2 July 2020

MALAYSIA EQUITY

# EARNINGS WRAP

Review of corporate earnings

Quarter Ended March 2020

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Strategy Team
research@midf.com.my

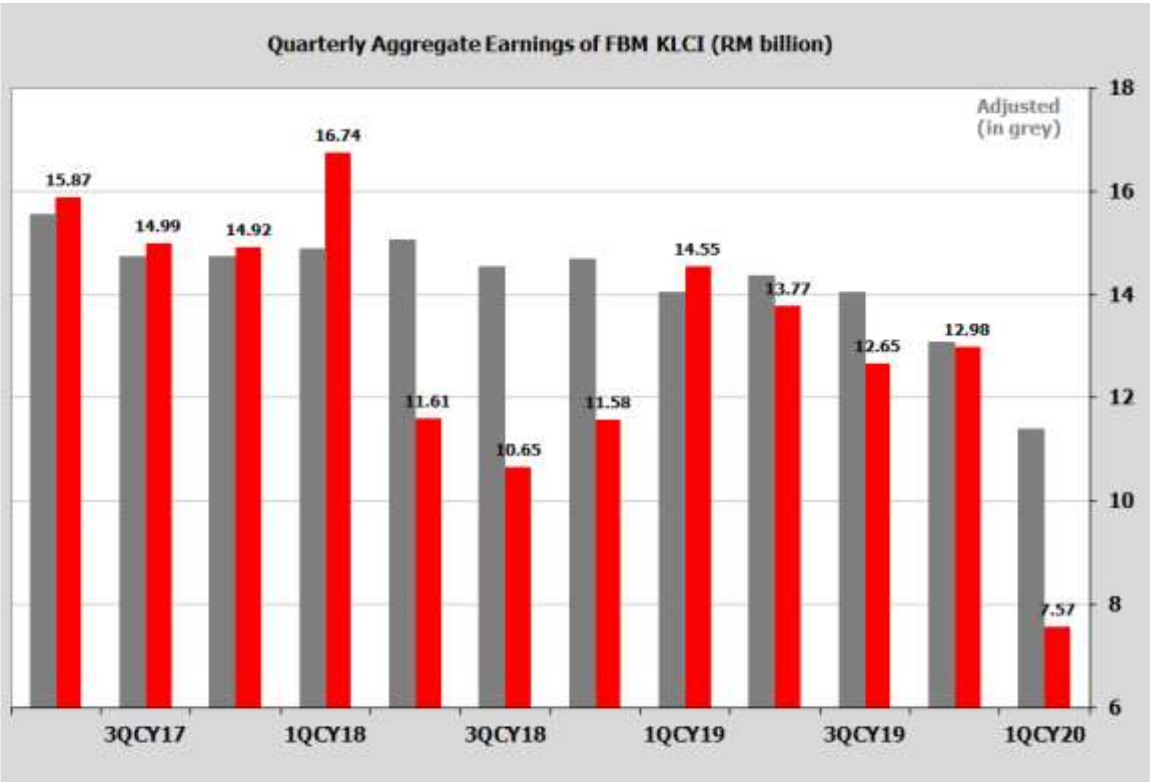
**2 July 2020 | Earnings Wrap**

# Covid-19 blues

- *The aggregate reported earnings of FBM KLCI 30 constituents totalled RM7.57b in 1QCY20. It recorded starkly negative growth both sequentially and on-year at -41.7%qoq and -48.0%yoy respectively.*
- *On adjusted basis, the aggregate normalized growth was less negative both sequentially and on-year at -12.9%qoq and -18.8%yoy respectively.*
- *Within MIDFR Universe, only 9% of stocks under coverage reported higher than expected earnings. Of the rest, 43% posted earnings that were lower than expected versus 47% which came within expectations.*
- *Target price changes involved 23 upward adjustments and 54 downward adjustments.*
- *We made 17 changes to our stock recommendations with 5 upgrades and 12 downgrades.*
- *The aggregate earnings estimate for FY2020 of the FBM KLCI constituents under our coverage was slashed by a whopping -17.6% to RM43.8b.*
- *We maintain our 2020 FBM KLCI baseline target at 1,320 points.*

## FBM KLCI

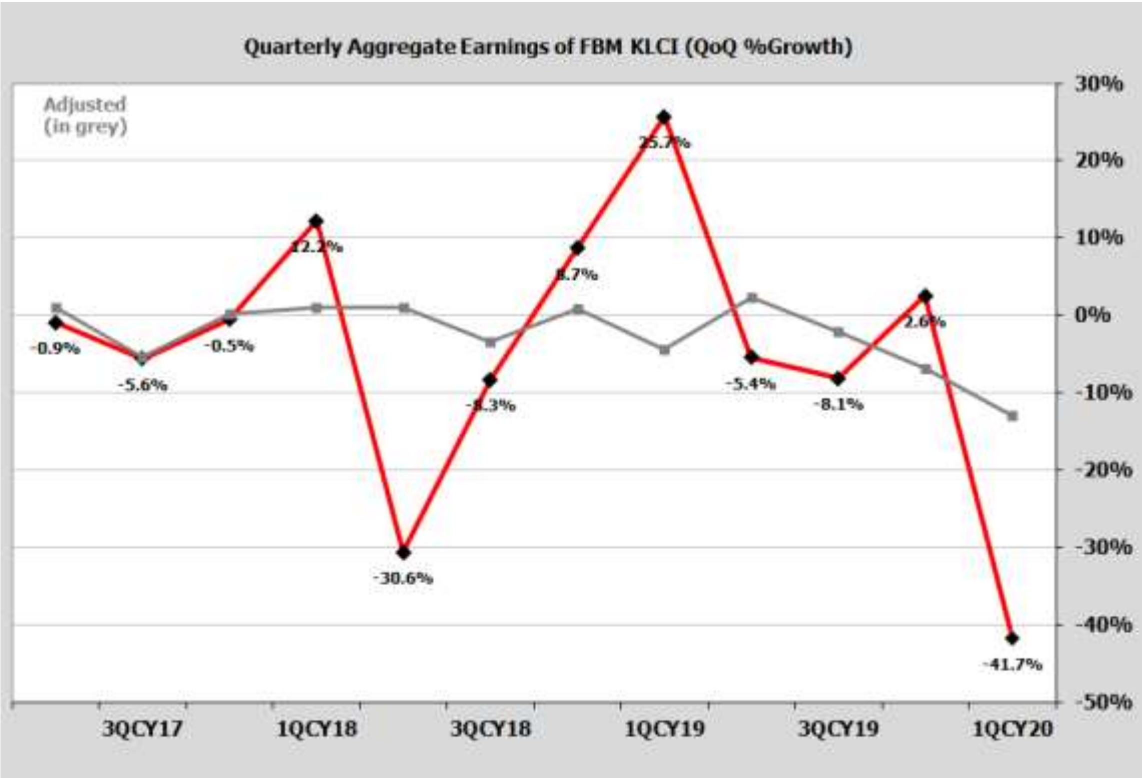
The aggregate reported earnings of FBM KLCI 30 constituents totalled only RM7.57b in 1QCY20. It registered starkly negative growth both sequentially and on-year at -41.7%qoq and -48.0%yoy respectively.




Source: Bloomberg, MIDFR

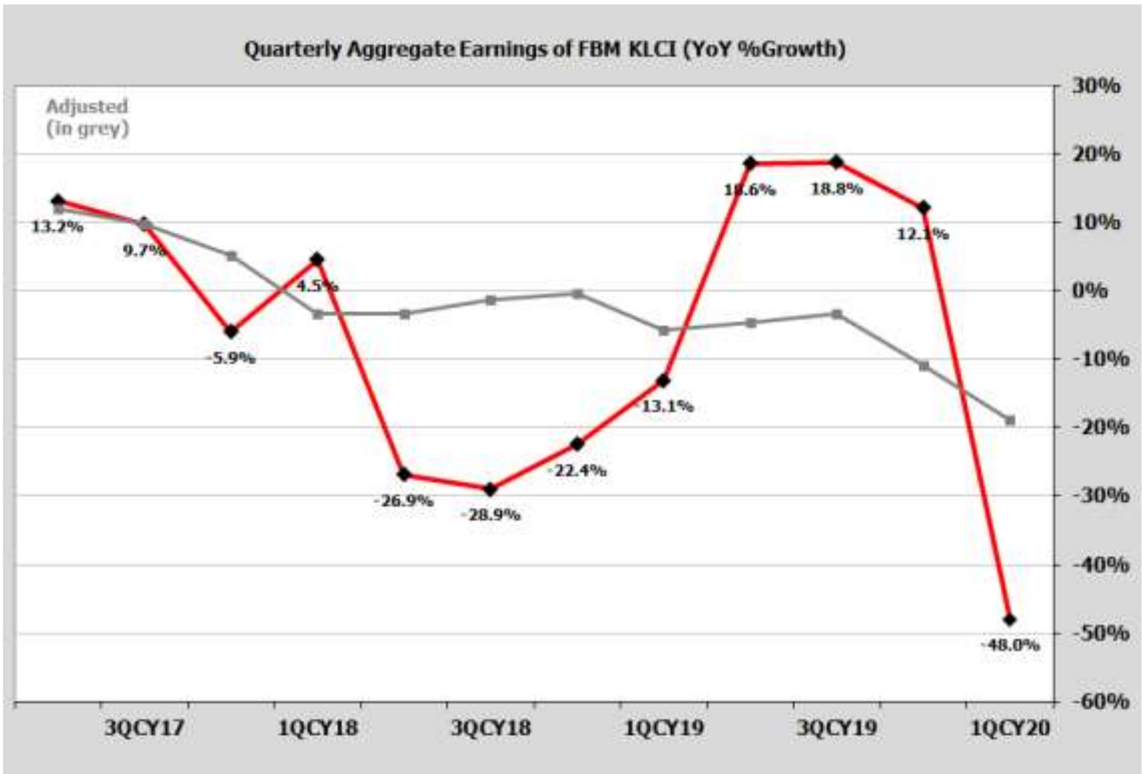
The aggregate reported earnings figure requires some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance. On this score, the aggregate normalized 1QCY20 earnings of FBM KLCI 30 constituents came in higher at RM11.40b (after adjusting for, among others, the RM3.04b and RM1.05b provisions for goodwill impairment and litigation by Sapura Energy and MISC respectively).

After neutralizing the impact of non-operational items (1QCY20: -RM3.83b, 4QCY19: -RM96.2m, 1QCY19: RM516.3m), the aggregate normalized growth in 1QCY20 was less negative both sequentially and on-year at -12.9%qoq and -18.8%yoy respectively.




Source: Bloomberg, MIDFR

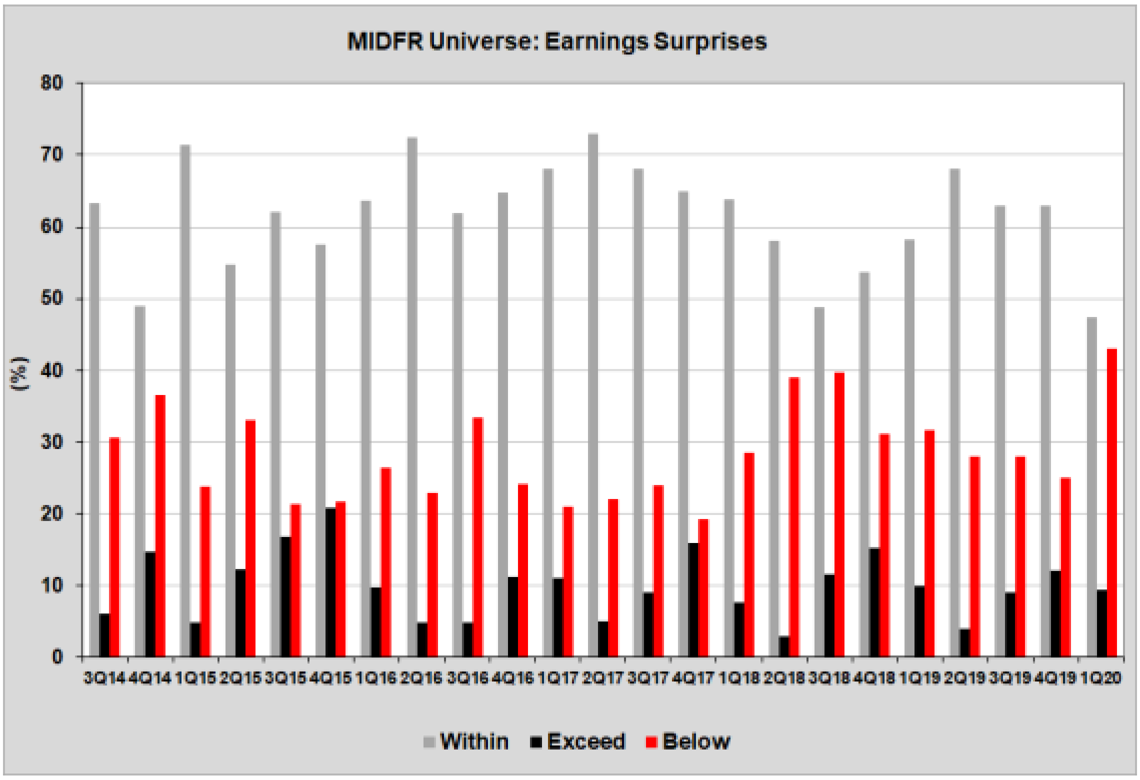
It is also noteworthy that the normalized sequential performance in 1QCY20 registered a further growth deterioration vis-à-vis -6.9%qoq achieved in the prior quarter. Likewise, the adjusted on-year performance in 1QCY20 was inferior in comparison to the -10.9%yoy growth achieved during the preceding quarter.




Source: Bloomberg, MIDFR

## MIDFR Universe

Under MIDFR Universe, we made 17 changes to our stock recommendations with 5 upgrades and 12 downgrades. Moreover, target price changes involved 23 upward against 54 downward adjustments. Refer to Appendix 1 for company-specific details with regard to revisions in recommendations and target prices.




Source: MIDFR

The percentage of companies within MIDFR Universe which registered earnings that came below our expectations jumped to 43% in 1QCY20 from 25% in the prior quarter. Moreover, the percentage of positive surprises declined to 9% in 1QCY20 from 12% in the prior quarter.

**MIDFR Universe: Earnings Surprises**

| | Within | Exceed | Below |
|---|---|---|---|
| **CONSTRUCTION** | 0% | 0% | 100% |
| **CONSUMER PRODUCTS & SERVICES** | 56% | 0% | 44% |
| **ENERGY** | 43% | 14% | 43% |
| **FINANCIAL SERVICES** | 50% | 25% | 25% |
| **HEALTH CARE** | 0% | 57% | 43% |
| **INDUSTRIAL PRODUCTS & SERVICES** | 73% | 0% | 27% |
| **PLANTATION** | 25% | 13% | 63% |
| **PROPERTY** | 50% | 0% | 50% |
| **REITS** | 25% | 0% | 75% |
| **TECHNOLOGY** | 40% | 0% | 60% |
| **TELECOMMUNICATIONS & MEDIA** | 57% | 0% | 43% |
| **TRANSPORTATION & LOGISTICS** | 75% | 13% | 13% |
| **UTILITIES** | 100% | 0% | 0% |
| **TOTAL** | **47%** | **9%** | **43%** |

Source: MIDFR

Accordingly, companies with results which met expectation declined to 47% in 1QCY20 from 63% in the prior quarter. Refer to Appendix 2 for company-specific details with regard to the earnings outperformers and underperformers.

**MIDFR Universe: Sectoral Quarterly Net Profit (as reported, RM Million)**

| | YoY (%) | QoQ (%) | 1Q20 | 4Q19 | 3Q19 | 2Q19 | 1Q19 | 4Q18 | 3Q18 | 2Q18 | 1Q18 | 4Q17 | 3Q17 | 2Q17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CONSTRUCTION | (48.6) | 22.8 | 279 | 228 | 357 | 349 | 544 | 366 | 52 | 409 | 363 | 462 | 337 | 410 |
| CONSUMER P&S | (66.1) | (34.6) | 520 | 795 | 874 | 821 | 1,535 | 566 | 2,112 | 1,690 | 2,325 | 1,034 | 2,008 | 789 |
| ENERGY | (722.9) | 3,750.0 | -4,334 | -113 | 333 | 183 | 696 | -1,087 | -455 | -587 | -2,134 | -22 | 373 | 200 |
| FINANCIAL SERV | (16.0) | (21.6) | 6,263 | 7,993 | 7,352 | 7,721 | 7,457 | 7,826 | 7,578 | 8,062 | 7,664 | 7,371 | 7,232 | 6,432 |
| HEALTH CARE | (79.4) | (65.3) | 86 | 248 | 513 | 454 | 417 | 872 | 264 | 488 | 421 | 462 | 402 | 586 |
| INDUSTRIAL P&S | (38.7) | (8.4) | 617 | 674 | 895 | 1,415 | 1,006 | 1,603 | 1,447 | 1,639 | 1,219 | 1,560 | 1,171 | 1,253 |
| PLANTATION | (28.9) | (30.2) | 381 | 546 | -135 | 97 | 536 | 415 | -421 | 242 | 2,642 | 1,595 | 1,132 | 2,058 |
| PROPERTY | (97.6) | (98.3) | 11 | 657 | 465 | 548 | 465 | 625 | 432 | 1,200 | 442 | 868 | 839 | 902 |
| REITS | (21.2) | (47.7) | 296 | 565 | 356 | 416 | 375 | 483 | 469 | 592 | 371 | 759 | 383 | 480 |
| TECHNOLOGY | 4.4 | 17.0 | 116 | 99 | 72 | 125 | 111 | 172 | 32 | 162 | 140 | 192 | 183 | 178 |
| TELECO & MEDIA | (38.6) | 8.6 | 1,136 | 1,046 | 1,241 | 1,277 | 1,849 | -725 | 849 | -2,185 | 1,090 | 834 | 1,764 | 1,622 |
| TRANSP & LOGIS | (203.4) | (272.5) | -929 | 539 | 753 | 861 | 899 | 710 | 755 | 596 | 976 | 448 | 1,009 | 881 |
| UTILITIES | (46.3) | (4.3) | 1,252 | 1,308 | 1,777 | 1,839 | 2,332 | 347 | 1,310 | 1,973 | 2,943 | 2,995 | 2,482 | 2,874 |
| TOTAL | (67.8) | (61.1) | 5,823 | 14,969 | 14,904 | 16,090 | 18,065 | 12,566 | 13,510 | 13,920 | 17,319 | 17,756 | 18,810 | 18,572 |

Source: MIDFR

Cumulatively, the reported earnings of companies under MIDFR Universe slumped to RM5.82b in 1QCY20 mainly due to huge provisions by Sapura Energy (under Energy sector) and MISC (under Transport & Logistics sector), among others. The aggregate earnings growth was decidedly negative both sequentially and on-year at -61.1%qoq and -67.8%yoy respectively.

Technology was the only sector which recorded improved total earnings (as reported) in 1QCY20 when compared to both the preceding quarter and corresponding period last year.

On the other hand, almost all other sectors (save Telco & Media and Construction) showed both negative sequential and on-year earnings (as reported) growth percentages in 1QCY20.

## Sectoral commentary

**Construction:** Generally, our review on construction counters has revealed uninspiring results for 1QFY20. To recall, 3 stocks have performed within and 8 stocks have performed below our expectations. Unfortunately, there was no outperformer during the current reporting season. To begin with, the slowdown in construction activities was expected due to the implementation of Movement Control Order (MCO) by the Government. The Works Ministry has announced that all construction work must be halted during the MCO except for critical works. As a result, the MCO period have been a challenging period for local contractors as the MCO impacted (1) progress billings for construction and property development, (2) property sales, (3) construction activities, and (4) toll road collections. We maintain our NEUTRAL view on the sector in view of recovery post-MCO. Nonetheless, we do anticipate slower rate of progress billings due to the (1) disruption in the building material supply chain, and (2) additional construction site restrictions.

**Consumer (Automotive):** 1Q20 results of auto stocks under our coverage were all well within expectations; we had already made significant downward revisions to our CY20F earnings projections back in April, at the peak of the Covid19 pandemic in Malaysia and following multiple extensions of the Movement Control Order (MCO), which would had pre-emptively, resulted in rising unemployment, slower economic growth and dented consumer sentiment. Bermaz Auto (FYE Apr) however, managed to outperform our expectation slightly, as it managed to squeeze out a small profit in its 4QFY20 (despite half of the quarter being impacted by the MCO), versus our expectation of a net loss. Tan Chong slipped into the red for its 1Q20 (in line with our net loss expectation for its FY20F). UMW and MBM Resources reported a 43%yoy and 45%yoy earnings contraction respectively, given the impact of the MCO which commenced in March 2020. Our aggregate CY20F sector earnings forecast remains unchanged with expectation of a 31%yoy earnings contraction in FY20F, which was recently revised up from the previous 50%yoy earnings contraction following a sales tax holiday incentive for car purchases announced under the PENJANA stimulus package that should provide a meaningful boost to demand in 2H20.

**Consumer (F&B; Retail):** Based on the latest quarterly results, consumer staple companies under our coverage reported results that vary: Nestle (below), F&N (within), QL Resources (within) and Spritzer (within). Supply chain weakened during the Covid-19, resulting in an increase in certain raw material prices. Consumers stocked up some essentials prior to the Movement Control Order (MCO) but the spike in demand wane down subsequently. As for the factories, utilisation rates came off from the optimum level as companies have to observe the new standard operating procedures of social distance and more stringent hygiene and sanitization. Consumers increasingly skewed towards necessities in their spending as oppose to discretionary items in face of job prospect uncertainties. Aeon Co's results missed our estimates as the MCO had a bigger than expected impact on its general merchandises segment as well as lower sale commissions received from its tenants that are deemed non-essential. We maintain NEUTRAL on the sector due to high valuation while earnings growth is expected to be limited in the near-term.

**Energy (Oil & Gas):** The oil and gas support services companies operating in the upstream and midstream segments fared well in general despite the restriction of movement imposed during the quarter by the Malaysian government and governments worldwide. In addition, we continue to observe improved operations and profits coming from both onshore and offshore storage providers, i.e. FPSO following the steep decline in oil price last quarter. This in turn has resulted in recovery in the daily charter rates and utilization rates for the vessels during the quarter. That said, the downstream oil and gas companies were mostly hit by the steep and sudden decline in Brent crude oil price and industry-specific challenges during the quarter. Some profits were shaved during the quarter due to lower and less favourable average selling prices (ASPs) and weak demand during the quarter which was attributable to the weak Brent crude oil price movement during the period under review and the Covid19 pandemic.

**Financial (Banking):** We observed that while earnings in 1QCY20 were broadly within our expectations, it was weighed down by higher provisions as banks factored in the impact of Covid-19 and MCO. Also, we had observed higher gross impaired loans ratio partly due to increased delinquencies in anticipation of the loan moratorium. Net interest income was weakened due to net interest margins compression following from the OPR cuts. However, we expect this to normalise fairly quickly as fixed deposits growth have been muted, allowing banks to reprice its deposits lower, leading to lower cost of fund. Loans growth continued to be stable. While we expect new loans growth might contract in the coming quarters, overall loans book might be stable as there will be minimal repayments during the loan moratorium period. Going forward, our concern will be on asset quality especially post loan moratorium.

**Financial (Insurance):** Two out of the three insurance companies under our coverage performed within our expectation while the remaining one was below our expectation. On the general insurance segment, we observed that the performance continued to be subdued as the segment's industry gross written premium (GWP) continues to experience contraction. In addition, the lower demand in general insurance coupled with an increase in claims and management expenses had affected the underwriting performance of the industry amidst the liberalisation exercise of the motor and fire insurance. Moreover, the weakening economic indicators and consumer sentiments resulted from the Covid-19 outbreak and coronavirus lockdowns further dampened the insurance demand. Consequently, this has negatively affected the performance of most of the general insurers' top-line particularly Tune Protect Group Berhad's (SELL, TP:RM0.25) travel insurance performance due to travel restriction. Nonetheless, life insurance companies under our coverage displayed resiliency evidenced by its stable performance in its gross written premium.

**Healthcare (Equipment-Glove):** Three out of gloves producers reported earnings that were better than expected in 1QCY2020 as earnings were boosted by increase in average selling price (ASP) of gloves and higher sales volume of gloves. The widening of Covid-19 outbreak worldwide has led to higher demand for gloves and resulting into upward revision in ASP. Besides, earnings of glove makers were also helped by lower raw material prices and strengthening of USD. In a nutshell, earnings outlook for glove makers remains positive in 2HCY2020 however we think that the positives were largely priced in at the moment. Hence, we maintain Neutral on the sector.

**Healthcare (Provider):** Hospital operators recorded healthy core operating performance in the 1QFY20. The worldwide outbreak of the novel coronavirus (Covid-19) has resulted in lower inpatient admissions to the hospitals following the implementation of travel and movement restrictions to curb the spread of Covid19 both locally and internationally which has in general resulted in the decline in revenue for both healthcare service providers IHH & KPJ. That said, revenue intensity per patient has increased to compensate for the lack of patients as more complex cases were undertaken during the quarter. As for the pharmaceutical players, revenue and earnings have seen an increase following the influx of orders from both government and private hospitals during the pandemic period.

**Media:** 1QCY20 earnings of all media companies under our coverage underperformed. This was mainly attributable to the larger decline in advertising expenditure (adex) across most major traditional media platforms such as TV, Radio, Out-of-Home, and Publishing which still constituted a large chunk of the business. Digital segment did not go unscathed as well, recording subdued earnings performance. We opine that the lower adex was possibly due to businesses held back or reduced their marketing budgets amidst the weakening economic conditions and subdued business sentiments arising from the Covid-19 outbreak and movement control order (MCO). As a result, these developments had led to a lackluster financial performance of media companies. Nonetheless, the cost rationalisation exercises implemented earlier such as right-sizing of the workforce, particularly at the TV segment helped to partially address the concern on operating costs. Meanwhile, the home shopping networks (i.e. Go Shop and CJ Wow shop) has generated higher sales during the MCO albeit remain a smaller contributor to earnings. We also observed that the cash reserve of the media companies under coverage remains healthy and stable at current juncture.

**Plantation:** Most plantation companies under our coverage have experienced a better quarter in view of the favourable price of crude palm oil (CPO) in 1QCY20. The average selling spot price (ASP) of CPO in the 1QCY20 was RM2,670/metric tonne (mt) as compared to 4QCY20 of RM1,950/mt. On a year-over-year comparison, CPO price has improved by +37.0%yoy. This was mainly due to the CPO inventory level was declining amidst the tapering production growth and anticipated supply tightness in the export market. Nonetheless, most plantation companies experienced a larger-than-expected fall in fresh fruit bunches (FFB) production which led to lower sales volume. The lower FFB output was also probably compounded by the reduced half-capacity of workforce and the closure of oil palm plantation estates in Sabah which further disrupted the operations of the companies under our coverage amidst the movement control order. As a result, six out of nine plantation companies under our coverage have performed below our expectations.

**Property:** Most of the property developers reported earnings that were below expectations in the recently concluded earnings reporting season mainly due to enforcement of MCO in March which has led to delayed construction progress of property projects and closure of sales gallery. New property sales of developers are also dismal as MCO caused disruption to business activities. Notably, some of the developers such as S P Setia and Eco World Development have revised downwards their new sales target to suit the cautious market sentiment. Looking forward, earnings of developers are expected to remain weak in 2QCY2020 as construction works were only fully resumed in June 2020. Nevertheless, new property sales outlook is expected to improve in 2HCY2020 as property buying activities should be supported by Penjana incentives namely reintroduction of Home Ownership Campaign (HOC). In a nutshell, we maintain our Neutral stance on the property sector.

**REITs:** Earnings of REITs missed expectations mainly due to lower than expected rental income. Only 3 out of 8 REITs under our coverage reported earnings that are within our expectation. A drop in rental income during the quarter as a result of the MCO has hurt shopping malls and hotels. As the MCO was extended, hurting non-essential services tenants, we expect 2QCY20 to be more challenging than 1QCY20. In 1QCY20, we saw IGB REIT, Sunway REIT, Pavilion REIT, and CMMT reporting earnings that are below expectation. Although offices are not affected immediately, we do not rule out that asset owner may assist tenants by giving rebates to help them through the challenging times. Rental income for industrial assets is relatively more resilient. REIT managers are trying to preserve cash to help them weather through the pandemic by introducing dividend reinvestment programs, scaling down in non-essential asset enhancement initiatives and lowering the frequency in payment of dividend. We maintain our NEUTRAL stance on the sector due to limited upside in terms of earnings growth and dividend payment that can be affected due to lower rental income.

**Technology:** The semiconductor companies under our coverage displayed a mix set of results. Only Globetronics Technology Bhd (Sell, TP:RM1.67) posted a recovery in earnings during the quarter while its peers recorded a decline in their respective earnings. Generally, the earnings performance of semiconductor companies was impacted by the movement control order (MCO) in March 2020 which led to restriction in production activities. Nonetheless, Unisem (M) Bhd (Neutral, TP:RM1.90) was impacted the most, registering a normalised loss during the quarter. Fortunately, the timely cessation of its Batam operation has partially limit the adverse impact on the Covid19 outbreak. On the contrary, online services provider i.e. MY E.G Services Bhd (Buy, TP:RM1.58) displayed resiliency in their quarterly earnings performance.

**Telecommunication:** Telecommunication service providers under our coverage recorded double digit decline in earnings on a year-over-year basis. This ranges from -10.7%yoy to -18.8%yoy. With regard to Telekom Malaysia Bhd (Sell, TP:RM3.15), the decrease in earnings was mainly due to lower revenue generated (-8.0%yoy) during the quarter from across all its business segments. This was further impacted by the lower profit margin as the opex-to-revenue ratio increased. Meanwhile, the mobile telecommunication service providers recorded slightly higher revenue performance, ranging from +1.5%yoy to +4.9%yoy. This was mainly supported by the increase in sale of devices while the service revenue experienced a slight contraction. On the contrary, all the mobile telecommunication service providers recorded thinner profit margin.

**Utilities (Power):** Tenaga, YTL Power and Ranhill's 1QCY20 earnings came in line with expectations. However, YTL Corp disappointed both our and consensus estimates given weakness at its hotel division and its management services division, coupled with inflated effective tax rate throughout its 9MFY20 (FYE June). Power demand weakened in 1Q20 (-2%yoy) given impact of the MCO which commenced on 18th March, and is likely worsen in 2Q20 (given longer MCO period reflected) before recovering in 2H20. However, Tenaga's regulated earnings is pretty much defensive as it operates on a revenue-cap basis under the IBR (Incentive Based Framework), which compensates Tenaga for any shortfall in actual demand relative to the 1.8%-2.0% annual demand growth projected under the Regulatory Period 2 (2018-2020) forecasts. Malaysian IPPs (independent power producers) meanwhile, is governed by long-term PPAs (Power Purchase Agreements) and attains capacity payment based on plant availability to the grid.

## Outperformer versus underperformer

In comparison to the preceding quarter, there were more underperformers in 1QCY20 but equal number of outperformers.

**FBM KLCI: Outperformer versus Underperformer**

| | No. of Outperformer | No. of Underperformer |
|---|---|---|
| 1QCY20 | 3 | 9 |
| 4QCY19 | 3 | 7 |
| 3QCY19 | 2 | 4 |
| 2QCY19 | 1 | 7 |
| 1QCY19 | 2 | 6 |

Source: MIDFR

## Changes to forward earnings

The aggregate FY2020 earnings of the FBM KLCI constituents under our coverage came in -17.6% lower at RM43.8b vis-à-vis our earlier estimate prior to the latest reporting season.

Likewise, the aggregate FY2019 earnings of the stocks under MIDFR coverage universe came in -18.8% lower at RM58.6b vis-à-vis our earlier estimate.

Refer to Appendix 3 with regard to changes in aggregate earnings estimates.

## Maintain FBM KLCI 2020 baseline target at 1,320 points

In gist, the latest quarterly corporate earnings performance was decidedly bearish with the normalized growth figures both sequentially and on-year under heightened pressure which were duly translated in the massive diminution of our aggregate forward earnings estimate for FY2020.

We maintain our year-end 2020 baseline target for the local benchmark at 1,320 points.

**APPENDIX 1**

**MIDFR Universe: Changes in Recommendations & Target Prices**

| STOCK | SECTOR | RECOMMENDATION | | TARGET PRICE (RM) | |
|---|---|---|---|---|---|
| | | Old | New | Old | New |
| Affin Bank | Banking | NEUTRAL | NEUTRAL | 1.55 | 1.65 |
| BIMB Holdings | Banking | BUY | BUY | 4.05 | 4.25 |
| CIMB Group | Banking | BUY | TRADING BUY | 4.30 | 3.95 |
| Maybank | Banking | BUY | BUY | 8.00 | 8.20 |
| Public Bank | Banking | BUY | BUY | 17.00 | 17.20 |
| RHB Bank | Banking | BUY | BUY | 5.10 | 5.25 |
| Malayan Cement | Cement | NEUTRAL | NEUTRAL | 3.29 | 2.70 |
| CMS | Construction | BUY | BUY | 2.21 | 1.70 |
| Gabungan AQRS | Construction | BUY | BUY | 1.42 | 1.01 |
| Gamuda | Construction | BUY | NEUTRAL | 3.70 | 3.35 |
| Hock Seng Lee | Construction | BUY | BUY | 1.54 | 1.21 |
| KKB | Construction | BUY | BUY | 1.90 | 2.10 |
| Muhibbah Eng | Construction | BUY | BUY | 2.08 | 1.35 |
| SunCon | Construction | BUY | BUY | 2.21 | 2.26 |
| WCT | Construction | BUY | NEUTRAL | 0.64 | 0.52 |
| Aeon Co (M) | Consumer | NEUTRAL | NEUTRAL | 1.22 | 1.08 |
| Leong Hup | Consumer | NEUTRAL | NEUTRAL | 0.82 | 0.60 |
| Nestlé (Malaysia) | Consumer | NEUTRAL | NEUTRAL | 148.00 | 143.90 |
| Panasonic | Consumer | NEUTRAL | NEUTRAL | 30.66 | 29.62 |
| PPB Group | Consumer | NEUTRAL | NEUTRAL | 18.60 | 17.95 |
| QL Resources | Consumer | NEUTRAL | NEUTRAL | 7.46 | 9.21 |
| Spritzer | Consumer | BUY | NEUTRAL | 2.73 | 2.15 |
| BAT | Consumer | BUY | BUY | 16.00 | 15.70 |
| Hong Leong Fin | Financial Services | NEUTRAL | NEUTRAL | 17.00 | 14.10 |
| MSM | Food & Beverages | NEUTRAL | NEUTRAL | 0.81 | 0.74 |
| Hartalega | Gloves | SELL | NEUTRAL | 4.90 | 8.78 |
| Kossan | Gloves | NEUTRAL | NEUTRAL | 4.64 | 9.00 |
| Supermax | Gloves | NEUTRAL | NEUTRAL | 1.75 | 4.09 |
| Top Glove | Gloves | BUY | NEUTRAL | 6.63 | 17.30 |
| IHH Healthcare | Healthcare | BUY | BUY | 6.45 | 6.34 |
| KPJ Healthcare | Healthcare | NEUTRAL | NEUTRAL | 0.93 | 0.94 |
| Pharmaniaga | Healthcare | BUY | BUY | 2.35 | 3.16 |
| UEM Edgenta | Healthcare | BUY | BUY | 3.22 | 3.23 |
| Sunway Berhad | Industrial | NEUTRAL | BUY | 1.72 | 1.59 |
| LPI Cap | Insurance | NEUTRAL | NEUTRAL | 15.50 | 11.70 |
| Takaful | Insurance | NEUTRAL | NEUTRAL | 5.10 | 4.82 |

| STOCK | SECTOR | RECOMMENDATION | | TARGET PRICE (RM) | |
|---|---|---|---|---|---|
| | | Old | New | Old | New |
| Tune Protect | Insurance | NEUTRAL | SELL | 0.42 | 0.25 |
| Astro | Media | BUY | NEUTRAL | 1.04 | 0.86 |
| Media Prima | Media | BUY | SELL | 0.32 | 0.12 |
| Star Media | Media | NEUTRAL | NEUTRAL | 0.36 | 0.34 |
| Bursa Malaysia | Non-Bank Fin | NEUTRAL | TRADING BUY | 5.90 | 6.45 |
| MBSB | Non-Bank Fin | NEUTRAL | NEUTRAL | 0.80 | 0.70 |
| Dayang Ent | Oil & Gas | NEUTRAL | NEUTRAL | 2.69 | 1.42 |
| Favelle Favco | Oil & Gas | BUY | BUY | 3.41 | 3.00 |
| MMHE | Oil & Gas | NEUTRAL | NEUTRAL | 0.72 | 0.43 |
| Petronas Chem | Oil & Gas | BUY | NEUTRAL | 6.75 | 5.85 |
| Petronas Dagang | Oil & Gas | BUY | NEUTRAL | 24.58 | 21.39 |
| Petronas Gas | Oil & Gas | NEUTRAL | NEUTRAL | 17.52 | 16.00 |
| Sapura Energy | Oil & Gas | NEUTRAL | TRADING BUY | 0.09 | 0.11 |
| Wah Seong Cop | Oil & Gas | NEUTRAL | NEUTRAL | 1.40 | 0.66 |
| FGV | Plantation | NEUTRAL | NEUTRAL | 1.18 | 1.02 |
| Genting Plant | Plantation | BUY | BUY | 11.80 | 12.10 |
| IJM Plant | Plantation | NEUTRAL | NEUTRAL | 1.86 | 1.70 |
| IOI Corp | Plantation | NEUTRAL | SELL | 4.30 | 3.58 |
| KL Kepong | Plantation | NEUTRAL | NEUTRAL | 23.64 | 20.19 |
| Sime Darby Plant | Plantation | NEUTRAL | NEUTRAL | 4.93 | 5.19 |
| Ta Ann | Plantation | NEUTRAL | NEUTRAL | 3.06 | 2.44 |
| TSH Res | Plantation | NEUTRAL | BUY | 1.27 | 1.20 |
| E&O | Property | NEUTRAL | NEUTRAL | 0.42 | 0.57 |
| IOI Prop | Property | BUY | BUY | 1.33 | 1.21 |
| Mah Sing | Property | BUY | BUY | 0.88 | 0.70 |
| S P Setia | Property | BUY | BUY | 1.86 | 1.33 |
| UEM Sunrise | Property | BUY | BUY | 0.91 | 0.54 |
| UOA Dev | Property | BUY | BUY | 2.20 | 2.06 |
| Amanahraya REIT | REIT | NEUTRAL | NEUTRAL | 0.73 | 0.68 |
| Axis REIT | REIT | NEUTRAL | NEUTRAL | 1.73 | 1.83 |
| CMMT | REIT | NEUTRAL | NEUTRAL | 1.01 | 0.69 |
| IGB REIT | REIT | NEUTRAL | NEUTRAL | 1.90 | 1.70 |
| KLCCP Stapled | REIT | NEUTRAL | NEUTRAL | 7.78 | 7.57 |
| Pavilion REIT | REIT | NEUTRAL | NEUTRAL | 1.71 | 1.73 |
| Sunway REIT | REIT | BUY | BUY | 2.02 | 1.88 |
| D&O Green Tech | Technology | NEUTRAL | TRADING SELL | 0.79 | 0.63 |
| Inari Amertron | Technology | NEUTRAL | NEUTRAL | 1.54 | 1.36 |
| MY E.G. | Technology | BUY | BUY | 1.49 | 1.58 |

| STOCK | SECTOR | RECOMMENDATION | | TARGET PRICE (RM) | |
|---|---|---|---|---|---|
| | | Old | New | Old | New |
| Unisem (M) | Technology | NEUTRAL | NEUTRAL | 2.09 | 1.90 |
| Tenaga | Utilities | BUY | BUY | 13.80 | 13.70 |

Source: MIDFR

## APPENDIX 2

**MIDFR Universe: Outperformers and Underperformers**

| STOCK | SECTOR | Versus EXPECTATION (Above/Below) | COMMENT |
|---|---|---|---|
| Alliance Bank | Banking | Above | Lower provisions than expected |
| AMMB Holdings | Banking | Above | Better than expected net interest income that stemmed from NIM improvement despite OPR cuts |
| BIMB Holdings | Banking | Above | Overestimated the income attributable to depositors |
| Hartalega | Gloves | Above | Earnings came in higher than expected mainly due to lower than expected raw material cost |
| Supermax | Gloves | Above | The positive deviation could be attributed to the stronger than expected average selling price (ASP) of gloves and better than expected margin |
| Top Glove | Gloves | Above | The higher than expected earnings could be attributed to the stronger-than-expected sales of gloves and the lower-than-expected raw material prices |
| Pharmaniaga | Healthcare | Above | Earnings came in above expectation due to increase in sales orders coming from both Malaysian and Indonesian government hospitals following the Covid19 pandemic |
| Bursa Malaysia | Non-Bank Fin | Above | Higher than expected trading revenues |
| Sapura Energy | Oil & Gas | Above | Earnings came in above expectations due to better revenue and margin recognised from its E&C segment |
| TSH Res | Plantation | Above | Higher-than-expected FFB yield and ASP of CPO |
| CIMB Group | Banking | Below | Higher than expected provisions |
| Malayan Cement | Cement | Below | The continued decline in domestic cement demand; and exacerbated by the implementation of MCO |
| CMS | Construction | Below | Weaker performance for all divisions except for the cement division in the current quarter |
| Gabungan AQRS | Construction | Below | Lower profit margin for the in-house projects as compared to external projects; Work progress for external projects during the current quarter was lower compared to the preceding year quarter |
| Gamuda | Construction | Below | Mainly attributable to the MCO implementation from 18 March 2020 which has also led to: cessation of almost all construction and properties activities, and much lower traffic volumes on its toll roads |
| Hock Seng Lee | Construction | Below | Lower earnings attributed by: Increase in non-productive days for civil engineering and construction works due to the implementation of MCO; and the lockdowns in China since February also adversely impacted the material supply chain |

| STOCK | SECTOR | Versus EXPECTATION (Above/Below) | COMMENT |
|---|---|---|---|
| Muhibbah | Construction | Below | Lower profit contribution from airport concession division which has been adversely impacted by the global COVID-19 pandemic |
| SunCon | Construction | Below | Decline in construction activities due to the MCO imposed |
| WCT | Construction | Below | Slower work progress for some construction projects; and the revision in the expected margin of certain projects |
| Aeon Co (M) | Consumer | Below | Closure of the general merchandise sales and non-essential services tenants during the Movement Control Order has negatively affected income |
| BAT | Consumer | Below | Sales volume declined by 21%yoy and 24%qoq partially due to the loack down |
| Leong Hup | Consumer | Below | ASP of livestock products stayed low due to subdue demand |
| Nestlé (Malaysia) | Consumer | Below | More stringent SOPs led to higher operating costs. Some raw material costs had also creeped up |
| Panasonic | Consumer | Below | Covid-19 affected demand for home appliances and fan products |
| PPB Group | Consumer | Below | Lower contribution was recorded across all its core businesses as well as from its associates, Wilmar |
| MSM | Food & Bev | Below | Higher depreciation, finance cost and operation cost at MSM Johor |
| IHH Healthcare | Healthcare | Below | Lower inpatient admissions due to lockdowns imposed to curb the spread of Covid19 resulted in lower revenue for the group |
| UEM Edgenta | Healthcare | Below | Lower revenue recognised from government hospitals under its HSS concession dragged earnings |
| KPJ Healthcare | Healthcare | Below | Lower inpatient admissions due to lockdowns imposed to curb the spread of Covid19 resulted in lower revenue for the group |
| Sunway Berhad | Industrial | Below | The weaker than expected earnings could be attributed to the weaker than expected earnings from healthcare and property investment divisions as a result of Covid-19 pandemic |
| Tune Protect | Insurance | Below | Lower-than-expected NEP and underwriting profit |
| Astro | Media | Below | Lower-than-expected advertising and subscription revenue |
| Media Prima | Media | Below | Lower-than-expected net advertising revenue |
| Star Media | Media | Below | Lower-than-expected revenue at its print and digital segment |
| Aeon Credit | Non-Bank Fin | Below | Higher than expected provisions |
| MBSB | Non-Bank Fin | Below | Higher than expected provisions |
| Favelle Favco | Oil & Gas | Below | Earnings was lower due to lower sales of cranes during the quarter |
| MMHE | Oil & Gas | Below | Earnings impacted by lower revenue from its marine repair and conversion segment as it recognised lower revenue from conversion work and high unabsorbed costs |
| Petronas Chem | Oil & Gas | Below | Earnings impacted by low demand and subdued product prices arising from the steep decline in oil price during the quarter and lockdowns imposed worldwide to curb the spread of Covid19 |

| STOCK | SECTOR | Versus EXPECTATION (Above/Below) | COMMENT |
|---|---|---|---|
| Petronas Dagang | Oil & Gas | Below | Earnings impacted by unfavourable MOPS prices due to the steep decline in crude oil price during the quarter as well well; lower sales volume from the implementation of MCO |
| Wah Seong Corp | Oil & Gas | Below | Earnings was lower during the quarter following the completion of a major project back in 2019 and slower execution of projects in hand due to MCO |
| FGV | Plantation | Below | Lower-than-expected FFB production impacting revenue |
| IJM Plant | Plantation | Below | Higher-than-expected production cost |
| IOI Corp | Plantation | Below | Lower-than-expected contribution from its resource-based manufacturing segment and drastic decline in FFB yield |
| KL Kepong | Plantation | Below | Higher cost of production and lower sales volume from its downstream segment |
| Ta Ann | Plantation | Below | Lower-than-expected ASP and volume for export logs, plywood products |
| IOI Prop | Property | Below | The negative deviation could be attributed to the weaker than expected earnings from its operating segments as a result of Covid-19 pandemic |
| Mah Sing | Property | Below | The negative deviation could be attributed to the weaker than expected progress billing in 1QFY20 as a result of Movement Control Order (MCO) |
| S P Setia | Property | Below | The negative deviation was due to the higher than expected tax rate and lower than expected progress billing in 1QFY20 |
| UEM Sunrise | Property | Below | The negative deviation could be attributed to the weaker than expected progress billing in 1QFY20 as a result of Movement Control Order (MCO) |
| Axis REIT | REIT | Below | Higher than expected property expenses |
| CMMT | REIT | Below | Higher than expected rental income loss as a result of the MCO |
| IGB REIT | REIT | Below | The slight earnings miss was due to the lower income from turnover rent and car park since Movement Control Order (MCO) was implemented on 18th March 2020 |
| Pavilion REIT | REIT | Below | Higher than expected rental income loss as a result of the MCO |
| Sunway REIT | REIT | Below | Higher than expected rental income loss as a result of the MCO |
| D&O Green Tech | Technology | Below | Decline in gross profit margin and higher distribution and administrative expenses |
| Inari Amertron | Technology | Below | Reduced sales volumes in the group's optoelectronic products and lower production volume due to MCO |
| Unisem (M) | Technology | Below | Weaker revenue led by the adverse impact on MCO and lower sales volume from its Batam operation, as well as higher net finance cost and effective tax rate |

Source: MIDFR

**APPENDIX 3**

**MIDFR Universe: Changes in Aggregate Earnings Estimates**

| | **EARNINGS (RM mn)** | | | | **EARNINGS *(% Chg)*** | |
|---|---|---|---|---|---|---|
| | **FY2019** | | **FY2020** | | **FY2019** | **FY2020** |
| | **Old (P)** | **New (R)** | **Old (F)** | **New (F)** | | |
| **TOTAL (MIDFR Univ.)** | 64,576.7 | 62,698.4 | 72,160.7 | 58,560.0 | *(2.9)* | *(18.8)* |
| ***Annual % Change*** | *(1.7)* | *(4.6)* | *11.7* | *(6.6)* | | |
| **TOTAL (FBM KLCI) *** | 48,967.1 | 48,311.4 | 53,208.9 | 43,848.0 | *(1.3)* | *(17.6)* |
| ***Annual % Change*** | *1.8* | *0.4* | *8.7* | *(9.2)* | | |

Source: MIDFR
(P)–Preliminary, (R)–Revised, (E)–estimate, (F)–forecast; * Aggregate earnings of 25 FBM KLCI constituents under MIDFR coverage

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 - X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 - X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

| **MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS** | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |