



AmResearch Sdn Bhd

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(335015-P)

MARKET INFORMATION

KLCI	851.13 (-2.93)
52-Week Range	704.90 - 918.95
Mkt Cap (RMb)	675.37
Volume (m shares)	395.7
Volume (RMm)	697.1
BLR (Maybank)	6.0%

TOP 5 GAINERS

	Closing Price (RM)	(%)
TRIUMPL-OR	0.015	50.0
MIDF-WA	0.015	50.0
DISCOMP	0.490	40.0
CONFARM	0.135	23.0
PMHLDG	0.090	20.0

TOP 5 LOSERS

	Closing Price (RM)	(%)
PK-WB	0.025	-75.0
PMIND-WA	0.010	-50.0
CHUAN-WA	0.020	-42.9
MFLOUR-WA	0.010	-33.3
PERNAS-WA	0.010	-33.3

RECOMMENDATION (WITHIN 12-MONTH PERIOD)

Buy	Minimum 15% expected total return
Hold	0 - 15% expected total return
Sell	Negative expected total return

Note: Total return = price appreciation plus gross yield

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For AmResearch Sdn Bhd

Gan Kim Khoo
Executive Director

AmWatch

13 July 2004

TOP STORY

- Banks** **Overweight**
2H 2004 Outlook (Gan Kim Khoo)

NEWS HIGHLIGHTS

- Telekom Malaysia** **Buy**
Arbitration by DeTe Holdings has commenced
- Yu Neh Huat** **Buy**
Acquires land in KL for RM63 cash (Low Yee Huap, CFA)
- Pos Malaysia & Services Holdings** **Buy**
E-Cover Note by September
- Southern Bank** **Hold**
Enters into strategic alliance with GE Capital (Gan Kim Khoo)
- UMW Holdings** **Hold**
MBM Resources **Hold**
Perodua to sell 132K cars this year, prepared to review prices (Low Yee Huap, CFA)
- Golden Hope Plantations** **Sell**
Enters into agreement to sell parquet manufacturing subsidiary (Hoe Lee Leng)
- Malaysian Plantations Bhd** **Sell**
Temasek completes negotiation for MPlant (Gan Kim Khoo)
- Water Sector** **Neutral**
Pipe replacement to cost RM10b

ECONOMIC HIGHLIGHTS

- Singapore** : GDP surges annual 11.7% in 2Q

AmResearch

Top Story

BANKS

OVERWEIGHT

Strong consumer confidence which would translate into strong domestic consumption spending on big-ticket items such as houses and cars would benefit banks given their role as conduits of funding for consumer expenditure purposes. Concerns over rising interest rates and its potentially negative consequences on banks' top- and bottom-lines do not necessarily have a sound basis. First, it is not an immediate threat given that domestic interest rates are not expected to rise till the second-half of next year at the earliest. Second, even when domestic interest rates start to rise, we expect the pace to be measured. A moderate rate of increase in interest rates will mitigate the prospective squeeze in interest margins as banks would have more time to re-balance its asset-liability mismatches. Third, when interest rates rise, bank interest margins actually expand in the short-term as lending rates are usually re-priced ahead of customer deposit rates. One trend we see emerging in the banking sector is that of higher dividend payments (going forward) by Malaysian banks. This trend is likely to continue and forms one of our main basis for continuing to recommend an Overweight on the banking sector. Public Bank, Hong Leong Bank and Malayan Banking are our top 3 bets for higher dividend payments in future fiscal years.

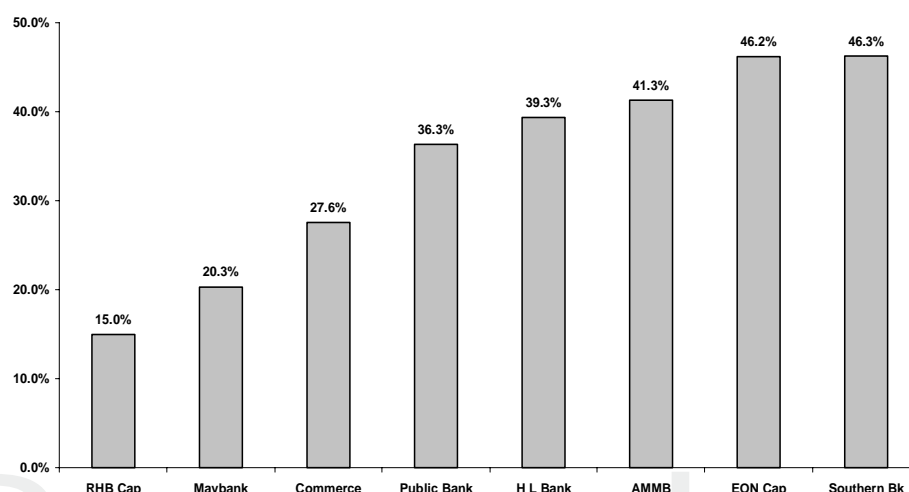
Outlook

Three wildcards. The banking sector in Malaysia was recently shaken by three new concerns: (1) the prospects of higher domestic interest rates, (2) the relapse of certain rescheduled and restructured (R&R) loans into non-performing status, and (3) the proposed introduction of a deposit insurance system.

What influences banks' interest margins. The common perception is that rising interest rates will hurt banks' net interest margins because banks cannot fully pass on the increase in its cost of funds to its loan customers. In reality, the sensitivity of a bank's net interest margin to rising interest rates is dependent on four factors: (1) the quantum of fixed-rate loans in its books as a percentage of total loans, (2) its customers' deposits mix, (3) the maturity profile of its customers' deposits, and (4) its loans-to-deposit ratio.

Why rising interest rates is bad. The reason why the higher the proportion of fixed-rate loans as a percentage of its total loans book, the bigger the squeeze in interest margins is, is because fixed-rate loans, such as hire purchase financing, cannot be re-priced. Banks can only apply the higher lending rates on *new* fixed-rate loans that are extended after the lending rate has been raised.

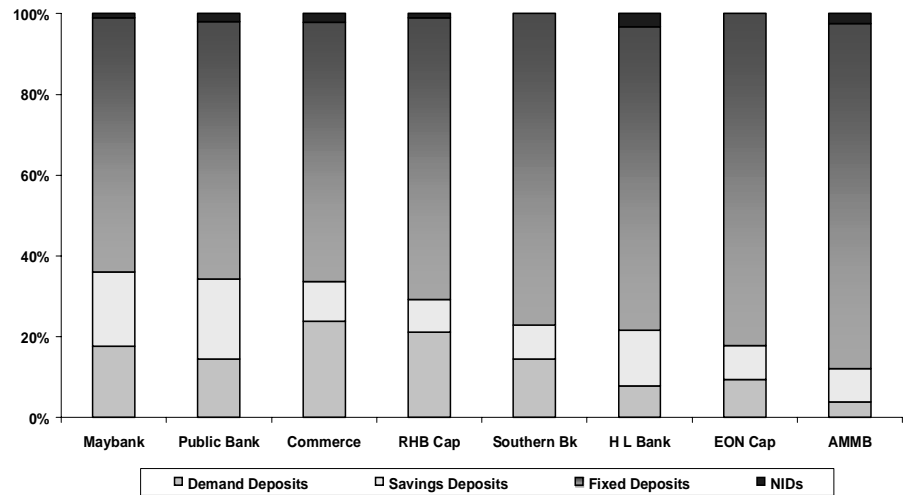
PERCENTAGE OF FIXED-RATE LOANS (ESTIMATE)



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Source: AmResearch estimates

CUSTOMER DEPOSITS MIX



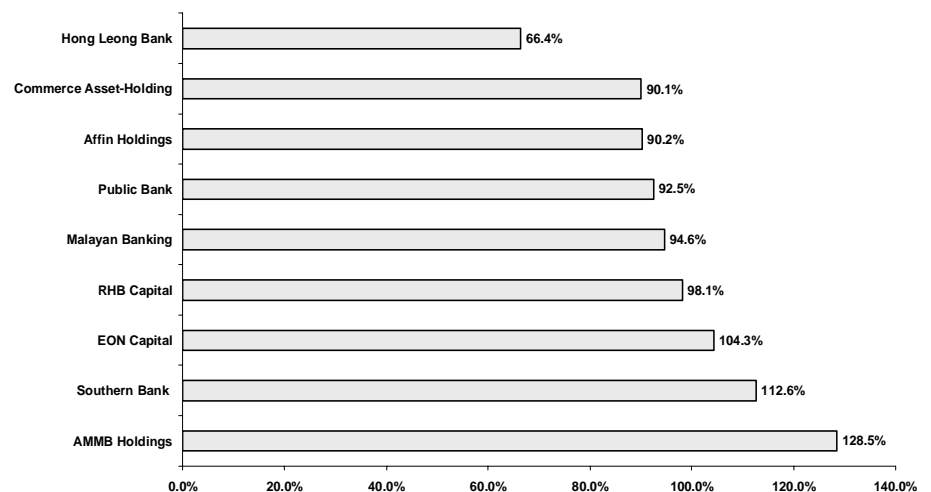
Source: Annual Reports

But banks actually benefit from rising interest rates in the short-run. However, contrary to popular belief, banks could actually benefit from rising interest rates in the immediate- to short-term. This is because while banks have the flexibility to immediately raise their base lending rates (BLR), and hence affecting the yields on all its BLR-pegged loans, customer fixed deposits will, in practice, only be re-priced gradually over a period of time. Similarly, all loans that are pegged to a bank's cost of funds (COF), such as revolving credits, can also be re-priced immediately when interbank rates rise.

The importance of a bank's customer deposits mix... On the other hand, and not unlike fixed-rate loans, fixed deposits can only be re-priced when the existing terms expire and are renewed. In some cases, especially the longer-tenor deposits, the re-pricing may only happen after 12 months. A bank's customer deposits mix and the maturity profile is thus equally important in determining the extent of a margin squeeze from rising interest rates.

...and its loans-to-deposit ratio. The last and least important factor is a bank's loans-to-deposit (LD) ratio. A higher LD ratio suggests that a bank is utilising its customer deposits in a more efficient way; it is converting liabilities into assets that yield higher returns than

BANKS' LOANS-TO-DEPOSIT RATIO



Source: Quarterly Results Announcements

SENSITIVITY OF INTEREST MARGINS FROM HIKE IN INTEREST RATES

	Low LD Ratio	High LD Ratio
High Fixed-Rate	Moderate	High
Low Fixed-Rate	Low	Moderate

the cost of the liabilities. Banks typically reinvest surplus customer deposits in investment securities or place them in the interbank money market or simply hold them in the form of cash. Clearly, the last option is the least attractive, from a return point of view.

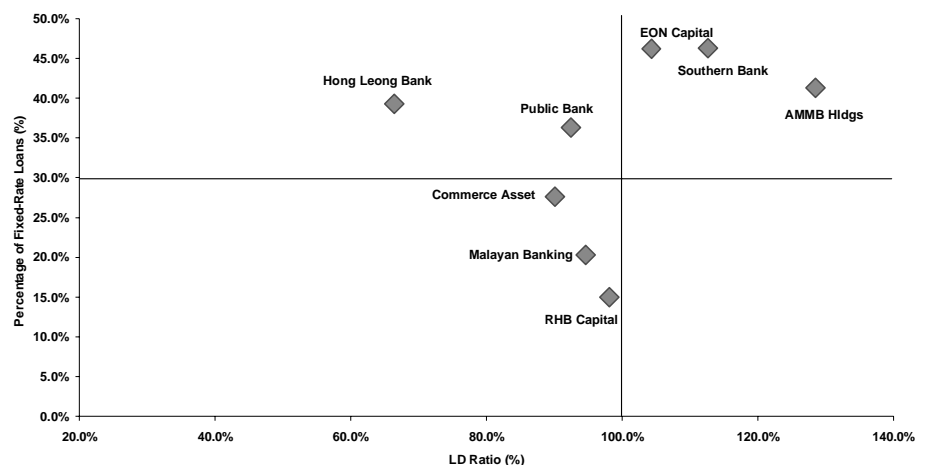
Cost of customer deposits controlled by central bank. Even the second option - placements in the interbank money market - has a negative carry as interbank rates are currently lower than the deposit rates that banks pay out to their depositors. For example, the 3-month interbank rate is currently around 2.80% - 2.90% while the BNM-mandated minimum rate for 1-month, 3-month, 6-month and 9-month deposits is 3.0%.

The more efficient liabilities are used, the less the squeeze. Thus, if BNM's Overnight Policy Rate (OPR) rises and flows through to interbank rates and customer deposit rates, banks that utilises a higher proportion of its customer deposits in the form of higher-yielding loan assets will benefit more than its counterpart that has a lower LD ratio.

Sensitivity to interest rate hikes dependent on fixed-rate loans and LD ratio. But the conclusion would be different if the bank has a relatively high proportion of fixed-rate loans in its books. If a bank has a high LD ratio as well as a high proportion of fixed-rate loans, it would feel the squeeze in interest margins from rising interest rates more than a bank that has a low LD ratio and a low proportion of fixed-rate loans. [See table above].

How to pick the right stocks. It is clear then that, when it comes to stocks selection within the banking sector, one should pick those banks that will only suffer a moderate squeeze in their net interest margins when interest rates rise (in the second half of next year). These

WE PREFER BANKS THAT HAVE ONLY A MODERATE IMPACT FROM RISING RATES



Source: AmResearch

would be stocks such as **Malayan Banking, Commerce Asset-Holding, Public Bank and Hong Leong Bank**. [See scatter graph on previous page].

Also dependent on how fast and how far. In addition to the above factors, the extent of a margin squeeze is also dependent on the degree (how much) and speed (how fast) interest rates rise. If, for example, rates rise only gradually (as opposed to a sharp rise) over a period of time, theoretically, banks would have more time to re-balance their customer deposits and re-price their loan assets in anticipation of higher interest rates. This would minimise the asset-liability mismatches and thus the negative impact on net interest margins.

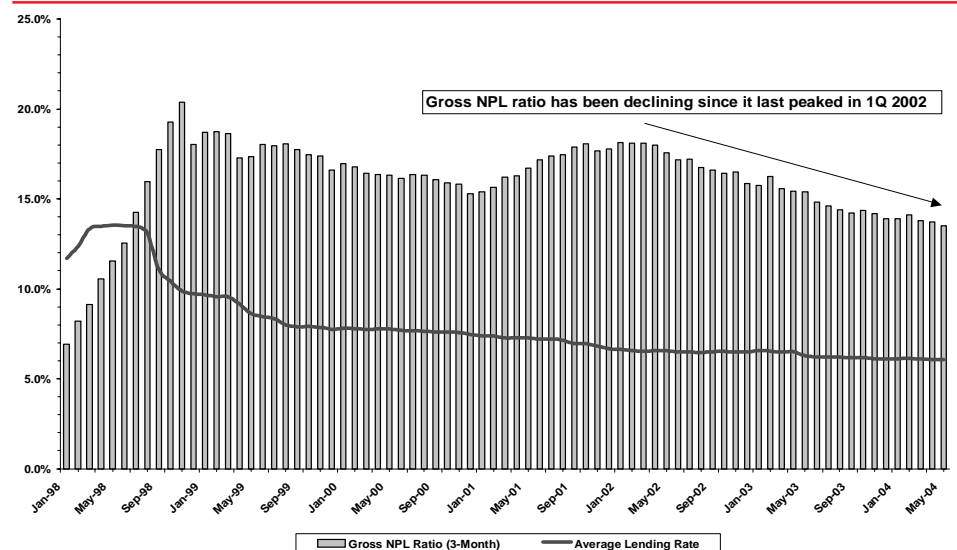
But scenario may not pan out as painted because of... The main deterrent to a bank raising its lending rate (whether BLR-pegged or COF-pegged) when cost of funds rise is intra-industry competition. Competition and the need to maintain one's market share are the only reasons why some banks will choose to defer raising their lending rates, until their peers do so. Thus, in our view, the biggest threat to banks' net interest margins is intra-industry competition, and not rising interest rates. [As we have pointed out earlier, rising interest rates could even potentially benefit bank margins in the immediate to short-term].

The incidental effect of higher interest rates. Of course, other than the worry of narrower net interest margins due to rising interest rates, the other concern is that higher lending rates would adversely affect loan growth. But in Malaysia, there seem to be little correlation between lending rates and loan growth rates. For example, lending rates in the banking system was falling between May 1998 and now but yet there was no strong pick-up in loan growth in the industry.

The other afflictions. The second major concern facing the industry is the possibility of rising NPLs. Normally, this should not have been a concern in an environment where economic growth is forecast to rise strongly. In fact, the statistics tell us that the industry gross NPL ratio (3 months' arrears basis) is still falling since its last peak in 1Q 2003 (from 18.1% to 13.5%). But market fears were recently stoked when, apparently, a few R&R (rescheduled and restructured) loans relapsed into non-performing mode again.

No standard treatment. While some banks have taken the prudent step of reclassifying these relapsed R&R loans as NPLs in 1Q 2004 (and hence made the requisite provisions), some will only be recognising them in 2Q 2004. But there are also some banks that did not reverse the provisions when these loans were rescheduled and/or restructured

INDUSTRY GROSS NPL RATIO HAS BEEN FALLING SINCE 1Q 2002



Source: Bank Negara Malaysia, AmResearch

previously. In such cases, there would be no need for these banks to make further provisions on account of the relapsation.

Fear is largely unfounded. Owing to these different accounting treatments for the R&R loans, the market's earlier concerns that loan losses and provisions in the banking system would rise sharply in 2Q 2004 are largely unfounded. Essentially, only those banks that are recognising the relapsed R&R loans as NPLs in 2Q 2004 and that had reversed the provisions previously, need to make new provisions in 2Q 2004. And we believe the number of banks that fall under this category are few.

Rising cost of doing business. The third development often cited by some detractors as a reason to avoid banking stocks is the possible introduction of a deposit insurance system in Malaysia. Clearly, if such a system is implemented in Malaysia, it would lead to higher operational costs for banks. And because BNM has said that the insurance premium costs cannot be passed on to depositors, this would, at first look, put a squeeze on banks' net interest margins as the insurance premiums would directly raise banks' cost of funds.

Creative and legitimate way to pass on costs. But banks do have a way to pass on the insurance premium costs; not to its depositors, but to its borrowing customers. There is nothing to stop the banks from imputing the higher cost of funding into their calculations when deciding on their BLR or COF-plus rate. We think such a move - passing on the higher cost of funds to borrowers instead of depositors - would be palatable to BNM.

The positives. But not all is doom and gloom for the banking sector. There are also positive developments in the sector. Loan growth as at end-May 2004 hit +6.3% YoY, its strongest growth rate since 1997, and banks are augmenting and rebalancing their total capital concurrently with the twin aims of improving their ROEs and enhancing shareholder value.

Sector recommendation. The latter action could entail either a special dividend or a share buy-back programme or a combination of both options. The former is favoured by investors and we have already seen an emerging trend of banks paying special dividends (in addition to the normal dividend payments) in recent years. This trend is likely to continue and forms one of our main basis for continuing to recommend an **Overweight** on the banking sector.

FORECAST GROSS DIVIDEND PAYMENTS (EXCLUDING SPECIAL DIVIDENDS)

Bank / Bank Holding Companies	-----Dividend (sen)-----			-----Gross Yield (%)-----		
	FY04	FY05	FY06	FY04	FY05	FY06
CIMB	15.0	15.0	15.0	2.6	2.6	2.6
Public Bank	26.0	30.0	34.0	4.1	4.7	5.3
Hong Leong Bank	25.0	30.0	35.0	4.7	5.7	6.6
Commerce Asset-Holding	10.0	12.0	15.0	2.0	2.4	3.0
Malayan Banking	55.0	60.0	65.0	5.2	5.7	6.2
Southern Bank	10.0	12.0	14.0	3.5	4.2	4.9
RHB Capital	8.0	9.0	10.0	4.0	4.5	5.1

Source: AmResearch estimates

COMPARATIVE VALUATIONS AND STOCK RECOMMENDATIONS

Stock	Price (RM)		PER (x)		3-Year CAGR (%)	PE-to-Gwth (x)	PB (x)			3-Yr Avg ROE	Target (RM)	Rec
	9-Jul-04	2003E	2004F	2005F			2003E	2004F	2005F			
CIMB	5.85	19.1	18.1	15.6	11.8	1.5	3.3	3.0	2.6	19.9%	6.00	Hold
Commerce Asset-Holding	4.98	16.7	14.1	12.3	15.2	0.9	1.8	1.6	1.5	12.3%	6.10	Buy
Hong Leong Bank	5.30	15.1	15.5	12.6	3.9	4.0	1.9	1.8	1.7	12.9%	5.50	Buy
Malayan Banking	10.50	17.3	15.3	13.9	12.7	1.2	2.8	2.5	2.5	16.7%	13.10	Buy
Public Bank	6.40	20.3	16.2	13.8	20.4	0.8	2.7	2.5	2.4	15.3%	7.20	Buy
RHB Capital	1.98	13.9	12.1	9.4	20.4	0.6	1.4	1.3	1.2	8.4%	1.85	Hold
Southern Bank	2.84	9.6	12.6	10.9	1.2	10.7	1.5	1.5	1.3	12.8%	2.93	Hold
AMMB Holdings	3.58	22.0	16.9	12.4	27.1	0.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AMFB Holdings	6.20	7.5	7.8	7.0	16.6	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

News Highlights

Telekom Malaysia (RM10.60)

Buy

Arbitration by DeTe Holdings has commenced

Telekom Malaysia and Celcom (Malaysia), a wholly-owned subsidiary of Telekom, informed Bursa Malaysia that the evidential hearing of the arbitration proceedings by DeTe Holdings GmbH has commenced in Geneva, Switzerland on 12 July 2004. The hearing is expected to continue until 23 July 2004. (BMSB Announcement)

Comment: To recap, the arbitration relates to DeTe seeking damages for failure on the part of Celcom to require Telekom to acquire all the Celcom shares owned by DeTe for at least RM7.00 per Celcom share. Prior to the take-over by Telekom, DeTe had an 8% stake or 158.5m shares in Celcom. At RM7.00, DeTe's shareholding would be worth RM1,109m. The request for arbitration was first filed on 10 Mar 03.

Yu Neh Huat (RM1.31)

Buy

Acquires land in KL for RM63m cash

Yu Neh Huat (YNH) has entered into a Conditional Sale and Purchase agreement with Danaharta for the proposed acquisition of a parcel of 12,154 sq meters freehold commercial land in KL for RM63m cash. The land fronts the northern side of Jalan Sultan Ismail. Located directly opposite on the other side of Jalan Sultan Ismail is the Concord Hotel. Adjoining to the east are a "Caltex" petrol station, Menara Haw Par and Shangri-La Hotel whilst adjacent to its west is the Bukit Nanas Purification plant and Reservoir Reserve. YNH plans to submit a new plan for service apartments and office building with a preliminary Gross Development Value of RM680m and Gross Development Costs of RM442m. This would give rise to an estimated Gross Development Profit of RM238m. (BMSB Announcement)

Comment: The acquisition price of RM481.60 psf is fair, especially when compared with a recent transaction of a nearby piece of land (an open air car park next to MUI Plaza) at RM769.60 psf. We were given to understand that YNH's latest land bank would have very good access via Jalan Sultan Ismail as well as Lorong P Ramlee and near to the PRT station. The project is likely to commence late 2005 or early 2006 over about 5-6 years, thus it would only boost YNH's earnings in FY06 onwards. Having said that, the potential net profit per annum over 6 years of RM28m would significantly boost YNH's profits. We are keeping our earnings projection and target price of RM2.00 (10% discount to RNAV of RM2.22 per share) pending more clarification from the company. Even without the new land, the stock is already trading at very attractive level with a potential upside of 52.7%. Maintain **Buy**. (Low Yee Huap, CFA)

Pos Malaysia & Services Holdings (RM2.08)

Buy

E-Cover Note by September

The Transport Ministry plans to launch the electronic insurance cover note system for motor vehicles by September or October, Datuk Seri Chan Kong Choy said. The system enables on-line submission and verification of insurance details for vehicle registration. (The Star)

Comment: This is positive news for POSH. We have been waiting for the "E-Cover" approvals, which was supposed to be finalised in May. We see strong potential in "E-Cover". Pos Malaysia currently renews close to 5.4m road tax and driving licences annually, which is 25% of the market share. The insurance premiums for the motor industry is around RM3.5b annually and assuming Pos Malaysia can secure 5-10% market share, this would generate RM18-35m pretax earnings annually (based on a standard 10% commission) or a 2.6-5.2 sen EPS enhancement to POSH. The stock remains a **BUY**. Our price target is at RM2.62, a 20% discount to our estimated RM3.23 RNAV per share.

Southern Bank (RM2.86)

Hold

Enters into strategic alliance with GE Capital

Southern Bank has obtained approval from Bank Negara Malaysia to initiate discussions with GE Capital Asia Pacific Ltd ("GE Capital") for the purpose of forming a strategic alliance to develop the automobile financing business in Malaysia. (BMSB Announcement)

Comment: The strategic alliance with GE Capital could transform Southern Bank into one of the main hire purchase financiers in the country, given GE Capital's global experience and leadership in financial services. General Electric Capital Corporation ("GE Capital") is a global, diversified financial services company engaged in commercial finance, equipment management and insurance. With assets of approximately US\$500bn, GE Capital serves consumers and businesses in 47 countries around the world.

Currently, the Southern Bank group's retail hire purchase financing facilities are offered through 100%-owned Southern Finance Bhd ("SFB"). SFB is a highly profitable subsidiary. In FY03, it chalked a net profit of RM110m, contributing 32% to the Southern Bank group's net profit of RM348m. For the year ended 31 Dec 2003, SFB's hire purchase financing rose +21% to RM3.8bn.

Although this alliance will not involve any cross-shareholding between Southern Bank and GE Capital, we still see this tie-up as very positive for Southern Bank in the long-run. For Southern Bank to be able to enter into this alliance with the world's leader in equipment leasing and financing is a coup for it.

However, our call on the stock remains a **HOLD** due to the highly dilutive effect on its EPS from the soon-to-be-completed special Bumiputera issue. Southern Bank's proposed special Bumiputera issue of 280.2m shares at RM1.74 each is expected to be completed by mid-August 2004. (Gan Kim Khoon)

UMW Holdings Bhd (RM5.35)
MBM Resources Bhd (RM2.28)**Hold**
HoldPerodua to sell 132K cars this year, prepared to review prices

Perusahaan Otomobil Kedua Sdn Bhd (Perodua) targets to sell 132,000 vehicles this year, up 6.4% from 124,000 last year, with the launch of new variants and the certainty in the price structure, said executive director Zainuddin Bahaudin. He also added that Perodua plans to introduce a new model every year for the next five years, and the new model next year would have a 1.3-litre engine.

With a sales target of 132,000 vehicles, this would see Perodua maintaining its 30% share of the market. He expects total industry sales volume to be 440,000 this year. (*The Sun*)

Perusahaan Otomobil Kedua Sdn Bhd (Perodua) is prepared to review its pricing should there be a sharp reduction in prices from competitors in the small car market category, said Perodua Sales Sdn Bhd managing director, Zainuddin Bahaudin. He is aware of the keen competition in this market segment not only from the competitively-priced Kia Picanto and Hyundai Atos but also from Honda having expressed interest to join the market. "We will have to monitor the price level and if there is downward pressure on prices, we will have to act accordingly," he said. (*Bernama*)

Comment: We are keeping our projection of 126,500 units or a 2% growth for Perodua in 2004 given that for Jan-May 04, its sales was down 10.3%. Given the weak sales, we may need to review our projection. Having said that, the company has said its June sales have rebounded to 13,000 units (60% sequential growth). Thus, we are keeping our projection at this juncture. As for the possibility of reducing selling price, we would not be surprised by this move given that its sales have been weak thus far due to competitive pressure. (*Low Yee Huap, CFA*)

Golden Hope Plantations (RM3.38)**Sell**Enters into agreement to sell parquet manufacturing subsidiary

Golden Hope Plantations Bhd has entered into a share purchase agreement with Dongwha GH International Sdn Bhd to sell the entire issued capital of Golden Hope Parquet Sdn Bhd for RM11m. GHope owns a 30% stake in Dongwha, while Korean company, Dongwha Enterprise Holding Pte Ltd holds the remaining 70%. GHope will realize an RM11m gain from the sale of this company. (*BMSB Announcement*)

Comment: The sale is positive for GHope as this company has been loss-making for the past few years already. The disposal is part of GHope's plans to rationalise its operations in order to focus on its core plantations business. GHope will recognize the entire RM11m as a gain as it had already provided for diminution in value for the entire investment in this company of RM50m last year. GHope had also sold its fibreboard and furniture manufacturing businesses to this company last year. (*Hoe Lee Leng*)

Malaysian Plantations Bhd (RM2.42)Temasak completes negotiations for MPlant

Malaysian Plantations has received notification from Langkah Bahagia Sdn Bhd that negotiations with Popular Promenade Sdn Bhd, an associate of Temasek Holdings Ltd, was completed last week. (*BMSB Announcement*)

Comment: Market rumour has it that Temasek (through associate company, Promenade) will acquire a 30% equity stake in Malaysian Plantations Bhd ("MPlant") from Langkah Bahagia at a price of RM2.70 per share. However, as the acquisition is only for a 30% stake, a General Offer is not mandatory. Nonetheless, the entry of Temasek into MPlant should be positive in the long-run as the new substantial shareholder could bring a lot of value and strong financial backing to the group. (*Gan Kim Khoo*)

Water Sector**Neutral**Pipe replacement to cost RM10b

RM10b will be required to replace 46,000km of old pipes in the country over the next ten years, according to Energy, Water and Communications Minister, Datuk Seri Lim Keng Yaik. The country has 86,000km of pipelines but 46,000km are made of asbestos cement, more than 30 years ago. The Minister also asked the state governments to reduce their non-revenue water (NRW) while waiting for the government's implementation. On the water privatisation, the Minister said that the country would halt all privatisation projects until the government comes up with a proper rules to ensure sustainable supply and regulate the industry. (*Bloomberg*)

Comment: We believe it is unlikely that the state governments would look to reduce the NRWs as they are unable to even fund their operating deficits, let alone spend to reduce the NRWs. It would be best that the authorities look to implement the necessary strategies after taking over the state governments' operations as soon as possible. It is also likely that Puncak Niaga's proposed PUAS privatisation would be put on hold, likely till year end. Any more delays would hit the three water treatment operators hard as the Selangor state government owes them close to RM1.4b. Most of the negative news have already been reflected in Puncak's share price. The stock remains a **TRADING BUY**.

Maxis Communications (RM9.00)**Buy****CIMB (RM5.90)****Buy**Launches mobile stock tracking

Maxis Communications and CIMB Securities have introduced a joint service to monitor and trade stocks on the Bursa Malaysia in real time via their mobile phones. Users can buy and sell shares, create a portfolio of shares updated in real time, and track the movement of share prices as well as gains and losses. (*The Star*)

Maxis Communications (RM9.00)**Buy***Not going for any bids overseas*

Maxis Communications Bhd's chief executive officer, Datuk Jamaludin Ibrahim said that the company was not going for any bids overseas. "No bids," he said in response to a question if the company was going to invest in overseas, namely Indonesia or India to counter its slowing down domestically. Asked on Maxis' plan to borrow RM1.76b to repay debt and finance investments, he said the company was looking into the liquidity situation in the market and assessing how much it could get. Asked to comment on the government's plans to re-allocate the GSM900 megahertz (MHz) radio frequency band, Jamaludin refused to elaborate and said, "It is quite a sensitive issue." Currently, Maxis and Celcom (M) Bhd own the GSM900 spectrum. DiGi.Com Bhd has asked the government for a share of the spectrum to improve its coverage outside the Klang Valley. (*Bernama*)

Plantation Sector**Neutral***June palm oil stocks and output up, exports lower*

Malaysian palm oil stocks rose 15.85% to 1.21m tonnes in June as against 1.045m tonnes in May, says the Malaysian Palm Oil Board (MPOB). Meanwhile, CPO output in June was higher by 6.41% to 1.169m tonnes from 1.099m tonnes. Based on export figures as of today, June dropped by 6.86% to 886,376 tonnes from 951,699 tonnes in May. (*Bernama*)

Construction Sector**Neutral***Sarawak airport upgrade project goes to Global Upline*

The Kuching International Airport upgrade project costing RM620m has been awarded to Global Upline Sdn Bhd, which is linked to Tan Sri Ting Pek Khiing. The project, slated for completion in 2007, has commenced, said Deputy Transport Minister Datuk Douglas Uggah Embas. (*The Star*)

Landmarks (RM0.615)*Peremba disposes of stake in Landmarks*

Peremba Holdings has disposed of its 18.65% stake in Landmarks to a company believed to be to Zimulia Sdn Bhd. Zimulia is 60%-owned by Loo Khee Kwong and 40%-owned by Harun Halim Rasip. Harun is the chairman-cum-managing director of Lumut port operator Integrax Bhd while Loo is believed to have been a former director of Eastern & Oriental Bhd. (*NST*)

Sunrise (RM2.85)*Sunrise buys KL Land*

Sunrise Bhd has proposed to acquire a freehold vacant land, measuring 69,948 square metres, adjacent Duta/Hartamas area in

Kuala Lumpur from Pesona Permai Sdn Bhd for RM101m. In an announcement yesterday, Sunrise said its wholly-owned subsidiary Sunrise Alliance Sdn Bhd had entered into a sale and purchase agreement with Pesona Permai to acquire the piece of land for RM101m to be satisfied by internal cash and bank borrowings. (*The Sun*)

Apex Healthcare Bhd (RM2.10)*Watson buys Apex Pharmacy for RM14m*

Watson's Personal Care Stores Sdn Bhd, a subsidiary of Hong Kong-based A S Watson Group, has proposed to acquire Apex Pharmacy Sdn Bhd from Apex Healthcare Bhd for RM14m. Watsons said it would assume full ownership of the 24 Apex Pharmacy stores nationwide and the exclusive right to use the "Apex Pharmacy" trade name for its pharmacy operations in Malaysia to leverage its strong brand equity and large customer base. The acquisition would increase the number of Watson stores in Malaysia to over 100 and the workforce to over 1,000 staff. (*theedgedaily.com*)

DIRECT BUSINESS TRANSACTIONS ON BURSA MALAYSIA

Stock	Quantity ('000)	Price (RM)	Turnover (RM'000)
650	1,400		910
ATLAN	226	2.290	517
BK00N	300	1.500	450
COMMEZ-CA	52	1.530	79
FOUTAIN	930	5.300	4,929
GKENT	3,800	0.800	3,040
GPERAK	1,102	1.596	1,759
GPRO	4,000	0.560	2,240
HIAPTEK	400	1.010	404
IREKA	113	1.070	121
IRIS	8,000	0.270	2,160
JAKS	235	1.300	306
KBES	50	0.645	32
KEMAS	465	0.761	354
LIHEN	560	1.796	1,006
LONBISC	94	2.150	203
MAXIS-CA	148	2.061	305
MAYBANK-CB	52	1.340	69
MEDAIN	650	0.305	198
MOBIF	83	1.220	101
MPLANT	3,442	2.314	7,965
MPLANT-WA	8,500	1.300	11,050
MTDINFR	100	0.750	75
NARRA	843	1.900	1,602
NGIUKEE	74	2.180	160
NPTM	2,000	0.460	920
PJDEV	622	0.415	258
PLUS-CA	443	0.320	142
PROTON-CA	74	1.360	101
RPB	119	1.380	164
SHELL	90	6.650	599
SMISCOR	588	0.860	506
SPOLYMR	300	1.200	360
TANAMAS	1,200	2.000	2,400
TELEKOM-CA	207	1.970	407
TGUAN	1,300	3.080	4,004
TSH	400	5.020	2,008
WARISAN	55	1.700	94

Economic Highlights

Singapore

Singapore's GDP surges annual 11.7% in 2Q

Singapore's Gross Domestic Product (GDP) in the second quarter grew by 11.7% year-on-year after rising 7.4% in the previous quarter, according to preliminary estimates by the Ministry of Trade and Industry (MTI) Monday. On quarter-on-quarter basis, Singapore's GDP posted growth of 9.1% in the second quarter. Singapore is the first of Asia's economies to report quarterly growth, which suggests electronics may help other regional economies to beat expectations.

Singapore, which suffered recessions in 1998, 2001 and 2002 is getting a boost from surging global demand, leading the government to raise its full year growth forecast by 2 percentage points to as much as 7.5%. Manufacturing, which accounts for a quarter of the economy, expanded 18% from a year earlier in the second quarter, following 12.2% growth in the preceding three months. Meanwhile, services industries expanded 11% from a year earlier. Construction shrank 4.5% from a year earlier after growing 2.0% in the first quarter as public and private sector construction activities slowed. Monday's figures are based largely on data for April and May. The government will publish fuller estimates in August. *(Bernama/ Bloomberg)*

China

China's June exports rise 47%, biggest gain this year

China's exports rose in June at their fastest pace this year, helped by rising spending in the US, Japan and Europe. Overseas sales jumped 47% from a year earlier to \$51b after climbing 33% in May, the Beijing-based Commerce Ministry said. That's more than the median 32% gain forecast in a Bloomberg News survey of five economists. Imports surged 51% to US\$49b after rising 35% in May, the report said. That beat the median 33% increase forecast by economists in the survey and left a trade surplus for the month of US\$1.84b. For the first half, exports rose 36% to US\$258b and imports surged 43% to US\$265b, resulting in a US\$6.82b trade deficit. *(Bloomberg)*

Oil

Gas prices up for first time in 7 weeks

US retail gasoline prices increased for the first time in seven weeks, as the recent sharp rise in crude oil costs was passed on to consumers, the government said on Monday. The national price for regular unleaded gasoline jumped 2.2 cents a gallon over the last week to US\$1.917, the first rise since May 24, according to the US Energy Information Administration's weekly survey of service stations. The Energy Department's analytical arm said pump prices are 40 cents a gallon higher than a year ago. The rise at the pump mirrored the increase in crude oil prices, which have shot up about

US\$3 a barrel in the last two weeks. Oil accounts for almost half the cost of producing gasoline, and the higher prices finally reached consumers at the pump. Oil for delivery in August hit US\$40.75 a barrel on Monday at the New York Mercantile Exchange, the highest since June 3, until traders took some of their profits and the price settled down 46 cents to US\$39.50 a barrel. *(Reuters)*