Deutsche Bank

Market Bulletin

30 October 2006

Good Morning from DB

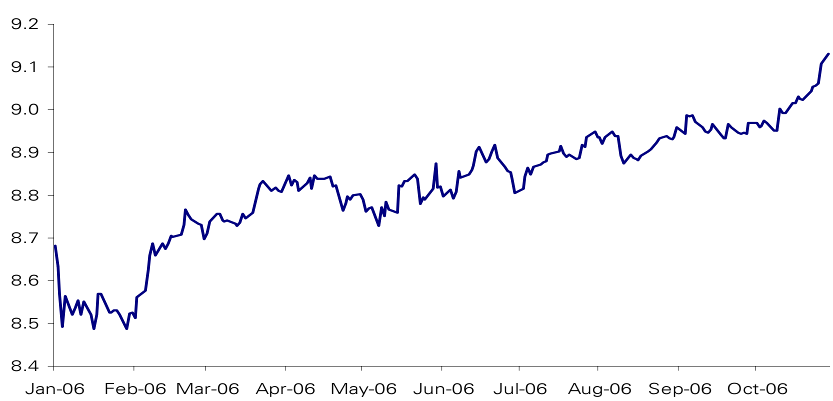
Go long Ringgit

Good morning,

Long the Ringgit. That's what our forex team tells us. They believe the Ringgit will be 5% higher in a year's time. Also, Maybank's (MAY MK, RM11.40, Buy, TP RM12.80) shares go ex-dividend today. Irene also reminds us there is a good chance that the share price may weaken given the number of stock options hitting the market. She also discusses the possibilities of capital management. Finally, it is indeed very interesting to note that Anwar Ibrahim has been given more press coverage of late. Today, the Star features Anwar's 'stop bickering' view on the ongoing spat between PM Abdullah Badawi and Dr Mahathir. Finally, British DPM John Prescott is in Malaysia for four days. He voiced his concerns about: (a) Malaysian furniture exported to the EU potentially using illegal logs and (b) lobbyists' claims that the Malaysian oil palm industry was endangering wildlife. If there was a big risk for the bio-diesel theme, it would be the EU bowing to pressure from environmentalist groups and potentially, rapeseed oil farmers. Just a thought for today. Su Yin.

- **Malayan Banking - Buying opportunity, if share overhang materializes**
- **Foreign Exchange: Asian FX Strategy Notes: Next year's trades now: Long MYR/TWD**
- **Snippets**

Figure 1: Chart of the day: MYR/TWD YTD spot curve



Source: Bloomberg

Morning Summary

No. of the day

111.22

The amount of shares Tune Air has sold down in AirAsia. The bulk of the shares were sold at RM1.57 each and another 3.79m shares changed hands at RM1.65 each. (source: The Star)

Market & Currency performance

	Last	3m	12m
KLCI	989.9	5.9%	9.3%
FBM 100	6421.3	6.2%	10.2%
FBM EMAS	6448.1	6.2%	11.1%
MYR/US$	3.6515	-0.2%	-3.3%
Turnover (US$m)	294.6	261.4	194.5

Key Economic Forecasts

	2005A	2006E	2007E
GDP%	5.3	5.5	4.6
CPI%	3.1	3.9	2.8
	3M	6M	12M
MYR/USD	3.59	3.56	3.50
OPR	3.75	3.50	3.50

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Malayan Banking - Buying opportunity, if share overhang materializes

ESOS overhang may lead to price weakness near term; reiterate Buy
We flag potential weakness in Maybank's share price near term. There is a possibility that new shares from Employee Share Option Scheme may hit the market, after the stock trades ex-dividend from 30 October. We see any potential weakness in share price as a buying opportunity. This stock has a good chance to play catch-up. Surprises could come in the form of higher dividends, and, earnings driven by non-interest income and recoveries. Buy.

Trades ex-div from Monday, 30 Oct; ESOS shares may hit the market
We see buying opportunity, should share price weaken. Our analysis shows c. 1.2m ESOS shares exercised over September and early October, some of which could find way to the market. Stock has lagged some big cap banks. We believe it will catch up. There is potential for higher dividends. Prospects in non-interest income look promising, particularly insurance. Insurance contribution could rise from RM200m in FY06 to RM500m in two to three years' time.

There is scope for capital management
Maybank can pay out more dividends, if it wants to. DB has assumed a 70% payout for FY07 vs Maybank's guidance of a minimum of 60% payout, and consensus (IBES) of 61%. Potential sources include issuance of hybrid tier-1 (capacity of RM4.5-5bn) and tier-2 debt (RM3bn), ESOS conversion which could lift capital by c. RM955m and possibly capital release from restructuring insurance operations, in our view.

TP of RM12.80 implies a total return of 18% (12.3% upside + 5.4% net yield)
Our target price of RM12.80 is based on ROE-g/COE-g which assumes 17% ROE, 5% growth, 9.0% COE and pegs Maybank at 2.8x BV. Capital management will remain in focus, in our view. Foreign ownership is low at 18%. Risks: market uncertainties as Maybank is a heavy index tracker and a liquid blue chip used by investors to Overweight or Underweight Malaysia.

For more information, please click here

Foreign Exchange

Asian FX Strategy Notes: Next year's trades now: Long MYR/TWD
This is the second of our trades for 2007. We think MYR/TWD will be 5% higher in a year's time, extending an uptrend from early 2006. Positioning via the 1-year NDF offers close to 1% in positive carry.

The relative dynamics are as follows:

- Having engineered a token ringgit revaluation on the day of when CNY was freed up last July, Bank Negara steadily squeezed spot into year-end, before allowing the market to come off in the New Year. Correlations with other Asians remained weak until May when, after a 5% drop to 3.58, speculative MYR positions had again become quite large. BNM then stepped away, allowing USD/MYR to rally back with short-covering in USD/JPY and other regionals, before capping the market just under 3.70. Since June, spot has moved sideways in a narrow, 1.5% range; the tail-end of long MYR positions rolling off as exporters came back into sell USD.
- USD/TWD, by contrast, remained fairly well correlated with USD/JPY throughout. As in Japan, as local rates are still ultra-low and, since the start of the year, the country's capital account has increased in residential outflows, in both bonds and equities, dwarfing all but the strongest periods of foreign buying in local stocks.

Accordingly, MYR/TWD began to move up in late January, punctuated only modestly by periods of strong equity appetite and declines in USD/JPY which weighed disproportionately on USD/TWD. Over time, however, the spill-over from both has ameliorated. And at this point the only significant risks we see in holding the cross relate to positioning and policy. On the former, the market currently seems only slightly short USD/MYR and long USD/TWD, while the real concern for the latter would be if BNM allowed USD/MYR to trade significantly higher, and domestic players became worried about a re-test of the 3.80 peg-era level. Otherwise, relative BoP dynamics continue to favour MYR even as global growth slows. Malaysia's current account surplus remains huge at around 15% of GDP, while Taiwan's has already fallen back to around 5%. And its capital outflows are negligible, in contrast to an established trend in Taiwan, which may even accelerate if foreign demand for local stocks wanes.

Snippets

- The cabinet has indicated that AirAsia and Singapore-based low-cost carrier are unlikely to be given the green light to operate flights between Kuala Lumpur and Singapore before the 20008 deadline under the Asean Open Skies Agreement. (source: *The Edge Weekly*)
- Tune Air has sold 111.22m shares of AirAsia. The bulk of the shares were sold at RM1.57 each and another 3.79m shares changed hands at RM1.65 each. (source: *The Star*)
- Pos Malaysia shareholders may expect a windfall from RM0.80 to RM1.70 per share under its proposed capital repayment plan. Pos was suspended during midday break on Friday at RM4.96. (source: *The Edge*)
- IJM Corp is believed to be studying a possible plan to buy into Talam Corp. IJM may offer as much as RM0.40 per share to gain a 30% controlling stake in Talam. (source: *BTimes*)
- Sime Darby plans to build its first palm oil-based biodiesel plant in Johor next year, with a 100,000 tonnes annual capacity. (source: *BTimes*)
- UMW Holdings intends to replicate the success of its Chinese oil and gas ventures in India. The group has a controlling stake in a JV company that provides corrosion coating services. (source: *The Star*)
- Malakoff is vying to secure a power plat construction and management contract worth up to US$300m (RM1.1bn) in Pakistan. (source: *BTimes*)
- Dalian Commodity Exchange is now not using Malaysian palm oil futures contract. In April, Bursa Malaysia signed an MoU to explore the possibility of developing derivative products and other related initiatives. (source: *The Edge Weekly*)
- Landmarks has called off its proposal to set up a REIT comprising the company's retail lots in Sungei Wang Plaza and Andaman resort in Langkawi. (source: *The Edge Weekly*)

Figure 2: Top picks

Company	BB Code	Market Cap	Rec	Price	Target Price	Upside	EPS	PER FD	EPS growth	EPS growth	Divi Yield	Divi Yield
				27-Oct-06			2006F	2006F	2006F	2007F	2006F	2007F
TOP BUYS		US$m		RM	RM	%	RM	X	%	%	%	%
Tenaga Nasional*	TNB MK Equity	11,655.0	Buy	10.00	12.20	22.0	0.70	14.3	34.8	-10.7	7.0	7.2
KLCC*	KLCC MK Equity	588.4	Buy	2.30	2.90	26.1	0.21	11.0	11.6	10.5	3.5	2.6
Bumi-Commerce	CAHB MK Equity	5,838.5	Buy	6.75	7.90	17.0	0.40	16.9	37.1	29.9	1.6	2.1
Astro*	ASTR MK Equity	2,629.8	Buy	4.98	6.00	20.5	0.15	33.2	26.9	24.7	1.4	1.8
IOI Corp*	IOI MK Equity	5,872.6	Buy	17.40	18.70	7.5	0.96	18.1	29.8	3.8	3.4	3.4
IGB	IGB MK Equity	565.4	Buy	1.41	2.08	47.5	0.09	15.7	22.1	4.7	1.4	1.4
TOP SELLS												
AirAsia*	AIRA MK Equity	996.9	Sell	1.55	1.17	-24.52	0.06	25.8	17.1	33.6	0.6	1.3
Gamuda*	GAM MK Equity	821.0	Sell	3.98	3.00	-24.62	0.21	19.0	23.8	11.5	3.0	3.0
NSTP	NST MK Equity	107.1	Sell	1.80	1.50	-16.67	-0.06	nm	nm	9.6	2.2	2.2

*Source: Deutsche Bank *Forecasts are for FY07 & FY08*

Appendix 1

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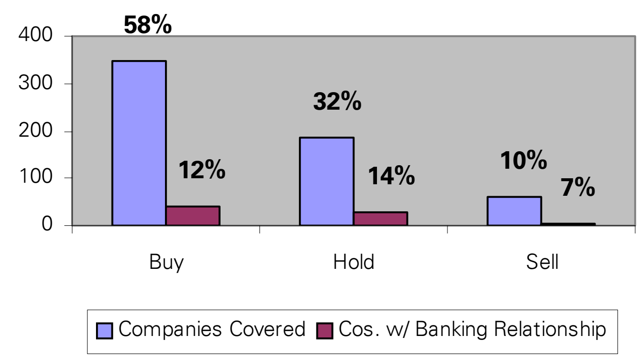

Asia-Pacific Universe

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