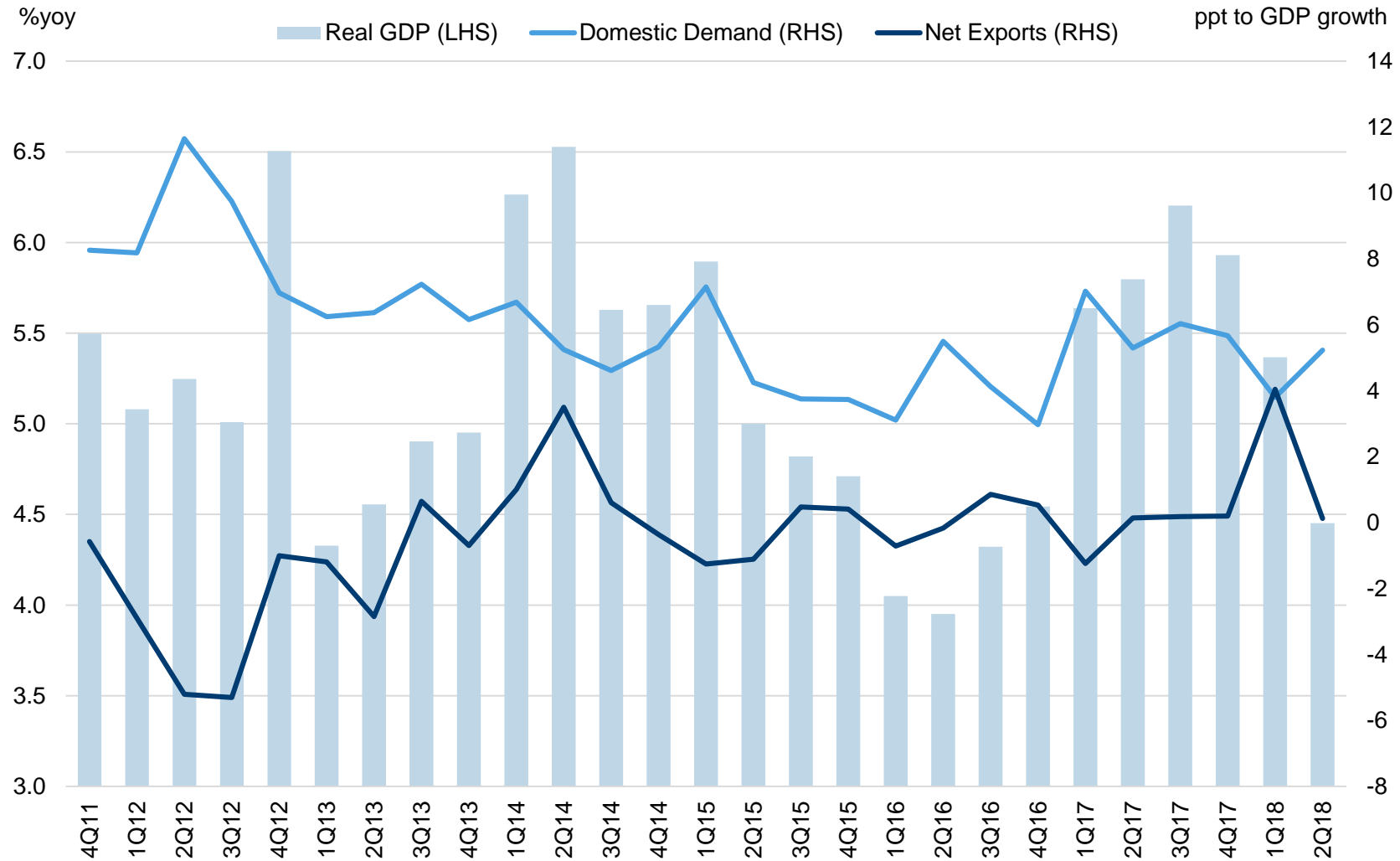
## Macro background for 2019 Budget proposal

	1H16	2H16	2016	1H17	2H17	2017	1H18	2018F
<b>GDP by Expenditure Components</b>								
Total Consumption	5.4	4.5	4.9	6.6	6.7	6.7	6.4	6.3
Private consumption	5.7	6.2	5.9	6.9	7.1	7.0	7.4	7.2
Public consumption	4.1	-1.6	1.3	5.3	5.6	5.4	1.8	2.5
Total Investment	3.2	2.2	2.7	6.9	5.5	6.2	1.2	6.3
Private investment	3.9	4.8	4.4	10.0	8.5	9.2	3.4	5.0
Public investment	1.2	-1.8	-0.3	-0.9	0.8	-0.1	-5.2	-3.0
Domestic Demand	4.7	3.9	4.3	6.7	6.4	6.6	4.9	5.2
Net exports	-5.1	8.1	1.5	-6.9	2.2	-2.4	29.9	3.4
Exports	1.5	1.1	1.3	9.6	9.2	9.4	2.9	4.2
Imports	2.4	0.2	1.3	11.7	10.2	10.9	0.0	4.3
<b>GDP (2010 real prices)</b>	<b>4.0</b>	<b>4.4</b>	<b>4.2</b>	<b>5.7</b>	<b>6.1</b>	<b>5.9</b>	<b>4.9</b>	<b>5.0</b>

Source: CEIC, Affin Hwang estimates

# Domestic demand remains the driver of Malaysia economy

Budget is likely to focus on supporting domestic demand



Source: DOSM

## Affin Hwang GDP forecasts for 2018 and 2019

	2017	2018F	2019F	2017	2018F	2019F	2017	2018F	2019F
	%yoy			% of GDP			% contribution point to GDP growth		
<b>GDP by Expenditure Components</b>									
Total Consumption	6.7	6.3	5.7	66.7	67.6	68.0	4.4	4.2	3.9
Private consumption expenditure	7.0	7.2	6.5	53.7	54.9	55.7	3.7	3.9	3.6
Public consumption expenditure	5.4	2.5	2.5	13.0	12.7	12.4	0.0	0.3	0.3
Total Investment	6.2	6.3	2.2	25.4	25.8	25.1	1.6	1.6	0.6
Private investment expenditure	9.3	5.0	4.0	17.4	17.4	17.2	1.6	0.9	0.7
Public investment expenditure	0.1	-3.0	-2.0	8.0	7.4	6.9	0.0	-0.2	-0.1
Domestic Demand	6.5	5.2	4.8	92.2	92.4	92.2	5.8	4.8	4.4
Net exports	-1.1	3.4	5.7	7.8	7.7	7.7	-0.1	0.3	0.4
Exports	9.6	4.2	4.0	72.9	72.3	71.6	6.7	3.1	2.9
Imports	11.0	5.2	3.8	65.1	65.2	64.5	6.8	3.4	2.5
<b>GDP (2010 real prices)</b>	<b>5.9</b>	<b>5.0</b>	<b>5.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>5.9</b>	<b>5.0</b>	<b>5.0</b>
<b>GDP By Kind of Economic Activity</b>									
Agriculture, Forestry and Fishing	7.2	1.5	2.0	8.2	7.9	7.7	0.6	0.3	0.2
Mining and Quarrying	1.1	0.5	1.5	8.4	8.0	7.8	0.1	0.2	0.1
Manufacturing	6.0	5.3	5.0	23.0	23.1	23.1	1.4	1.2	1.1
Construction	6.7	4.7	4.0	4.6	4.5	4.5	0.3	0.3	0.2
Services	6.2	6.2	6.3	54.4	55.1	55.7	3.4	3.1	3.4
<b>GDP (2010 real prices)</b>	<b>5.9</b>	<b>5.0</b>	<b>5.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>5.9</b>	<b>5.0</b>	<b>5.0</b>

Source: Affin Hwang estimates



## Malaysia: Economic fundamentals stays healthy

### Macroeconomic and financial indicators

Indicator	Unit	Asia financial crisis		Global financial crisis		Latest
		1997	1998	2008	2009	
Real GDP growth	%	7.3	-7.4	4.8	-1.5	4.9 (1H18)
Inflation rate	%	2.7	5.3	5.4	0.6	1.3 (8M18)
Fiscal balance	% of GDP	2.2	-1.6	-4.6	-6.7	-4.4 (1H18)
Public debt	% of GDP	29.5	33.7	39.8	50.8	50.7 (2017)
External debt	% of GDP	56.1	55.5	30.7	32.6	65.3 (2017)
Short-term external debt	% of total external debt	25.3	21.1	33.8	33.3	42.7 (2017)
Current account balance	% of GDP	-5.5	12.2	17.1	15.5	2.7 (1H18)
International Reserves	US\$bn	21.7	26.2	91.4	96.7	104.4 (Aug-18)
Gross national savings	% of GNI	40.1	43.2	39.4	34	28.2 (1H18)
Total loan growth	%	26.6	-1.7	12.8	7.8	5.3 (July-18)
Non performing loans ratio	%	4.1	13.6	2.2	1.8	1.6 (May-2018)

Source: CEIC

## Concern: Rating downgrade but unlikely

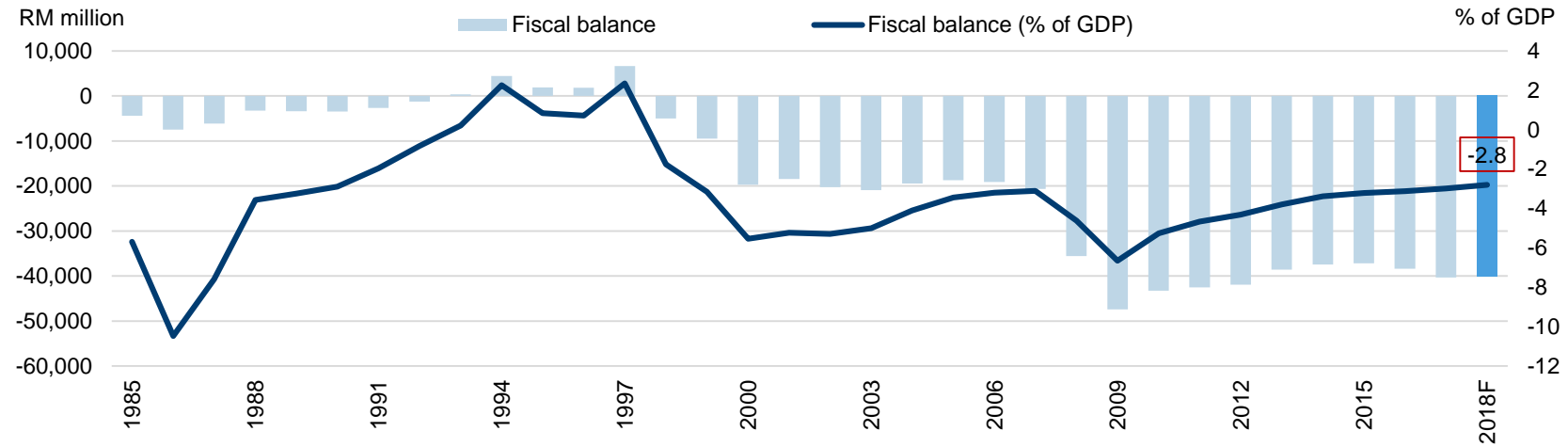
Malaysia's sovereign ratings comparison

Malaysia								
Moody's			S&P			Fitch		
Date	Ratings	Outlook	Date	Ratings	Outlook	Date	Ratings	Outlook
24-Sep-02	Baa1	Stable	1-Sep-00	BBB	Positive	7-Aug-02	BBB+	Stable
29-Sep-04	Baa1	Stable	4-Apr-01	BBB	Stable	8-Nov-04	A-	Stable
16-Dec-04	A3	Stable	4-Mar-02	BBB	Positive	20-Nov-06	A-	Stable
24-May-06	A3	Stable	20-Aug-02	BBB+	Stable	22-Jan-08	A-	Stable
20-Nov-13	A3	Positive	8-Oct-03	A-	Positive	30-Jul-13	A-	Negative
11-Jan-16	A3	Stable	15-May-08	A-	Stable	30-Jun-15	A-	Stable

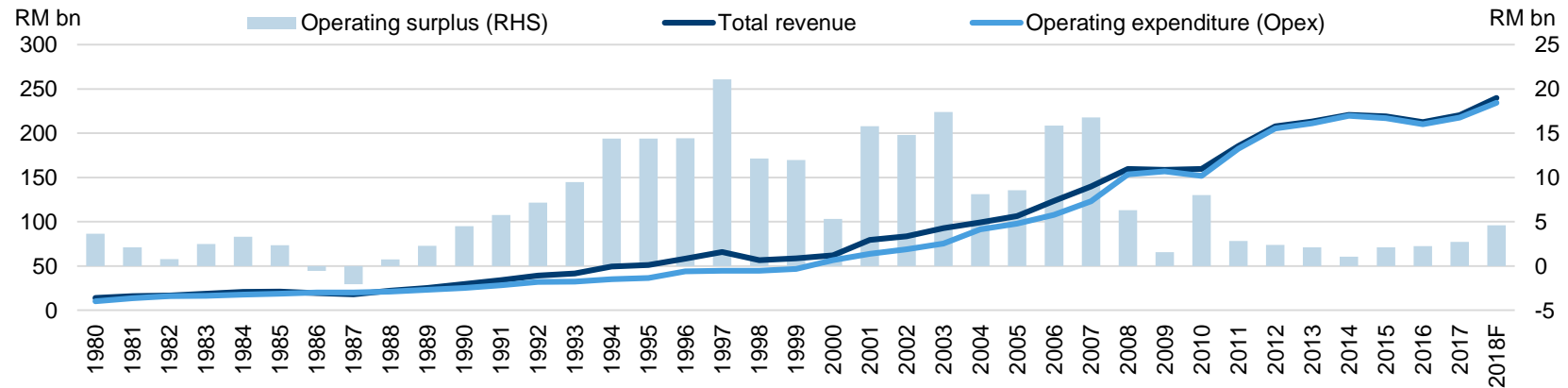
Source: Rating Agencies

## Fiscal position remains a focus

### Fiscal balance



### Operating surplus to remain firm



Source: Ministry of Finance

# Equity Rating Structure and Disclaimer

## **Equity Rating Structure and Definitions**

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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