'From Laggard to Leader'

Mr BB is a client of SJ Securities Sdn Bhd. He has managed to obtain some pre- New Year bonus thanks to the recent run up of the market and therefore is particularly ecstatic about the current market. Nonetheless, Mr BB is somewhat concerned about the prospects of rising global economic uncertainty and potential weaknesses in the worldwide equity prices going forward. As such he has decided to seek an appointment with SJ Research to discuss about the 2007 market outlook. Our meeting with Mr BB will shape the backbone of our 2007 market outlook research report.

Mr BB: *Really appreciate your research house giving me the opportunity to meet up again. Thanks to our meeting back in July and presentation from your house in November, I have managed to earn some extra pocket money from the market (smile….). As such, I am really looking forward to this meeting to seek your house's view about the market outlook for 2007.*

SJ Research: It is always our pleasure, Mr BB. We shall begin our discussion with an overview of the market performance in the later part of 2006.

For the whole year of 2006, KLCI has yielded a respectable return of 21.6%.

Overview of the market performance. The market has put up a commendable performance in the final quarter of 2006. In the month of November alone, KLCI outperformed majority of the regional indices by registering a decent return of 9.3%. Although the market experienced a healthy correction towards the year end as investors locked in their profits, KLCI had managed to close at 1,096.24 as at 29th December 2006. For the whole year of 2006, KLCI has yielded a respectable return of 21.6%.

Figure 1: Performances of major Asia Pacific's equity indices

	1 month %	3 months %	6 months %	YTD %
KLCI	**1.5**	**13.3**	**19.8**	**21.6**
S&P 500 INDEX	1.5	6.2	11.7	13.6
FTSE 100 INDEX	4.8	5.9	8.2	12.3
NIKKEI 225	5.5	6.8	11.1	6.9
HANG SENG INDEX	8.7	15.4	24.4	35.9
STRAITS TIMES INDEX	5.3	16.2	22.6	27.2
KOSPI INDEX	0.1	4.4	10.9	2.9
TAIWAN TAIEX INDEX	4.0	13.9	17.9	20.2

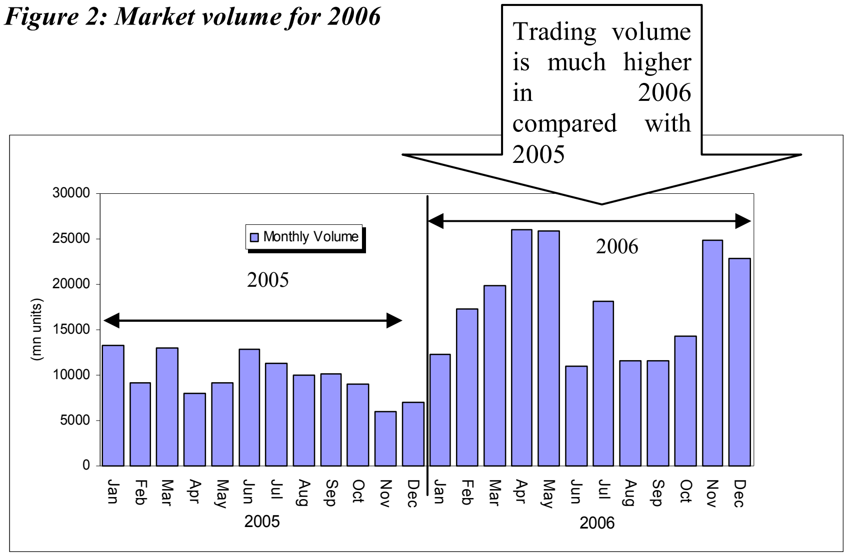
Source: Bloomberg

The rally in the stock market was broad base in nature. Trading volume has improved substantially in the final quarter.

Indeed, the upsurge in KLCI in the final quarter has surpassed both our expectation and many other research houses' estimates. It is also important to note that the rally in the stock market was broad base in nature rather than only confined to the KLCI component stocks.

We have witnessed a period of time where the number of gainers has persistently exceeded the number of losers which illustrates that positive momentum in the KLCI has spilled over to the lower liners and laggards. Besides that, trading volume has improved substantially in the final quarter despite slowing down by the end of December due to lack of fresh leads, and many institutional investors had closed their books.

Figure 2: Market volume for 2006



Mr BB: *Yes, 4th quarter of 2006 has been an exciting period for the Malaysia's equity market. I really hope that the market rally could continue in 2007. Nonetheless, I am somewhat concerned about some of the external economic developments. I recall reading from the news daily that some economists are forecasting that the US and China economies to experience hard landing in 2007 which could trigger a global recession .....Furthermore, many regional indices are currently trading close to all time high and may subject to some nasty corrections. What is your view on that?*

SJ Research: We understand where you are coming from.

Economy outlook.

Recent US economic statistics particularly in its housing sector have not been encouraging so far.

US economy. It is undeniable that the recent US economic statistics particularly in its housing sector have not been encouraging so far. Building permits, which indicates the future construction activity, fell by 3.0% m-o-m in November. This suggests that the slow down in the housing sector will likely to continue. Recently, new home prices suffered sharpest drop since December 1970, where the median price of a new home tumbled 9.7% from a year earlier to US$217,100.

Given the fact that housing sector is the key engine supporting the US consumption in recent years as consumers leveraged on the increased housing wealth to sustain their spending, we believe the housing downturn could hamper consumer sentiment and consumption pattern going forward. Indeed, the recent U.S. ISM manufacturing composite index had fallen below 50% for the first time since 2003 on the back of weaker consumption growth. The slow down in consumption, which is the largest component US GDP growth, will eventually lead to deceleration in the US economy growth going forward.

We expect US economy to experience soft landing rather than an outright recession.

While we believe US economic growth will remain sluggish in 2007, we are positive that the most likely outcome would be soft landing, rather than an outright recession due to 3 main reasons:

- Recession in US normally begins with a retrenchment in corporate sector; so far the employment data from US continues to remain resilient.

- S&P 500's operating profits continue to be robust and their balance sheets remain healthy which allow them to withstand the potential slow down in US economy.

- Monetary policy has so far been accommodative.

We believe that global economy is now in a better position to cope with the US slowdown as evidenced by the OECD leading indicators.

Although the cool down in this major global consumption powerhouse will adversely impact the other economies particularly those exports oriented countries, the expansion in Europe and emerging economies will mitigate the slowdown in US, in our view. Therefore, we believe that global economy is now in a better position to cope with the US slowdown given the fact that:

- At present, US only constitutes about 20% of the global GDP.

- There are now higher inter-regional trades among the Asian economies, which help to reduce their reliance on US market. Nonetheless, we believe the decoupling of Asian economies from the US slow down is unlikely.

- Foreign reserve holdings and saving rates in the Asian and EU economies remain high. This is expected to help them to cushion any US soft landing.

In fact, the resilience of the global economy is evidenced by the OECD leading indicators, which give forward indications of the global outlook for the next six months. The leading indicators registered a modest growth of 2.1% in October which illustrates that the global economy will continue its steady, amid modest expansion going forward. International Monetary Fund (IMF) has recently forecasted that the world economic growth would remain relatively resilient, decelerating marginally from 5.1% in 2006 to 4.9% in 2007. Furthermore, the recent economic data released by major economies such as Europe and China show that their fundamentals remain strong:

EU economy. The recent economic data illustrates that the European economy continues to remain robust despite the slow down in US economy. Unemployment rate is at multi-year lows while business and consumer confidence remains high. We believe that while EU economy is unlikely to decouple from the slow down U.S, pick up in domestic demand and investment couple with ample liquidity should mitigate the downside risk to EU economic growth going forward. It is also important to note that less than 3% of EU GDP is exported directly to the US.

China economy. Even though we expect China's economy growth to moderate going forward due to weaker export and the impact from various restrictive economic measures introduced by the authority, we believe the concern of hard landing in China is overplayed given the solid fundamental of Chinese economy.

According to the forecast by International Monetary Funds (IMF), China economy is expected to register a respectable, amid slower GDP growth of 10.2% in 2007.

Figure 3: Forecasted global GDP growth by IMF

Country	GDP Growth 2006E	GDP Growth 2007F
Global	5.1	4.9
US	3.4	2.6
EU	2.5	2.1
Japan	2.7	2.1
China	10.3	10.2
India	8.2	7.4

Source: IMF

Mr BB: *How about Malaysia's economy given the fact that we are an* export- oriented- country*?*

We are optimistic that Malaysia's economy will remain resilient in this cycle.

SJ Research: Malaysia is one of the most open economies in Asia with exports equivalent to about 110 % of GDP while manufactured products constitute more than 50% of total exports. As such, Malaysia's economy is particularly vulnerable to the US slow down. Nonetheless, we are optimistic that our economy will remain resilient in this cycle. The reason being:

Diversified export products. Although the cool down in US economy will likely to slow down Malaysia's export of electronic products going forward, we believe that deceleration in export will be mitigated by the strong demand for commodity and energy exports. While energy and commodity prices have softened somewhat, they are still considered high from historical perspective. The persistently high energy and commodity prices have induced the growing investments in these sectors.

Pump priming under the 9MP. After engaging in budget consolidation for the past 3 years, the Government has finally jumped start its public spending under 9th Malaysia Plan (9MP) to counter the tough external environment. Under the 9MP, total development allocation amounted to RM220bn (including additional RM20bn provided by the private sector under the private financing initiative (PFI)). This represents an increase of RM50bn compared with the total amount spent under the 8MP. In view of the rise of challenging external factors, we expect the Government to fast track the roll out of new projects over the next few months. We believe the implementation of these projects will bring multiplier effects to the economy.

Visit Malaysia year. Year 2007 serves an eventful year for Malaysia as we celebrate our country's 50th year of independence and also to implement Visit Malaysia Year (VMY) 2007. Tourism Ministry has estimated about 20.1mn tourist arrivals while the Government is aiming to turn the country into a major shopping centre under the VMY. To make VMY a successful event, the Government has allocated close to RM150mn under the Budget 2007 for promotional activities while the tourism minister has budgeted around RM462m to attract foreign tourists.

The positive contributions from VMY 2007 to the economy can not be discounted. In 2005 alone, total tourism receipts amounted to about RM32bn representing close to 6.5% of nominal GDP, just behind Hong Kong and Singapore in Asia-ex Japan. We estimate tourist receipts for 2007 to be about RM50bn (RM32bn in 2005). This will help to invigorate the tourism, hotel, retail, transportation and consumer sectors.

Monetary policy remains accommodating. Bank Negara Malaysia (BNM) has retained the OPR at 3.5% since the last increase in April 2006. In view of the challenging external environment and inflation rate expected to remain low going forward, we expect Bank Negara to keep interest rates unchanged to sustain economic growth. As such, we believe the domestic interest rate up cycle has peaked and OPR will stay at the current level for 2007.

Mr BB: *I am surprised to know that your house expects the inflation rate to moderate in 2007. Given the fact that Government has recently announced the toll hikes for 5 highways in Klang Valley and speculations that there may be another round of petrol hikes in early 2007, I am expecting inflation rate to remain high going forward.*

SJ Research: The rise of toll rate on the five highways effective from January 2007 is expected to have minimal impact to the CPI figure in view of the low weighting of toll rate in CPI components. Our preliminary assessment illustrates that the increase in toll rate is likely to add 0.03-0.04% to the CPI computation.

Crude oil price. Crude oil price has dropped below USD65/barrel from its record high of USD78.40/barrel due to the expected softening global economy, warmer than expected winter, high stockpile in US and easing tensions in the Middle East. Although we believe the positive momentum of oil price will continue in the long term, we expect the softening oil demand due to the unfolding growth slowdown to put a temporarily relief on the oil price.

Therefore we forecast average crude oil price to be around USD63/barrel for 2007. We view that another round of petrol hike by the Government is unlikely should oil price maintain at our forecasted level. Overall, we expect inflation rate to ease off in 2007 with no major oil-induced price increases. We estimate inflation rate for 2007 to come at around 3.0%.

We forecast average crude oil price to be around USD63/barrel for 2007. We estimate inflation rate for 2007 to come at around 3.0%. We expect Malaysia's GDP growth to slide slightly from 5.8% in 2006 to 5.7% for 2007.

GDP. We expect Malaysia's GDP growth to slide slightly from 5.8% in 2006 to 5.7% for 2007. Although softening domestic consumption and slower export growth will put downward pressure to the GDP, we expect the downside side to be mitigated by higher Government spending, pick up in investment and inflows of foreign money under the VMY 2007.

Figure 4: Malaysia's GDP Growth

Malaysia's annual GDP Growth (% change)	2004	2005	2006E	2007F
Real GDP	7.1	5.2	5.8	5.7
Supply Side				
Agriculture, Forestry & fishing	5.0	2.5	6.5	3.5
Mining & quarrying	3.9	0.8	-0.9	4.2
Manufacturing	9.8	5.1	7.4	6.8
Construction	-1.5	-1.6	-0.7	2.2
Services	6.7	6.5	6.1	6.1
Demand Side				
Private consumption	10.5	9.2	7.1	6.0
Government consumption	6.0	5.4	9.5	6.6
Investment	3.1	4.7	5.9	12.7
Exports	16.3	8.6	8.2	7.3
Imports.	20.7	8.0	8.9	10.5

Source: Economic Report 2006/2007, SJ estimates

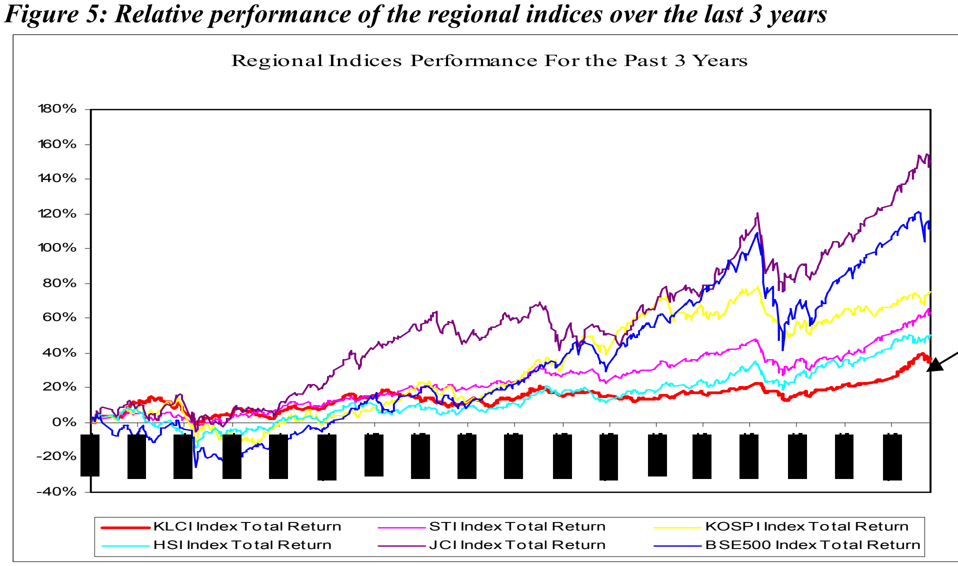
Mr BB: *What is your view on the market going forward then?*

SJ Research: We are optimistic that the positive momentum in Malaysia's equity market will continue in 2007.

Malaysia market is major laggard that underperformed the emerging markets in the past few years.

Market Outlook. Although the Malaysia market has put up a strong performance in the final quarter of 2006, we are still considered a major laggard that underperformed the emerging markets in the past few years. In fact, our KLCI premium has eroded considerably after the massive underperformance in the past 3 years and KLCI still offers one of highest dividend yields among the regional indices.

Figure 5: Relative performance of the regional indices over the last 3 years



KLCI has massively underperformed the rest of the regional indices in the past 3 years.

KLCI premium has eroded significantly. On the other hand, KLCI offers one of highest dividend yields among the regional indices.

Figure 5: Valuation of regional indexes

Major Asia Pacific Equity Indices Valuation	Current PER	Forward PER	P/B	Dividend Yield
KLCI	**17.5**	**15.0**	**2.0**	**3.8**
S&P 500 INDEX	17.8	16.1	2.9	1.8
FTSE 100 INDEX	18.4	13.2	2.7	3.8
NIKKEI 225	37.0	43.2	2.7	1.0
HANG SENG INDEX	14.9	15.9	2.4	2.8
STRAITS TIMES INDEX	14.4	16.3	2.1	3.3
KOSPI INDEX	12.2	14.4	1.5	0.3
TAIWAN TAIEX INDEX	21.1	18.0	2.1	3.4

Source: Bloomberg, SJ estimates

Malaysia's equity market is merely playing catch up after missing the previous emerging market rally.

As such, Malaysia's equity market is merely playing catch up after missing the previous emerging market rally. Our main investment theme for 2007 is **'From Laggard to Leader'.** As Malaysia equity market tends to outperform the emerging markets benchmark during the period of growing uncertainty in the world economy and global equity prices, we believe Malaysia, as a defensive market will outshine the regional equity markets given the fact that such scenario is likely to occur in 2007 with moderation in global economy and many of the global indices trading close to the all time high.

Our KLCI target for 2007 is 1,250, pegging on a FY07 PER of 17x but do not expect a smooth sailing ahead.

Our KLCI target for 2007 is **1,250,** pegging on a FY07 PER of 17x although we foresee upside risk to our target due to the ample liquidity in the market and potential earnings surprises going forward. Nonetheless, we are obliged to forewarn that due to the increased inflows of foreign funds to our market, Malaysia is now highly correlated to volatility in the regional equity markets. Coupled with the reintroduction of shortselling activities, we expect there is bound to be bumpy rides along the way. Therefore, the ability to select undervalued stocks with strong fundamentals remains the essential criteria to outperform the general market.

Mr BB: *So what is your stock picks for 2007?*

We have switched stock picks focus from big caps/leaders to mainly small caps or laggards

SJ Research: In accordance with our main investment theme **'From Laggard to Leader',** we have switched our focus from big caps/leaders to mainly small caps or laggards that underperformed their respective sectors previously. We believe 2007 will be a year where laggard stocks and small caps will outperform the past leaders and big caps. The reasons being:

<u>*Increase volume.*</u> Institutional investors have so far avoided small caps and lower liners in the past due to the thin trading volume in the market. As we expect the recent surge in market volume to be sustainable heading to 2007, we believe the small caps and laggards stock that have underperformed will start to attract buying interests from the institutional investors as market volume improves.

<u>*Shortselling*</u>. Bursa Malaysia is planning to reintroduce shortselling activities in January 2007. This may put some downwards pressure and increase volatility on the selected big caps.

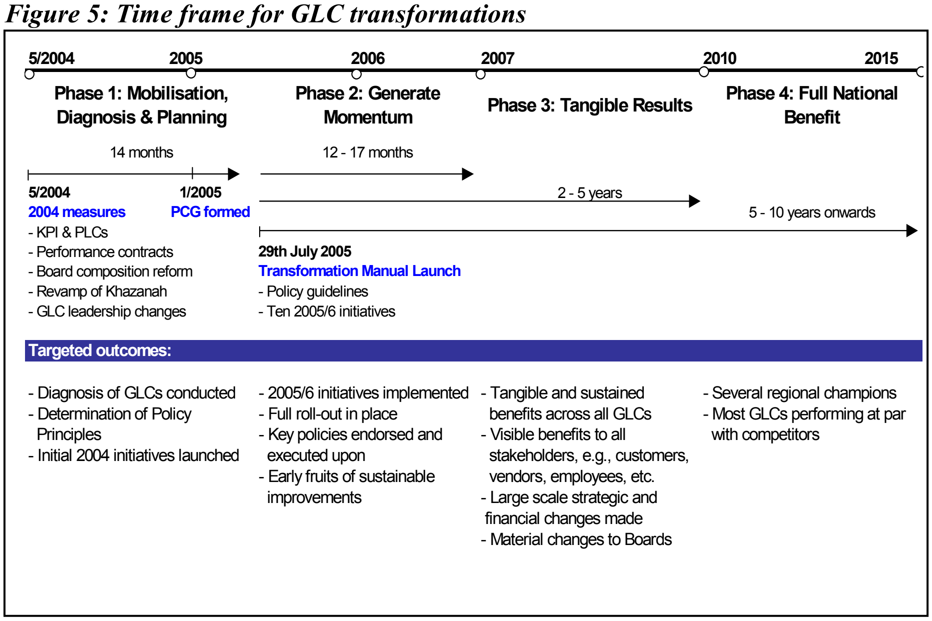
Big caps are the prime beneficiaries in the recent market rally. Although the recent improvement in the market has spilled over to the lower liners, we believe big caps remain the major beneficiaries of the rise in market. Among the big caps under our coverage, many of them have surged to historical highs and have already priced in the potential earnings growth going forward.

Limited downside. Although this may not sound exciting, it forms a crucial consideration in our stock picks. We believe that smaller cap companies and laggards with strong fundamentals offer tremendous amount of upside potential once they receive recognition from the investment community. On the other hand, they provide limited downside risk in view of their strong fundamentals and relative underperformance in the past. In view of the rising global uncertainties couple with increased volatility of domestic equity market, we believe value investing will outperform momentum investing going forward.

Investment themes. We believe some investment themes will continue to drive the market going forward. As such, some of our stock selections also provide exposure to these theme plays:

Phase III of GLCs transformation. Year 2007 marks the beginning of phase III of transformation in government- linked- companies (GLCs) where majority of the GLCs should deliver tangible results to their stakeholders. As such we expect reform momentum to accelerate in 2007 which could attract further buying interests in some GLCs. Since the GLCs constitute more than 35% of the total market capitalization of Bursa Malaysia and 50% of the total market capitalization of the KLCI, potential re-rating of GLCs will drive the market further. ***MRCB*** and ***Bumiputra Commerce*** serve as our top pick for exposure to GLC transformations in 2007.

Figure 5: Time frame for GLC transformations



Source: Khazanah National

VMY 2007. As mentioned above, VMY with an estimation of 20.1mn tourist arrivals in 2007 will provide a strong stimulus to the tourism, hotel, retail, transportation and consumer sectors. Our top picks for the theme play in VMY are ***Malaysia Airport*** and ***IGB.***

Awards of contracts under the 9th Malaysia Plan. In view of the rise of challenging external factors, we expect the Government to fast track the roll out of new projects over the next few months which will bring multiplier effects to the economy. We continue to like ***UEM World*** for exposure to the recovery in the construction sector under the 9th Malaysian Plan and development plan for South Johor Economic Region. We have selected ***Gamuda*** as one of our laggard plays among the construction giants due to its improved earnings and high possibility of revival of RM14.5bn Ipoh-Rawang double tracking project. We also like ***Zelan,*** an EPC power plant player with 18.3% stake in IJM. For exposure to Sarawak, which is one of the biggest beneficiaries of 9MP, we prefer ***Cahya Mata Sarawak***.

Oil and gas sector will continue to do well. Malaysia is the only net oil & gas exporter in Asia apart from Vietnam. While crude oil prices have softened somewhat, they are still considered high from historical perspective. The sustainable high oil price has induced accelerated investment to this sector. Petronas has increased the budget for capex to RM28bn in FY07, compared with RM19bn and RM17bn in FY06 and FY05 respectively. ***Petra Perdana*** remains our top pick for exposure to the oil and gas sector.

Rising merger and acquisition (M&A) activities. We have witnessed a slew of M&A activities in the banking, construction and plantation sectors to take over undervalued companies with strong growth potentials and also to improved competitiveness through the creation of larger entities. We expect the M&A activities to intensify further in 2007 which could bring some excitements to the market. ***EON Capital*** remains our top pick under this theme.

Plantation and timber plays. Plantation and timber sectors continue to be the niche sectors in Malaysia. We have recently upgraded the plantation sector to **OVERWEIGHT** in view of the sustainable high CPO prices. ***IJM Plantation*** and ***Asiatic*** remain our top picks for the sectors. We also like ***Jaya Tiasa*** which serves as laggard play for exposure to timber sector. ***Eksons,*** which is a niche manufacturer of thin panel plywood, provides an indirect proxy to rising timber prices.

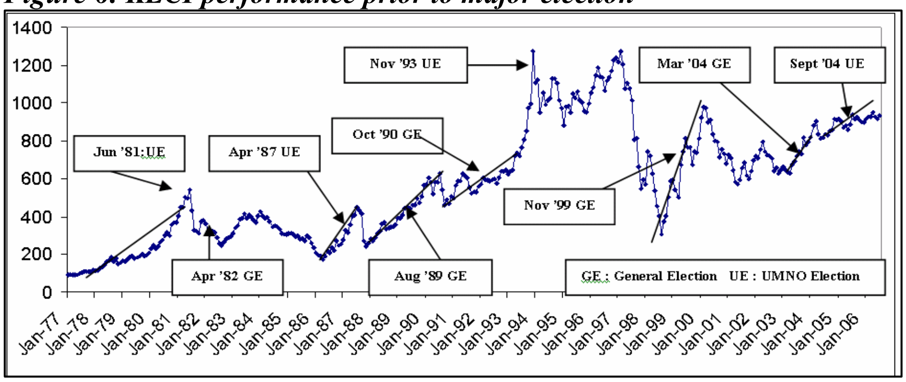
Encouraging earnings growth. The recently concluded 3Q06 results have been robust and come largely within and above our expectation. With two consecutive quarters of encouraging financial results, we believe the past seasons of earnings disappointments have drawn to a close. Coupled with the announcements in Budget 2007 that corporate tax rate will be reduced from 28% in 2006 to 27% in 2007 and 26% in 2008, we believe our 2007 earnings growth target of 13% for the companies under our coverage is largely achievable. Among the small to mid caps that we cover, we continue to like ***FSBM***, ***Supermax, Dreamgate*** and ***Puncak*** for their strong future earnings growth and undemanding valuation.

Expected recovery of property sector. We have also recently upgraded the property sector to **OVERWEIGHT** after its relative underperformance in 2005 and 2006. ***Sunrise*** and ***Metro Kajang*** serve as our top picks for exposure to the recovery in property sector.

Appreciation of currency. Although Ringgit Malaysia has strengthened against US dollar, it has underperformed the regional currencies on a relative basis. Going forward, we believe Ringgit will continue to appreciate against the greenback while playing catch up against other regional currencies. Our 2007 target for Ringgit to US dollar is RM3.45/US. We expect the continued appreciation of Ringgit Malaysia to attract inflow of foreign funds to the country since they are able to obtain return from both asset investment and currency. The inflows of foreign funds will bode well for our equity market.

Election year. Not to forget that there have been speculations that 2007 may be a General Election year for Malaysia. Based on historical statistics, market tends to rally 6-12 months before the election. Although historical trend may not be a good indication for the future performance, we are confident that positive themes mentioned above will continue to drive the market higher.

Figure 6: KLCI performance prior to major election



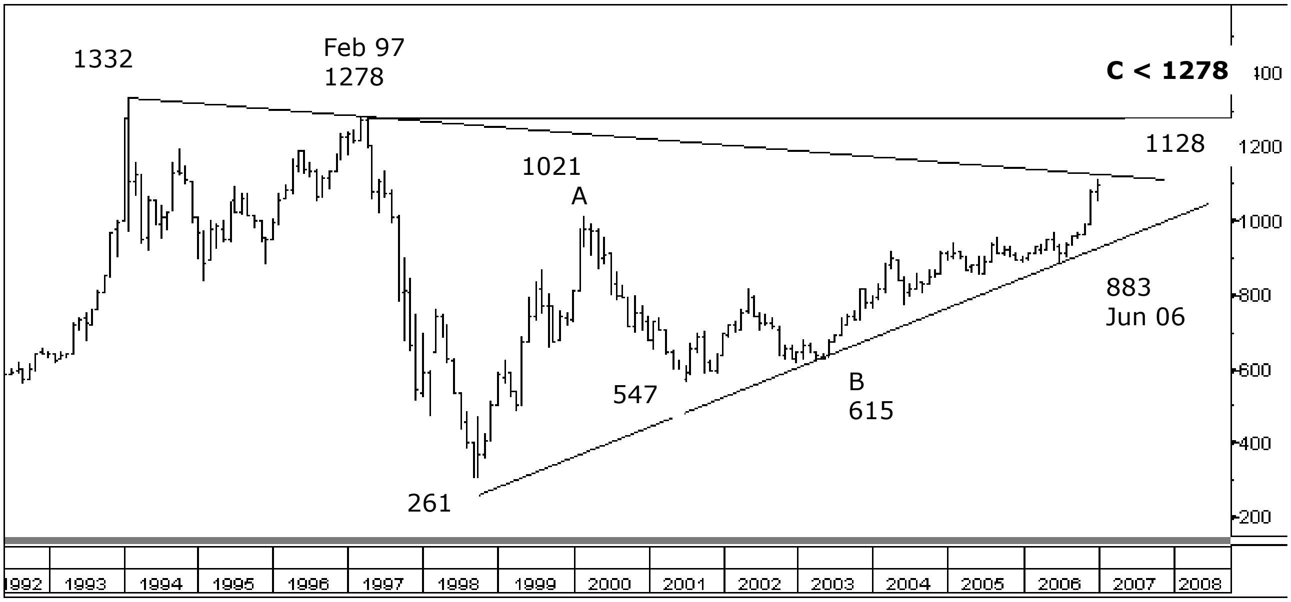
Mr BB: *Does your house think that General Election will be held in 2007?*

SJ Research: Being investment analysts rather than political analysts, we may not be the right persons to predict the timing of General Election. Nonetheless, we estimate that it could take about one year for the multiplier effect of projects implemented under 9MP to flow through to the economy. The positive impact from the implementation of 9MP will create a 'feel good factor' which is an important ingredient for the General Election. Therefore we believe that the General Election will be held earliest in the 1st quarter of 2008.

Mr BB: *Thank you so much for enlightening me about the outlook in 2007. I am now more informed about the future development of the market. Greatly appreciate your time and efforts.*

SJ Research: You are most welcome. I enclose herewith our technical analysis and sector outlook for 2007. Happy Investing.

Technical Outlook



Resistance: **1128, 1202, 1278**
Support: **1040, 1070**

The technical outlook of KLCI for 2007 favours a continuation of the strong upward push since the March 2003 low at 615. On Elliott Wave, the chart development from the 1998 low at 261 appears to be taking the form of an upward corrective A-B-C. It completed wave B at the low of 615 in 2003. The current uptrend is from 615, and is wave C which will consist of 5 upwaves, targeting at least 1202 with a capping at 1278.

Our positive stance on the market is premised on the expected breakout of the immediate overhead trendline at around 1128. The breakout of the 1128 level is significant as it marks the penetration of the 81% retracement level which is a bullish sign of further upside. However, it will encounter resistance at the previous high of 1278 of February 1997.

Significant Bottom : 883
The market recovered rapidly from a significant support level at 883 in June 2006. This was the level of the previous significant low in December 2005 where the market staged a strong recovery to 970. It is also significant that this 883 level remains intact. Technicals would have weakened had the 883 been breached.

Up Wave C
The consolidation breakout in 2003 marked the end of wave B at 615 in March 2003. The up wave C began from 615. This final up wave C is targeting :

- 1202 = 547 + 1.382 * (1021 – 547)
- 1278 = Previous high in February 1997

Correction : Late February 2007
While the market is currently driven by positive sentiment, at some stage a correction is inevitable. A pullback is needed to ease the overbought situation; RSI is in the overbought region of above 70. Traditionally, the market is positive in the New Year month of January, and leading into the Chinese New Year, CNY, on 18 February 2007. Therefore, a likely period for the market to correct would be in late February 2007, after the CNY. This will also coincide with the overbought situation.

Market is expected to encounter resistance at the overhead trendline of 1128 on the monthly chart. It may breach 1128, but is likely to flip-flop around the trendline which is located at 1128.

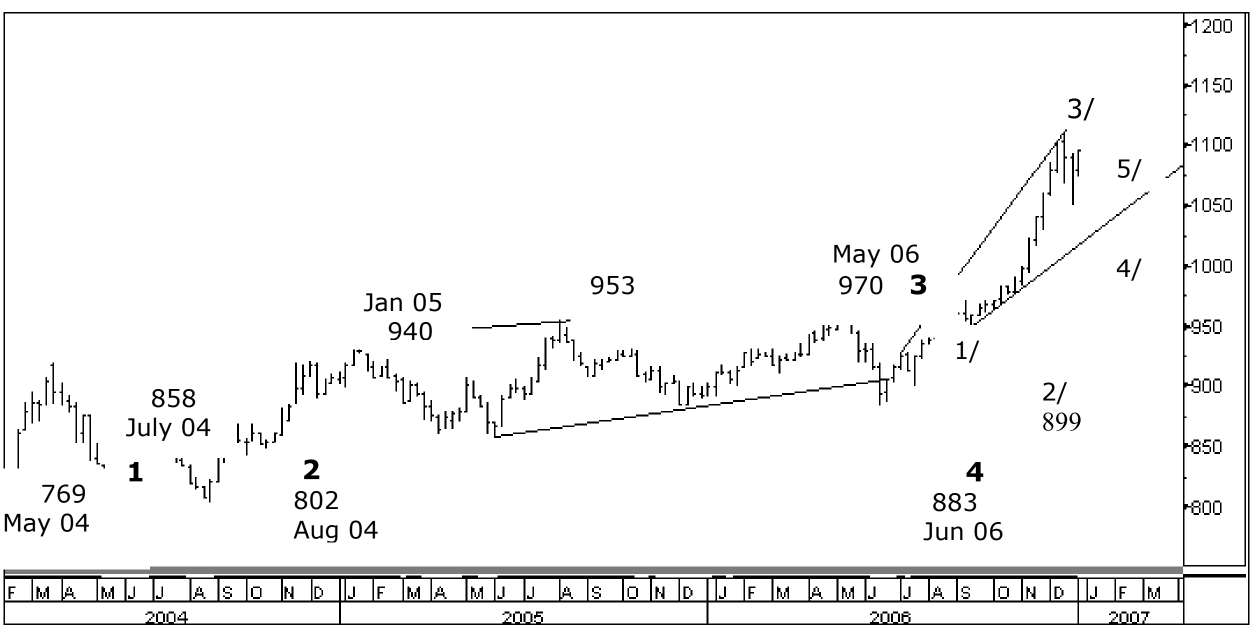
Pullback Support : 1070, 1040
On the assumption that the market would encounter resistance in the region of 1128, the various downside levels are :

- 1070 = 25% retracement level
  = 1128 – 0.25 * (1128 – 899)

- 1040 = 38.2% retracement level
  = 1128 – 0.382 * (1128 – 899)

Bullrun of up Wave C : 1202, 1278
Following the completion of the correction at 1070 – 1040, the market will resume its final upward push of wave 5 of Wave C. The minimum upside is 1202. It is not likely to go above the high of 1278 of February 1997

WEEKLY CHART



Sector recommendation	Reasons	Stocks to watch
Automotive- Neutral	• At the moment the automotive industry is in a slump, despite the announcement of the National Automotive Policy (NAP) with a broad framework which has resulted in lower prices for new vehicles, is expected to benefit the local automotive player. Nonetheless higher interest rates, depressed trade-in values, rising fuel prices and tighter loan processes continue to haunt the sector. • For the car manufacturers, over production remains a problem due to disproportional demand and supply, which will continue to put pressure on the profits of local automotive players. Without proper planning and implementation of polices to reduce the excess inventories, some industry players may suffer lower earnings on potential write down on their inventories values. • Perodua has managed to clinch the top position with 42% market share, while Proton is currently suffering problem of excess inventory and has been forced to slash production. This has severely affected the local automotive parts and components manufacturers, especially those with significant exposure and heavy reliance on Proton. • The outlook is expected to improve in 2007, as consumer adjusts to the changes in the market condition, newer models being launched and a clearer direction in Proton with the possible emergence of new foreign partner. • Sales are expected to improve over the coming months because of the launches of several new car models by foreign player such as Toyota and Honda coupled with various aggressive promotions which should help to counter the slump in the industry. • We can only hope that the active measure to recapture loss market shares, increase exports, tie up with foreign automakers and make full use of the NAP by the local automotive players to help the industry to regain its footing. We are expecting annual industry TIV growth to moderate at 2.5% for 2007. Maintain **NEUTRAL.**	UMW– Neutral Proton – Overweight

Sector recommendation	Reasons	Stocks to watch
Banking – Neutral	• Loan growth should decelerate to about 7% y-o-y in 2007 compared with 8.5% last year mainly due to slow down in consumption credit (including purchase of passenger cars) but partially mitigated by pick up in business loans. • Net interest margin will likely to erode in view of slowing loan growth and intensified competition among the banking institutions which could induce banks to offer loans with lower spreads. • Nonetheless, non-interest income could expend further in view of higher M&A activities in the market which directly benefit the investment banking and increased popularity of insurance, Islamic banking and e-banking. Bumiputra Commerce serves as our top pick for exposure to this segment. • Further liberalization by Bank Negara has accelerated the second round of consolidation among the domestic banks. We continue to like Eon Cap and RHB Cap as exposure to M&A excitements in the banking sector. Maintain **NEUTRAL** on the sector.	Bumiputra Commerce-Overweight Eon Cap – Overweight RHB Cap – Overweight
Brewery – Neutral	• Budget 2007 exempts the beer and stout from duty hike, while increased excise duty on liquor with alcohol content of more than 40% by RM5 per litre, has widen the price gap between the beer and stout with the hard liquor. This move has brought some relief to the brewery sector. • Nonetheless, total industry's sales volume is still contracting due to weak consumer sentiment, change in consumer's preference from beer to wine or hard liqour, relatively higher beer price (Malaysia's beer ranked as second highest duties in the world after Norway) and smuggling activities. • Authority is drafting regulations on security ink stamps to tackle the smuggling beer. Industry players and authority are still in negotiations on the crux issue – the charge of the security ink stamps as the implementation of it could result in higher cost of 5.5sen per mark. Although we do not discount any possibility of lower ink stamp charge, we believe it could result in margin erosion to the industry players.	Guinness Anchor - Neutral Carlsberg - Neutral

Sector recommendation	Reasons	Stocks to watch
	• On a positive note, we expect the festive season such as Chinese New Year to boost the sales volume. Besides, we believe that Visit Malaysia 2007 will help to improve brewery consumption. • Brewery companies still offer one of the highest dividend yields of about 7% which should continue to support their respective share prices. • Amid the weak sentiment, we remain **NEUTRAL** on the brewery sector going forward in view of challenging environment although we foresee there may be pick up of sales volume in the coming festive seasons and Visit Malaysia 2007. We also believe that any cost increase (for security ink stamps & possible hike in excise duty in Budget 2008) will eventually be passed on to the consumers.	
Construction – Overweight	• Allocation of RM220bn development expenditure (including the PFI) for 9MP serves as the strong catalyst to re-rate the construction sector. We are expecting to see more projects to roll out in 2007 under the 9MP allocations. • The Iskandar Development Region (IDR) or South Johor Economic Region is expected to boost the property sector in Johor state. The projects expand from Johor Bahru area to Nusajaya, Port of Tanjung Pelepas, Senai, Pasir Gudang, and Tanjung Langsat areas, occupying with logistic services, agriculture, financial services, manufacturing, tourism and leisure, health and education services. • Penang is next spotlight under the 9MP, with projects including the Second Penang Bridge, outer ring roads, and Monorail. We believe the property activities in Penang and Johor would grow tremendously riding on the 9MP developments. • Key risks for the sector are delay in rolling out the 9MP projects could slow down the growth in construction sector. Besides, the open tender system would lead to margin erosion due to competition for the awards. Maintain **OVERWEIGHT.**	UEM World – Overweight HSL – Overweight Gamuda – Overweight Zelan – Overweight Cahya Mata Sarawak – Overweight Muhibbah Engineering – Overweight IGB - Overweight

Sector recommendation	Reasons	Stocks to watch
Consumer - Neutral	• We have forecasted GDP growth in Malaysia to be about 5.7% by 2007 while we believe inflation rate in Malaysia to remain well contained and expect CPI for 2007 to moderate to 3%. • We expect robust income growth coupled with low inflation rate to sustain household and private expenditures which will benefit the consumer sector. • We continue to like Dutch Lady Milk (DLM) due to its generous dividend policy and strong earnings growth. The successful story was underpinned by its launch of wider margins products and bigger market share. • Nestle via its companies in Thailand are in the midst of selling their canned liquid milk businesses to F&N. We believe the disposal of this business will make Nestle the ultimate winner as they will collect commission from F&N sales of at least RM18.5mn per year for three years and management can focus their resources to its main products. • We also believe that 2007 Visit Malaysia Year will serve as a strong catalyst to fuel Dutch Lady Milk and Nestle's growths going forward due to the expected high demand for their products. Nestle and DLM also supplies to hotels, restaurants and entertainment outlets.	Dutch Lady – Overweight Nestle – Neutral
Gaming - Overweight	**Casino (Overweight)** • Genting has emerged as one of the biggest resort-cum-gaming companies on the global front underpinned by the RM12bn Sentosa integrated resort (IR) project in Singapore and full control over Stanley Leisure in UK. Although we remain reserve of its venture to Singapore, we believe its exposure to UK will serve as a strong catalyst for Genting to enjoy further re-rating from local and foreign investors. • On the other hand, we believe Resorts World will stand to benefit from Visit Malaysia Year with an estimation of 20.1mn tourist arrivals in 2007. We also expect the roll out of electronic gaming to enhance the Group's earnings going forward.	Genting – Neutral Resorts - Overweight Berjaya Sport Toto – Overweight Magnum - Overweight

Sector recommendation	Reasons	Stocks to watch
	NFOs (Neutral) • We remain optimistic of the NFO segment riding on the sustainable consumer spending in 2007 in view of low inflation rate and robust income growth. • For Berjaya Sports Toto, the 4Digit game I-perm will continue to enhance its sales going forward. Meanwhile, its generous and sustainable dividend policy will continue to attract buying interests from its investors. • We are also positive of Magnum's prospects as introduction of the m-box variant permutation game has helped address its market share downturn. Recent revamp initiated by management such as the disposal of non core assets, scaling down investment activities should help to improve its earnings going forward.	
Oil & Gas - Overweight	• We remain optimistic for the outlook of the oil and gas sector. Global demand for oil and gas continues to increase primarily due to the strong growth in the emerging economies of China and India. Meanwhile, the on-going tensions in the Middle East, recurring supply disruptions in Nigeria and Iraq heightened concerns over security of supply. • Crude oil prices are currently trading around USD60 a barrel which will continue to serve as the strong catalyst for the industry. We believe the rising global demand in 2007 and stock-building activities will result in oil prices remaining high throughout the year. • Higher crude oil price will induce oil companies to step up production, continue exploring for new oilfields and increase spending on expansion and maintenance of their facilities. Greater focus on exploration and production (E&P) activities in both greenfield and brownfield projects especially in deepwater areas thus increase output in the oil and gas sector over the longer term. • This gives a rise to strong demand for both upstream and downstream activities. Players in both upstream and downstream will benefit as the scope of brownfield work in Malaysia is encouraging given that 70% of the 240-odd oil and	Petra Perdana – Overweight Dialog - Neutral

Sector recommendation	Reasons	Stocks to watch
	gas platforms are over 20 years and require retrofitting., while regionally the number of ageing platforms that require such services are about 600. The E&P activities in deepwater should not be different, given that deep waters offshore facilities requirement is similar to shallow waters facilities as they both require similar level of services. These activities should propel earnings momentum going forward. Maintain **OVERWEIGHT.**	
Plantation – Overweight	• We have increased our average CPO price target for 2007 to RM2000/T. Upgrade to **OVERWEIGHT.** We believe it is justifiable due to the following reasons: 1. The abnormal weather arising from the El-Nino effect is expected to adversely impact the production of most of the vegetable oils. Palm oil trees are comparatively advantageous since they are less affected by the drastic weather changes and would reap benefits from the generally lower production of other vegetable oils. 2. According to Indonesian Palm Oil Producers Association, heavy rains and flood in Indonesia would disrupt palm oil supply and leads to higher CPO prices. Meanwhile, the Meteorological Department in Malaysia said Malaysia may suffer a second round of floods as rains are expected to continue. The persistent rainy seasons and floods in Indonesia and Malaysia will heighten the supply risk. 3. In early December, New York has proposed a ban on trans fat food content in its restaurant by July 2008. We believe other cities in US may follow suit and this in turn would increase the demand for the CPO as a source of trans fat free edible oil. 4. At present, Malaysia authority has approved 75 licenses for biodiesel projects, with an estimated demand for 8.6mn tonnes of CPO per annum. The promising figure would undoubtedly lower the inventory level and indirectly boost the CPO prices.	Asiatic – Overweight IJM Plantation – Overweight KL Kepoing – Neutral IOI Corporation – Neutral

<table>
<tr><th>Sector recommendation</th><th>Reasons</th><th>Stocks to watch</th></tr>
<tr><td></td><td>However, the nascent biodiesel production may face stiff competition from the various kinds of renewable resources such as soybean, rapseed, sunflower, sugarcane, corn, etc. We are concerned that the intensified competitions will trigger possible political decisions in order to protect the interest of their own countries' agricultural sector.
Another debatable issue is feasibility of biodiesel production which is determined by CPO price and crude oil price. Higher CPO price and lower crude oil price could discourage biodiesel production. As such, we believe supports from the Government are crucial in order to grow the biodiesel sector. Although the authority is keen on expanding the palm oil-base biodiesel, much efforts have to be done in order to groom the sector.
The merger announcement of 3 PNB's companies – Sime Darby, Golden Hope Plantation, and Guthrie Ropel under one entity – Synergy Drive, is one of the major events in 2006. Meanwhile, the Kuok family has recently announced the merger and acquisition of its plantation arms (which includes PPB Oil Palm, PGEO Group, and Kuok Oils & Grains Pte Ltd) with Singapore oleochemical company – Wilmar International Ltd.
Going forward, we expect the sector to undergo further consolidation phase as we believe that the large plantation companies may want to capitalise on the upsurge in CPO prices by taking over small cap plantation companies to gain direct access to their plantation profile.</td><td></td></tr>
<tr><td>Power & Utilities - Neutral</td><td>We believe the electricity demand for 2007 will be higher underpinned by the projected GDP growth of 5.7% and the facilitation of Visit Malaysia Year 2007.
The Energy Commission (EC) had proposed a new system for IPPs, where the power will be bought from the least-cost producer in new PPAs being negotiated with the IPPs. This will bode well for Tenega.</td><td>Tenaga – Overweight

YTL Power – Neutral</td></tr>
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Sector recommendation	Reasons	Stocks to watch
	• Tenaga's FY07 earnings are expected to double following the hike in tariff. Other short-run catalysts are reduction in reserve margin and renegotiation of PPAs with IPPs which favour Tenaga in long-run. • We maintain our stance that we believe Government will only consider reducing subsidies on gas upon the finalization of IPP renegotiation. As such, we believe that eventually the arrangement will lead to DCF neutral for Tenaga since we expect the potential higher gas prices to be compensated by capacity charge savings from PPA renegotiations. Maintain **OVERWEIGHT** on both power sector and Tenaga. • In view of the earnings uncertainty with regards to the IPPs renegotiation, we remain our **NEUTRAL** recommendation on YTL Power.	
Property – Overweight	• Bank Negara Malaysia (BNM) is expected to keep the benchmark overnight policy rate (OPR) at 3.5%, while the inflation indicator – consumer price index (CPI) is easing from the peak of 4.8% in March to 3.0% in Nov. We expect the peaks of both interest rate upcycle and CPI to bode well for the sector. • The limitation of office space in prime areas of Kuala Lumpur would bode well for rentals. While the prime shopping malls in Klang Valley are enjoying decent occupancy rates and increasing rental rates. • Oversupply is always an issue in less prime areas. Established locations would continue to perform well. Nevertheless, the property market usually lags the equity market. As the equity market has been picking up in the past few months, we expect the property market to play catch up going forward. • Malaysia REIT is burgeoning. With more and more REITs listing on Bursa Malaysia, authorities are liberalizing the rules and regulations to facilitate REIT's growth and to at least maintain competitiveness with its regional peers.	Metro Kajang – Overweight Sunrise- Overweight

Sector recommendation	Reasons	Stocks to watch
	• However, we feel that the REIT managers should emphasize on seeking for undervalued properties and unlocking the values of the existing properties, rather than transferring the assets of its parent companies to the trust. • Overall, we are turning positive on the property sector. We foresee there will be more catalysts to re-rate the property sector going forward. The Government has recently announced the further liberalization on foreign ownership of Malaysia properties. From 21st of December 2006 onwards, foreigners can purchase high-end residential properties (>RM250,000) without the approval from Foreign Investment Committee (FIC). We view this as a positive step to boost investments in the property market and resolve the overhang issues. Upgrade to **OVERWEIGHT**.	
Semiconductor – Neutral	• The Semiconductor Industry Association (SIA) has anticipated that the global semiconductor market will remain robust and grow at CAGR of 9% over the next three year. The Asia-Pacific region will continue to be the fastest-growing market and is projected to accomplish 48.2% of the worldwide market share in 2009. • The World Semiconductor Trade Statistics (WSTS) projected that the rising demand for electronic products such as personal computers, digital consumer appliances and mobile communications will be the key driver to sustain demand for semiconductor products. • DRAM sales are anticipated to be the fastest-growing segment in 2007 as PC makers add memory to accommodate the Windows Vista operating system. • Nonetheless, we believe that a broad-based moderation of world economic growth due to the cooling of US economy will temporary slow down the demand for semiconductor products for 2007. Another downside risk is that appreciation of Ringgit could lead to a drop in company's earnings as the sales and costs of local chipmakers are denominated in USD. Maintain **NEUTRAL**.	MPI-Neutral Unisem-Neutral

Sector recommendation	Reasons	Stocks to watch
Telecommunication - Neutral	• Malaysia telecommunication industry is near saturation point. Penetration rate is estimated to exceed 80% in the 4Q06. • ARPU is on the downtrend due to stiff price competition in order to gain larger market shares. • Since most of the prepaid subscribers have registered prior to December dateline, we believe the adverse impact of prepaid registration to the subscriber growth will be minimal going forward. • We believe the possible award of WiMAX 2.3GHz spectrum in early 2007 could increase the competition in the broadband market. • Maxis and Telekom which expand their business operations in India will enjoy higher growth rates than Digi in the long-run as the penetration rate in India remains low at approximately 12%, in our view. Maintain **NEUTRAL.**	Maxis – Neutral Digi – Neutral TM –Neutral
Tobacco – Neutral	• The tobacco sector is reeling with the same problems which eventually lead to the contraction of sales. The sector is struggling to stub out contraband, confronting stiff competition from the cheaper local cigarettes, as well as stringent regulation such as increasing excise tax and banning on small packs. • Tobacco companies give attractive yield of above 7%. Besides, we believe the streamlining of operations by management will improve their operating and cost efficiencies. • We expect Government's announcement concerning the increase of cigarette excise duty of 1 sen per stick to have mild impact on the sales. We believe main factors contributing to the contracting sales volume are the competitions from contraband and cheaper local products. • We are maintaining our **NEUTRAL** stance on the sector. Given the challenging business environment, we believe the total industry sales volume will continue to shrink and put downwards pressure to the companies' earnings and margins.	BAT – Neutral

Sector recommendation	Reasons	Stocks to watch
Transportation- Neutral	• We remain cautious on the transportation sector in view of the volatile crude oil price, which in fact contributes to the large proportion of their cost component. • On a positive note the Visit Malaysia Year 2007 (VMY2007) campaign is expected to have a positive impact on the transportation sector especially on aviation players such as Malaysian Airline System Bhd (MAS), AirAsia Bhd and Malaysia Airports Holdings Bhd (MAHB). They are set to benefit from higher total passenger and cargo traffic during the campaign. • Despite the cyclical natures of the shipping industry and fluctuation of oil prices which are poised to put pressure on operating cost we believe that there is modest growth due to strong economic growth in China and India which translates to better earnings for both port handler and shipping players.	Malaysia Airport - Overweight