UOBKayHian
PP 14100/06/2010 (024886)

MALAYSIA

4 March 2010

Update

Market Strategy

Pause-perity Before Prosperity

We maintain our view that the Kuala Lumpur Composite Index's (KLCI) recent advance will pause after 1Q10 amid global caution. Over 20 fund managers we met in Europe share our cautious view, but like our high-yield and situational plays.

Maintaining our view of a market pause. We maintain our view of a limited upside to the KLCI in 1Q10 (ytd: +1.0%), and that the market could consolidate in 2Q10 before turning up in 4Q10 as global issues pertaining to sputtering fiscal stimuli and rising interest rates gain momentum. Rising risk of inflation, as evidenced by a 1.5% ytd rise in commodity prices (in part reflecting hard-asset hedging against declining major currencies), would also prompt a quicker withdrawal of liquidity. Many clients in Europe share our concerns over continuing global consolidation, and some are fearful that other countries could share the sovereign default risks as seen in Greece.

Our year-end KLCI target of 1,290 implies 2010F PE of 15.4x. We have trimmed our 2010 and 2011 earnings forecasts by 1.7% and 1.5% respectively after the 4Q09 results season.

Malaysia's safe haven status retained. While neutral on Malaysia, clients agreed the KLCI would outperform during a regional market consolidation. The KLCI gained marginally vs the 3.7% fall in MSCI Asia ex-Japan.

Key events expected. We continue to OVERWEIGHT the banking, construction and property sectors, and our top three stock picks are Tanjong Plc, CIMB Group and PLUS Expressways. Among the key events expected are the potential legalisation of sports betting, award of mega projects which benefit the likes of Gamuda, electricity tariff review and potential state election in Sarawak.

Defensive, situational and value plays. Clients have traction with our emphasis on high-yield large-cap companies that could benefit from events/catalysts. Key defensive favourites are Tanjong Plc, PLUS Expressways, Berjaya Sports Toto and KLCC Property. Among the situational ideas are Hong Leong Financial Group, which could realise some of its RNAV (it is trading at a 31.3% discount to our conservatively assessed RNAV of RM11.30/share) via partial stake sale of subsidiaries, followed by special dividends.

While our plantation sector's top pick remains Kuala Lumpur Kepong (KLK), clients also like PPB Group (NOT RATED) as a deep value play and proxy to Wilmar International. PPB Group is increasingly appealing to Malaysian-only mandated funds that wish to participate in Wilmar International's rising prosperity.

Figure 1: Top BUYs

Company	Ticker	Share Price 3 Mar 10 (RM)	Target Price (RM)	PE (x)		Dividend Yield (%)	
				2010F	2011F	2010F	2011F
CIMB Group	CIMB MK	13.60	14.80	13.0	11.1	1.4	1.4
PLUS	PLUS MK	3.39	4.00	13.7	9.8	5.2	5.2
Tanjong Plc	TJN MK	17.78	19.66	9.8	9.3	6.3	6.3

Source: UOB Kay Hian

Vincent Khoo, CFA
☎ (603) 2143 0829
✉ vincentkhoo@uobkayhian.com

Please see last page for important disclosures and analyst certifications.

UOB Kay Hian (Malaysia) Holdings Sdn. Bhd. (210102-T)
Suite 19-01/02, 19th Floor, Menara Keck Seng, 203 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia
Tel: (603) 2143 1180, Fax: (603) 2143 0298
http://research.uobkayhian.com