

Thursday, 21 July 2005

**Investment
Focus**

Yuan and Ringgit pegs

Change in regime: “feel good factor” should boost the market but more positive in the long run

Strategy for the equities market. The revaluation of the Yuan by 2.2-2.4% and an expected appreciation of the ringgit by at most 2-3% is not significant enough to warrant a sharp selling down on equities assets. Although in the past two weeks there were some foreign buying into the Malaysian equities market, we believe these were long term funds as most of the speculative funds had exited in 1H05. There is no doubt that some foreign portfolio funds may exit the Malaysian market for the foreign exchange gain, but again most of the foreign funds which came in last year had already exited the Malaysian equities market in 1H05. Therefore, we do not expect much negative impact on the stock market. In fact, in the immediate term, there may be a boost to the stock market from a “feel good factor” which will be positive for sentiment. Indeed, the KLCI surged 1.8% or 16.75 points at the opening to 938.69 points on Friday. In the long run, the change of exchange rate regime for the ringgit from a fixed regime into a managed float regime is likely to attract the moral-based foreign portfolio funds (e.g.. CALPERS) and be more positive for the equities market in the long run. However, the appreciation of the ringgit will certainly make it more attractive for Malaysian portfolio funds to invest overseas. With the ringgit peg removed, the equity market's greater attractiveness market to foreign funds means that the KLCI could trade at the higher range of our target of between 940 to 970 for this year.

Strategy for the bonds market. As the ringgit moves into a managed float, Bank Negara will have a freer rein over its monetary policy with regards to the interest rates. With that hypothesis, it is expected that Malaysian bond prices is likely to fall on Friday, as happened in the US market on Thursday after China revalued the Yuan. Bonds prices fell in US because China is expected to hold less US Treasuries because it is pegging the Yuan to a basket of currencies rather than to the greenback as previously. As the bonds prices are expected to fall in the Malaysian market, there may be some portfolio rebalancing by the fund managers from bonds into equities.

Impact of a ringgit revaluation on the various sectors and companies in Malaysia: With regards to sectors and companies with a natural hedging, foreign currency revenue and foreign currency materials cost, in the case of most MNCs in Malaysia such as Motorola and Matsushita, the impact of a ringgit appreciation is

Previous trading day market performance

Indices	Close	+ / -	1-d%	1-m%	ytd %	Most Actives (Main Board)	Close	Change	1-d%	Volume (m)
KL Composite	924.01	7.2	0.8	3.1	1.8	TIME DOTCOM	0.45	-0.03	-5.3	16.60 KLCI Current PER
KL Emas	211.51	1.5	0.7	2.7	-1.3	KEJORA HARTA	0.46	0.06	13.8	8.50 1 Day ago 14.0
KL Second Board	92.24	-0.1	-0.1	3.9	-16.8	COMMERCE ASS	5.60	0.05	0.9	8.39 1-month ago 14.9
Dow Jones	10,689.15	42.6	0.4	0.8	-0.9	IDAMAN UNGGU	0.34	0.00	0.0	7.20
Nasdaq	2188.57	15.4	0.7	4.8	0.6	LIQUA HEALTH	0.47	0.01	1.1	6.97
Nikkei	11789.35	24.5	0.2	2.6	2.6	GULA PERAK B	0.38	-0.02	-3.8	5.55
Hang Seng	14602.7	35.0	0.2	4.5	2.6	KUB MALAYSIA	0.51	0.01	2.0	5.31
Straits Times	2309.26	16.3	0.7	5.1	11.8	MBF HLDGS BH	0.14	0.00	0	4.44

Source: Bloomberg

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immaterial. However, for MNCs with a mismatch in input-output currency base, input in local currency while output in foreign currency - a ringgit appreciation will hit them. A quick survey on listed MNCs on the KLCI revealed that some Japanese - based companies are in this situation. For oil refiners, e.g. Shell Refining - they are in the opposite situation, input in foreign currency but output in domestic currency, therefore they may gain from a ringgit appreciation.

For domestic companies - in general, sectors and companies with high foreign denominated debts will gain. For most domestic companies which are exposed to foreign exchange input costs, but their revenue stream is mainly in ringgit, therefore, they may gain from a ringgit appreciation. But most domestic companies which are export-based tend to have a natural hedging as their input costs are also denominated in foreign currency, therefore, they are not affected by a ringgit appreciation. Nevertheless, there are still some domestic companies and sectors whose input costs are in the local currency but export revenue stream are in foreign currency, therefore they will lose from a ringgit appreciation. (Please refer to Table for more explanation on the abovementioned). (Please refer to Economic Trends, July 22, 2005 for more details).

Table 2: Impact of a ringgit revaluation on the various sectors and companies

Sector	Impact
Property	Domestic driven sector - shielded from RM peg. But effort to attract foreign investors will be partly affected as Malaysian property will be seen as more expensive than before. Any rise in material cost (eg steel) can be passed down to consumers.
Telco	Domestic driven- shielded from RM re-peg. Telekom and Maxis are venturing/ventured abroad. Foreign borrowing will be cheaper; nevertheless minimal foreign borrowings to date after paring down and refinancing of foreign debts.
Construction	Only companies with foreign exposure may have impact. Most large players have overseas exposure (eg. Gamuda, IJM, WCT, Ranhill). We expect margins to be further squeezed as the more expensive RM (say 10%) will lower the contract value by the same %. Then again, we are not certain of whether a RM peg clause is included in the agreement (just like material price fluctuations). Assuming there's none, we believe that generally this would have a substantial impact on companies with foreign contracts (thin margins could be wiped out), unless these companies renegotiate the terms. Base case, 10% upward revaluation of RM, contract value would decline by 10%.
Semiconductor	Will experience one-off translation loss. Significant amount of borrowings in USD and sales 100% in USD.
Plantation	Negative topline impact due to USD denominated selling prices. Initial estimates reveal a 6 - 13% impact on earnings for every RM100 change in selling prices. However, enjoys interest savings on foreign denominated loans and imported production costs such as fertilisers and CAPEX.
Power	Tenaga : 10% revaluation will result in RM15m interest savings
Banks	Banks with USD subordinated debt to benefit from lower coupon payments. An appreciation of the ringgit will be negative for banks with foreign operations although we do not expect the impact to be significant given the relatively low exposure to foreign operations. Slightly more negative for CAHB as their overseas operations are likely to contribute as much as 30% of pre-tax profit going forward.
Education	Ringgit appreciation will hurt the local private education industry's international competitiveness due to higher fees and student living expenses. However, impact may be mitigated by the fact that foreign students currently only make up 20% and 10% of INTI's and SEGI's total student enrolment respectively. However, this may still affect the education players' efforts to significantly raise the proportion of foreign students.
Media	An appreciation of the ringgit will boost margins of both print media and broadcasting players by lowering production costs given the high proportion of foreign currency denominated inputs such as newsprint and programming costs. On the other hand, adex and circulation revenue are ringgit denominated.
Gaming	Minimal impact on both NFO and casino subsectors as the former is almost exclusively domestic driven while locals make up more than 90% of visitor arrivals at the casino.
Auto	Lower cost of purchases for completely knocked-down and completely built-up units. However, these savings could be offset by higher cost of sales due to increased competition. Companies with foreign borrowings, for example Proton, will enjoy lower interest repayments.
Retail	Adverse impact of ringgit appreciation on in-bound tourist arrivals should be more muted than say, foreign student intake given the higher degree of differentiation in tourism markets as compared to higher education markets. Nevertheless, the retail industry is largely domestic-driven with tourist retail spending estimated at only around 10-12% of total retail sales. Conversely, a strengthening ringgit may help lower the cost of imported merchandise, hence increasing the attractiveness of Malaysia as a shopping haven. Amway in particular will benefit due to high import content costs.
Consumer Products	Beneficial: production costs fall, foreign borrowings "cheaper". Calsberg: minimal impact. raw material purchases. Guinness: no borrowing. F&N: borrowings in RMB and USD, import of raw materials eg. milk solids. Nestle: short term USD borrowing, import of raw material from global sourcing program. BAT: leaf import, borrowings in RM. JTI: no borrowings.
Timber	Timber- sales 100% in USD; no foreign loans.
Transport	Negative topline impact due to USD receivables for shippers, however lower acquisition price for vessels. Airlines enjoy cost savings through low fuel costs denominated in foreign currencies. Minimal earnings impact on ports.

Source: Maybansec

Results

Tenaga Nasional (RM10.80)

3Q05 results: above expectations. 3Q05 turnover rose 4.2%qoq while PBT and net profit improved significantly. Meanwhile, the cumulative three quarters turnover improved 7.3%yoy and net profit jumped to RM876.4m. Cumulative EPS stood at 27.4sen. No dividends has been declared for 3Q05. NTA was RM4.81 per share.

Comments:

- **Earnings boosted by RM267.1m forex gain**
- **Operational costs under control and cost management initiatives to continue.**
- **Positive on proposed a multi-currency revolving credit programme.**
- **Maintain HOLD with fair value of RM11.20**

Results came in above our estimates. The improvement in year-on-year turnover was due to higher units of electricity sold. Units sold rose 3.3%qoq and 6.4%yoy to 19,799GWh. Peak demand hit a new high of 12,493MW on 5 May 2005. Electricity demand remained strong, growing at 8.2%yoy (in terms of GWh).

We estimate EBITDA margins averaged at 36.9% for the first nine months of Tenaga's financial year. PBT was boosted by a RM267.1m foreign translation gain as the ringgit strengthened against the yen, EURO and pound sterling.

3Q05 average operating margin was relatively flat year-on-year as the increase in energy purchased from the IPPs were offset by the lower cost per unit sold to the IPPs. In addition, other operating expenses also fell.

Given the relatively high coal price, Tenaga has shifted to utilise more gas as fuel source. Gas constituted 46% of TNB's generation mix in 3Q05, compared with 42.8% in 3Q04 while coal made up 40.8% of the group's generation mix (from 43.6% in 3Q04). TNB's average cost price stood at USD49.80/MT as at 3Q05, which is equivalent to a 46.5% increase from 3Q04.

3Q05 total debt amounted to RM30.5b translating to a net gearing ratio of 1.8X. Weighted average cost of debt stood at 5.36% from 5.31% in FY04. Loan mix remained unchanged with ringgit-denominated loans at 50.1% (FY04: 51.2%), USD-denominated loans at 28.2% (FY04: 28.4%) and yen-denominated at 15.2% (FY04: 14.1%).

Tenaga yesterday announced its plans to set up a Multi-Currency Revolving Credit Facilities Programme of up to USD500m. Proceeds from this issue would be used to refinance Tenaga's existing debt obligations, finance capital and operating expenditure programmes and/or working capital requirements. This programme enables Tenaga to tap these advantages:

1. Cost competitive
2. Provides choice of funding and flexibility of choice of currencies for capex requirements
3. Savings on administrative and documentation costs
4. Ability to convert the USD, pounds and EURO loans into ringgit with no refinancing risk or refinancing cost

TNB: 3Q05 results

FYE Aug (RM m)	QoQ			YoY		Cumulative		
	May 05	Feb 05	% chg	May 04	% chg	3Q05	3Q04	% chg
Turnover	4,835.8	4,640.8	4.2%	4,539.2	6.5%	14,021.4	13,068.1	7.3%
Pre-tax profit	698.3	507.2	37.7%	592.4	17.9%	1,422.0	928.8	28.2%
Net profit	572.8	295.1	94.1%	336.6	70.2%	876.4	367.3	138.6%
EPS (sen)	17.9	9.2	94.1%	10.5	70.2%	27.4	11.5	138.6%
Pre-tax margin	14.4%	10.9%		13.1%		10.1%	7.1%	
Unit sold (GWh)	19,799	19,175	3.3%	18,607	6.4%			
Operating cost (sen/KWh)								
IPP purchases	8.3	8.3		8.5				
Fuel-TNB	4.1	4.0		3.2				
Repair & maint.	1.0	0.9		0.9				
Staff	2.1	2.1		2.4				
Other costs	4.6	4.6		5.0				
Total	20.1	19.9		20.0				
Borrowings (RM m)								
Japanese Yen	4,637.2	4,615.8		4,354.5				
Sterling Pound	1,374.1	1,430.9		1,583.5				
US Dollar	8,595.5	9,001.5		10,314.4				
Euro	596.8	636.9		663.5				
Others	13.0	15.0		15.4				
RM borrowings	15,279.7	15,428.1		14,887.9				
Total	30,496.3	31,128.2		31,819.2				
Cost of funds	5.4%	5.5%		5.0%				

TNB: Structure of multi-currency revolving credit facility program

	Euro MTN	Transferable Revolving Credit Facility	Murabahah MTN
Product	Debt capital market	Banking loans	Debt capital market
Sublimit	USD500m	USD500m	USD500m
Currencies	USD, Pounds, EURO	USD, Pounds, EURO	RM
Tenor (years)	5	5	20
Maturity (years)	1 and/or 2	3,4 or 5	2,3,4,5 or more
Pricing	Yield based	Libor based	Yield based
Spread	2 years Libor + 26bp	3 years Libor + 37.5bp	5 years 4.55%

Source: TNB

Tenaga has spent RM2.6b for capital expenditure up until 3Q05. The company plans to spend RM4b for capex in FY05 (FY04: RM4.5b) and will be funded via cash surplus and internally generated funds. In addition, Tenaga has total unutilised and available financing facilities of RM6.8b as at end-May 2005. Therefore, no additional funding for capex is necessary.

TNB: Cost management efforts

Areas of improvement	3Q05	FY04	Target reduction FY05
Transmission & distribution losses	10.4%	12.8%	10.8%
SESB turnaround	-	-	Reduce losses by RM50m
Collection from outstanding debt	RM172.3m	RM886.9m	Collection of RM383m
Potential savings from theft	RM1.43m*	-	Recovery of RM170m
General office expenses	Cut by RM77m	Cut by 9.1%	Cut by RM100m
Overtime	Up by RM10m	-	Cut by RM25m
Medical expenses	Up by RM37.4	-	Managing malpractices
* potential			

Source: TNB

Outlook. Last quarter, TNB shared that it aims to generate greater efficiency through improved collections, fuel management and operational initiatives. However, some of its targets has not been met as at 3Q05 (Table below). Nevertheless, we believe the FY05 targets could be pushed to FY06.

We do not expect any change in electricity tariff until 2006 when Tenaga's gas supply agreement with Petronas expires in December 2005. Currently, Tenaga takes 1,350m standard cubic feet per day of gas and sources its gas from Petronas at RM6.40/mmbtu, which is significantly below the international price of RM12/mmbtu. The new gas supply agreement is crucial for TNB as it could provide a bearing to the future electricity tariff rate.

Earnings forecast. We have imputed electricity sales growth of 7.7% in FY05 (representing a multiple of 1.5 to GDP growth of 5.1%), which translates to turnover of RM18.4b (+4%yoy). We are inclined to maintain our earnings projection despite the stronger cumulative EBITDA margins compared to our estimate of 34.6% in FY05.. We have also abscribed an effective tax rate of 33% for FY05 and therefore expect FY05 net profit of RM1,289m. Nevertheless, we see potential increase on bottomline arising from the ringgit appreciation.

Valuation. Tenaga is trading at PER05 of 26.7X (based on EPS05 of 40.3sen), which is at par to its average 5-year PE of 27X. **Maintain HOLD (52w Hi-Low : RM9.70-RM7.85, FV=RM11.20)**

DiGi.com Berhad (RM5.60)

2Q05 results: within expectations. 2Q05 revenue grew 9.6%qoq, on the back of a 8.8% subscriber growth, driven by a 7%qoq increase in mobile revenue. EBITDA margin weakened marginally to 43.2% in 2Q05 compared to 1Q05 of 44.3%.

The significantly stronger quarter-on-quarter earnings was due to lower impact of the accelerated depreciation (2Q05: RM11m vs 1Q05: RM45m) and finance cost. No dividend has been declared for the quarter.

DiGi: 2Q05 results

FYE Dec (RM m)	QoQ			YoY		Cumulative		
	Jun 05	Mar 05	% chg	Jun 04	% chg	1H05	1H04	% chg
Turnover	685.9	625.9	9.6%	533.4	28.6%	1,311.8	1,050.5	24.9%
Pre-tax profit	159.3	84.8	87.9%	95.0	67.7%	244.1	198.4	23.0%
Net profit	113.5	58.0	95.7%	66.3	71.2%	171.5	139.7	22.7%
EPS (sen)	15.1	7.7	95.7%	8.8	71.2%	22.9	18.6	22.7%
Pre-tax margin	23.2%	13.5%				18.6%	18.9%	
Subscriber base ('000)								
Prepaid	3,525	3,259	8.2%	2,453	43.7%			
Postpaid	241	202	19.3%	130	85.4%			
Total	3,766	3,461	8.8%	2,583	45.8%			
Net additions ('000/month)								
Prepaid	88.7	64.0		50.7				
Postpaid	13.0	10.0		6.0				
Total	101.7	74.0		56.7				
Average revenue per unit (ARPU) (RM)								
Prepaid	54	51	5.9%	54	0.0%	52	56	-7.1%
Postpaid	128	142	-9.9%	173	-26.0%	134	172	-22.1%
Blended	59	56	5.4%	60	-1.7%	57	61	-6.6%
Average minutes per user (AMPU) (min)								
Prepaid	150	145	3.4%	146	2.7%	148	148	0.0%
Postpaid	471	465	1.3%	517	-8.9%	468	510	-8.2%
Capex (RM m)	106	66		89		172	146	

Comments:

- **Excellent set of numbers**
- **Strong subscriber base growth (8.8%qoq) on the back of higher usage time.**
- **Quarterly blended ARPU rose given the introduction of attractive product packages**
- **Maintain BUY with fair value of RM6.50**

Customer base. Total subscribers grew 8.8%qoq or 45.8%yoy to 3.77m. This represents a monthly net additions of 101,700 in 2Q05 which is 37.4% higher than the growth in 1Q05 (74,000 net additions). We have forecasted a subscriber growth of 41.5% to 4.59m.

ARPU. Quarterly blended ARPU rebounded due to higher usage. However, management do not expect this to persist. We expect ARPU to decline as the result of DiGi's acquisition of lower spending new customers rather than a drop in spending by existing customers. We have factored in prepaid and postpaid ARPUs of RM51 and RM144 respectively into our FY05 forecast.

AMPUs. Usage minutes was strong in 2Q05 reflecting the strong response from several new product and services such as the EDGE expansion into East Malaysia, SmartMail, MTV Powerpack Prepaid as well as attractive pricing packages.

Data revenue. Data continues to show steady growth. 2Q05 data revenue amounted to RM101m or an increase of 7%qoq. 1H05 data revenue stood at RM195 (+57%yoy).

Balance sheet. DiGi is in a net cash position of RM336m while operating cashflow remained strong at RM547m.

Outlook. We remain optimistic on DiGi. FY05 revenue is expected to be strong, driven by the following factors:

1. Introduction of new innovative products and services
2. Introduction of the micro-reloads, which could "force" more usage
3. Expansion of network coverage, which increase market reach

Although the prepaid segment would be the driver for overall growth, we are pleased with the strong response to DiGi's postpaid services. However, postpaid ARPU is likely to be diluted due to high uptake of mass market customers.

3Q05 data revenue may strengthen quarter-on-quarter as the country votes their favourites idols on Mentor, Akademi Fantasia, and Malaysian Idol programmes. This will be further boosted by the expansion of EDGE and introduction of new product packages.

We maintain FY05 net profit of RM336.7m, on the back of a RM2.6b turnover. Given the competitive landscape, we have factored in EBITDA margin of 42.4% (FY04: 44.4%).

DiGi's FY05 capex may be below the planned RM1 billion due to delays in securing suitable sites and procedural delays. Bulk of the capex would be used to increase coverage and quality enhancement.

Valuation. DiGi is currently trading at PER05 of 12.4X based on EPS05 of 44.9sen. Maintain **BUY (52W Hi-Low: RM6.25-RM4.60, FV: RM6.50)**

AEON Co (M) Bhd (RM4.70)

1QFY05 results: below expectations. 1QFY06 turnover grew 7.5%yoy to RM416.6m while net profit edged up marginally by 1.5% to RM7.2m. Quarter-on-quarter, both turnover and net profit declined by 18.2% and 78.5% respectively as the fourth quarter benefited from festive sales. On a segmental basis, retail sales rose 7.9%yoy to RM382.4m while revenue from its property management division grew by 3.4% to RM34.2m. No dividend has been proposed for the quarter.

Comments:

- **Impressive same store sales growth of 7.5% above our 5% growth projection**
- **Retail operating margins shrank due to highly competitive environment**
- **Marginal increase in property management revenue and operating profit due to no new stores opening during period under review**
- **Revenue growth will be propelled by opening of three new stores**
- **Maintaining FY06 earnings forecast; BUY call on AEON with 13% price upside**

We are impressed by AEON's 1Q06 topline growth despite coming in at only single digits considering that no new stores were opened during the period under review. This implies that actual same store sales growth in 1Q06 has exceeded our 5% sales growth projection. We believe that the improved sales were attributed to the success of its J-Card loyalty programme and strong customer flows into AEON's strategically located and family friendly stores.

AEON Co: 1Q06 results

FYE Feb (RM m)	QoQ			YoY	
	May 05	Feb 05	% chg	May 04	% chg
Turnover	416.6	509.3	-18.2%	387.4	7.5%
Pre-tax profit	12.0	49.3	-75.7%	12.0	0.0%
Net profit	7.2	33.6	-78.5%	7.1	1.5%
EPS (sen)	4.1	19.2		3.8	
Pre-tax margin	2.9%	9.7%		3.1%	

1Q06 retail operating margins unfortunately declined to 1.4% from 1.6% in the corresponding quarter last year. The margin erosion clearly reflects the extremely competitive operating environment facing retailers which have resulted in more frequent price discounting and higher advertising and promotion expenses. In addition, higher fuel prices have also resulted in increased logistics costs for AEON. Meanwhile, the marginal year-on-year increase in revenue and operating profit of AEON's property management division of 3.4% and 1.6% respectively can be explained by the fact that no new stores were opened during the period under review.

Future AEON's revenue growth will be propelled by the opening of three new stores in Seremban 2 (September 2005), Tebrau (January 2005) and Cheras Selatan (mid-2006). However, we expect AEON's margins to remain lean due to anticipated high advertising and promotion expenses. More rebates and privileges is expected to be offered to enhance the attractiveness of its J-Card and on-going store refurbishment. We are maintaining our FY06 EPS projection OF 41sen and target price of RM5.30 based on 13x PER06. Given a 13% price upside, we are maintaining our BUY call on AEON. **BUY (Hi-Lo : RM5.60-RM4.44, FV: RM5.30)**

Public Bank Bhd (RM7.00)

2QFY05 results: within expectations. Public Bank Bhd's (PBB) net profit for the first half of FY05 came in almost on the dot within both ours and consensus forecasts. Annualised EPS came in at 43.4 sen compared to our projection of 42.5 sen for FY05. A gross interim dividend of 20 sen per share was declared for the quarter.

Public Bank Bhd: 2QFY05 results

FYE December (RM'm)	QoQ			YoY		Cumulative		
	Jun-05	Mar-05	% chg	Jun-04	% chg	FY05	FY04	% chg
Interest income	1,126.9	1,128.0	(0.1)	911.7	23.6	2,213.1	1,791.6	23.5
Interest expense	(512.8)	(530.3)	(3.3)	(339.5)	51.1	(1,001.4)	(662.7)	51.1
Net interest income	614.1	597.6	2.8	572.2	7.3	1,211.7	1,129.0	7.3
Non-interest income	235.7	198.2	18.9	172.7	36.5	434.0	358.7	21.0
Income from IB	99.6	96.4	3.4	93.5	6.6	196.0	187.3	4.7
Net operating income	949.4	892.3	6.4	838.4	13.2	1,841.7	1,675.0	10.0
Operating expenses	(355.5)	323.9	(209.8)	(323.6)	9.9	(679.4)	(643.9)	5.5
Operating profit	593.9	1,216.1	(51.2)	514.8	15.4	1,162.3	1,031.1	12.7
Loan loss provision	(79.9)	(89.8)	(11.0)	(59.6)	34.2	(169.7)	(153.3)	10.7
Pre-tax profit	521.3	479.6	8.7	330.0	58.0	1,000.9	881.0	13.6
Net profit	366.2	345.1	6.1	317.9	15.2	711.3	613.2	16.0
EPS (sen)	11.2	10.5	6.7	9.8		21.7	19.0	
DPS (sen)	20.0	-		-		20.0	-	
NTA per share (RM)	2.25	2.14		2.50		2.25	2.50	
Segment performance (PBT)								
Retail	419.2	426.7	(9.1)	387.8	8.1	817.4	721.0	13.4
Treasury & capital mkt	67.3	81.2	41.2	33.4	101.2	146.3	93.3	56.9
Corporate lending	41.6	9.9	360.0	35.8	16.4	51.6	70.1	(26.4)
Investment banking	2.1	2.0	194.9	3.9	(44.6)	4.1	7.7	(46.8)
Share broking & fund mgmt	21.5	24.7	91.1	22.5	(4.2)	46.2	54.5	(15.1)
Others	1.6	3.1	87.7	2.7	(40.7)	4.7	5.3	(9.7)

Net profit improved by 16% to RM711.1m compared to 1HFY04. Key highlights of the results are as follows:

- **7% increase in net interest income driven by sustained loan growth**
- **21% increase in non-interest income driven by its unit trust operations and investment income**
- **5% increase in income from its Islamic banking operations**
- **Cost-to-income ratio improved to 36.9%**
- **Net NPL ratio declined to 1.9% on 3-m basis**

Annualised loan growth of 18.8% driven by residential mortgages, hire purchase financing and SME financing, which account for 73% of its total loans outstanding (mortgages: 25%, HP:25% and SME: 22% of total loans).

FY06 loan growth target of approximately 15%. Management provided an initial indication for its loan growth target for FY06 of around 15%, which is within our expectations given the more competitive landscape and higher loan base. Net interest margin saw only a slight contraction over the quarter supported in part by the lower cost of funding. However, looking at the change over the past one year margins have contracted by almost 1%. Its new housing loan packages fixed at BLR less 0.35% for the entire loan tenure is not expected to have significant impact on margins, providing effective yield of 12-15 bps.

Continued improvements in asset quality. Reduction in net NPL ratio to only 1.9% compared to sector average of 7.2% (on 3-m basis). Looking at the breakdown by sector, NPLs from the housing loan segment represents the highest portion of NPLs, with gross NPL ratio of 3.2% (Dec-04: 3.6%), compared to SME financing (2.2%), hire purchase financing (1.1%) and corporate loans (2.6%). Provisioning is at a comfortable level while its GP ratio at 1.6% and loan loss coverage ratio of 87%.

Earnings boost from non-interest income. Non-interest income increased by 21% mainly due to higher unit trust sales from the launch of new funds and higher income from investment securities. We expect growth in this segment to be sustained for the rest of the year given plans to launch several more new unit trust funds.

Key Indicators

	Jun-05	Mar-05	Dec-05	Sep-05	Jun-04	1HFY05	1HFY04
Annualised loan growth (%qoq)	17.6	18.4	18.4	18.6	19.5	18.8	21.6
Net NPL ratio (%)	1.9	2.1	2.1	2.3	2.6	1.9	2.6
RWCR (%)	17.0	15.2	15.8	17.5	20.2	17.0	20.2
Net interest margin (%)	2.6	2.7	2.8	3.0	3.3	2.6	3.4
Cost-income ratio (%)	37.4	36.3	38.3	37.8	38.4	36.9	38.4
Gross loans to customer deposits (%)	76.9	76.4	78.9	80.8	87.3	76.9	89.9
Net int income to total income (%)	64.7	67.0	67.4	69.0	67.9	65.8	67.4
Non-interest income to total income (%)	24.8	22.2	21.1	21.9	19.7	23.5	20.8
Islamic banking to total income (%)	10.5	10.8	7.1	7.4	7.1	10.6	7.2

Application for Islamic banking licence. PBB is expected to apply for a full-fledged Islamic banking licence before end of this year. The group is also looking to apply for a takaful licence by end-Oct this year. This will be positive for the bank given the increased competition in Islamic banking, with the increasing presence of full-fledged Islamic banks and foreign Islamic banks.

Strong prospects from its overseas operations. The group's overseas operations achieved a 51% increase in pre-tax profit predominantly on the back of lower loan loss provisions from its Hong Kong operations. The group also has presence in Cambodia, although small provides good margins. We expect the proceeds from its USD750m subordinated notes to be used to expand its existing overseas operations although management did not discount prospects of potential acquisitions.

Efficiency levels continue to improve. Cost-to-income ratio continues to improve, now at 36.9%, and is expected to move to 35% by FY06. Going forward, we think further reductions in the ratio is going to be increasingly difficult given that the group is already operating at impressive efficiency levels. Personnel costs was almost unchanged over the quarter while establishment costs increased by only 2%.

Outlook: With the increasingly more competitive commercial banking landscape, we think that it will be increasingly more difficult for PBB to achieve gross loan growth of above 20%. However, prospects of the group remain stable with its exceptional asset quality and efficiency levels. We expect earnings to be on track to meet our full year target. We maintain our fair value of RM7.15 and revise our recommendation to HOLD from TRADING BUY, with PBV05 of 2.8 times and PER05 of 17 times. **(Hi-Low: RM7.80-RM6.10, FV=7.15)**

Peer Comparison

	P	FV	PER05	PER06	PBV05	ROE05	DY05	YTD perf.
	(RM)	(RM)	(x)	(x)	(x)	(%)	(%)	(%)
MAYB	11.10	NR	15.4	14.4	2.7	17.1	6.1	(5.9)
CAHB	5.65	5.90	14.5	13.0	1.6	11.5	2.7	20.2
PBB	7.00	7.15	16.5	14.5	2.8	16.8	7.1	(1.4)
RHBC	2.29	2.55	12.3	11.2	1.0	7.9	4.4	(2.1)
AMMB	2.77	3.25	21.0	17.6	1.4	7.9	1.4	(6.4)
HLB	5.45	5.50	15.9	14.0	1.9	12.0	4.4	(0.9)
EONC	5.50	5.70	13.3	12.1	1.4	10.7	1.6	(5.2)
SBB	3.36	NR	12.1	11.0	1.4	12.2	5.5	1.2
AFFIN	1.62	1.95	6.9	6.5	0.7	10.2	0.6	(4.1)

Other news

Symphony yet to decide on Vsource listing. Symphony House said it has not made a decision regarding the listing plans if its 77.4%-owned unit Vsource Asia Bhd (Vsource). In a reply to Bursa Malaysia's query, the company said it is currently evaluating all options available, which may include listing Vsource in the future as part of its medium- to long-term plans. It also clarified that US-based Vsource Inc is no longer a shareholder of Vsource. Malay Mail reported that Vsource might raise up to RM30m from the proposed IPO exercise, with the bulk of the funds earmarked for the company's planned expansion into the Philippines, China and India. Established in 2000, Vsource has invested close to RM80m in its technology infrastructure. (Source: Bursa Malaysia)

DPS Resources plans Main Board transfer. DPS Resources announced that it plans to undertake a private placement of up to 12m shares, or not more than 10% of its capital, to investors that will be identified later and is considering transferring its entire share capital to the Main Board of Bursa Malaysia. The company said that based on an indicative issue price of RM0.68 for the placement shares, it expects to raise gross proceeds of RM8.16m. Proceeds raised from the exercise will be used for the repayment of bank borrowings and working capital purposes. (Source: Bursa Malaysia)

Malaysia's Landmarks holders may get Shangri-La shares. Shareholders of Landmarks Bhd may eventually receive some or all of the Malaysian property company's 27% stake in Shangri-La Hotels (Malaysia) Bhd. Such a move will also help improve the liquidity of Shangri-La shares. (Source: Dow Jones)

CCM buying Duopharma. Chemical Company of Malaysia Bhd is taking control of Duopharma Biotech Bhd via the acquisition of a 36% stake comprising 47.93 million shares in the pharmaceutical-based company at RM2.80 per share for a total of RM134.21 million cash. (Source: Bursa Malaysia)

Auto: UMW's chairman, Tan Sri Asmat Kamaludin, said the Royal Customs Department must address increasing allegations of Approved Permits being abused through under-declaration of imported cars, failing which it could affect the competitiveness of national cars. If the problem was left unchecked, it would affect collection of revenue due to the government. (Source: Bernama)

**Analyst
Briefing**

Date	Company	Time	Venue	Contact Person & No.	RSVP by
21 Jul 05	Tenaga Nasional	6.00pm	HQ Bangsar , KL	No invitation	-
21 Jul 05	DiGi.com	6.30pm	Conference Call	No invitation	-
26 Jul 05	Freight Management Hldgs	10.15am	The Regent, KL	Ms Li Hsia @ 03-21633700	21 Jul 05
27 Jul 05	British American Tobacco	5.00pm	The Regent, KL	Jackie_Yeo@bat.com	-
10 Aug 05	JT International	3.00pm	KLGCC	Ms Lysa Lim @ 03-20876804	01 Aug 05

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* *New addition*

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AVOID	Uncertainty in newsflow.

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The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

P = price	PBT/PAT = Profit before tax/Profit after tax	mom= month-on-month
PE/PER = price earnings/ PE ratio	NTA = net tangible asset	yoy = year-on-year
PEG = PE ratio to growth	NAV = net asset value	qoq = quarter-on-quarter
FV = fair value	EBIT= Earnings before interest, tax	ytd = year-to-date
BV = book value	EBITDA= EBIT, depreciation and amortisation	FY/FYE = financial year/ financial year end
EV = enterprise		value CY = calendar year
DCF = discounted cashflow	ROE = return on equity	capex = capital expenditure
FCF = free cashflow	ROA = return on asset	adex = advertising expenditure
CAGR = compounded annual growth rate	ROS = return on shareholders' funds	p.a = per annum
WACC = weighted average cost of capital	EPS = earnings per share	
	DPS = dividend per share	



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