

1 December 2014

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended September 2014

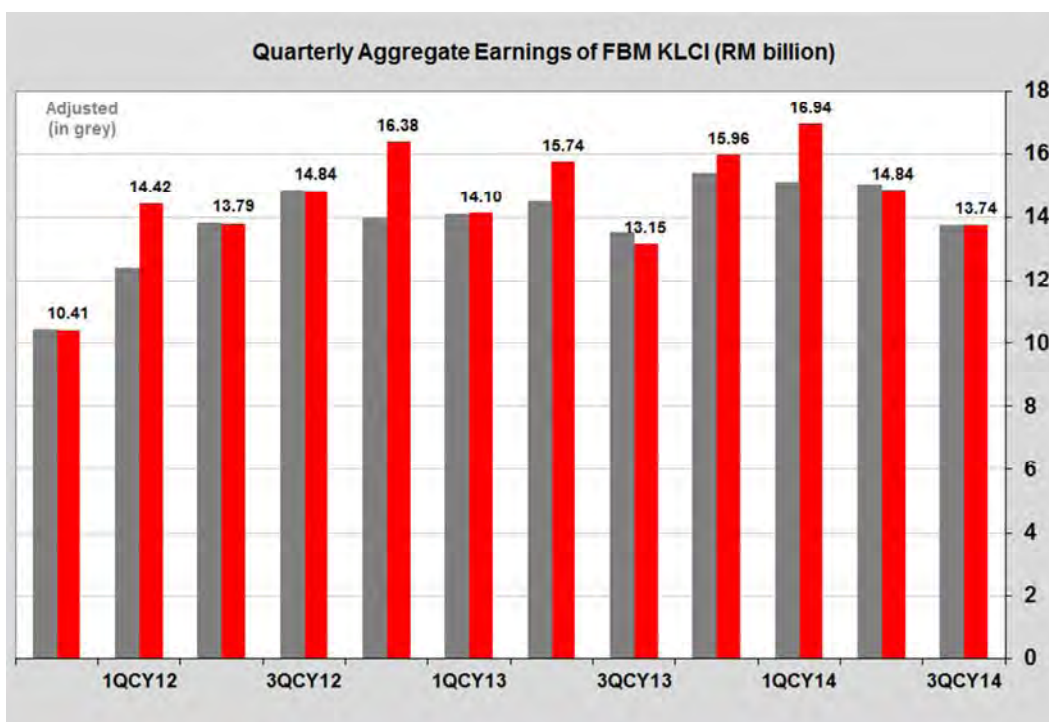
1 December 2014 | Earnings Wrap

Plainly weaker than expected

- The aggregate reported earnings of current 30 FBM KLCI companies totalled RM13.74b in 3QCY14, sequentially lower but higher on-year at -7.4%qoq and +4.5%yoy respectively.
- However, the reported growth figures were slightly buttressed by extraordinary items. Stripping off these one-off figures, the sequential and on-year adjusted growth numbers were lower at -8.5%qoq and +1.8%yoy respectively.
- The growth figures came in plainly below expectations. Recall our earnings preview report dated 19 November 2014 which anticipated higher sequential and on-year adjusted growth figures of +3.2%qoq and +14.8%yoy respectively.
- Overall, 31% of stocks under MIDFR Universe coverage reported lower-than-expected earnings. Of the rest, 6% posted earnings that were better than expected versus 63% which came in within expectations.
- We made 8 changes to our stock recommendations with 4 upgrades and 4 downgrades.
- Target price changes involved 11 upward adjustments and 26 downward adjustments.
- We removed Kinsteel Berhad from our coverage universe during the review period.

FBM KLCI

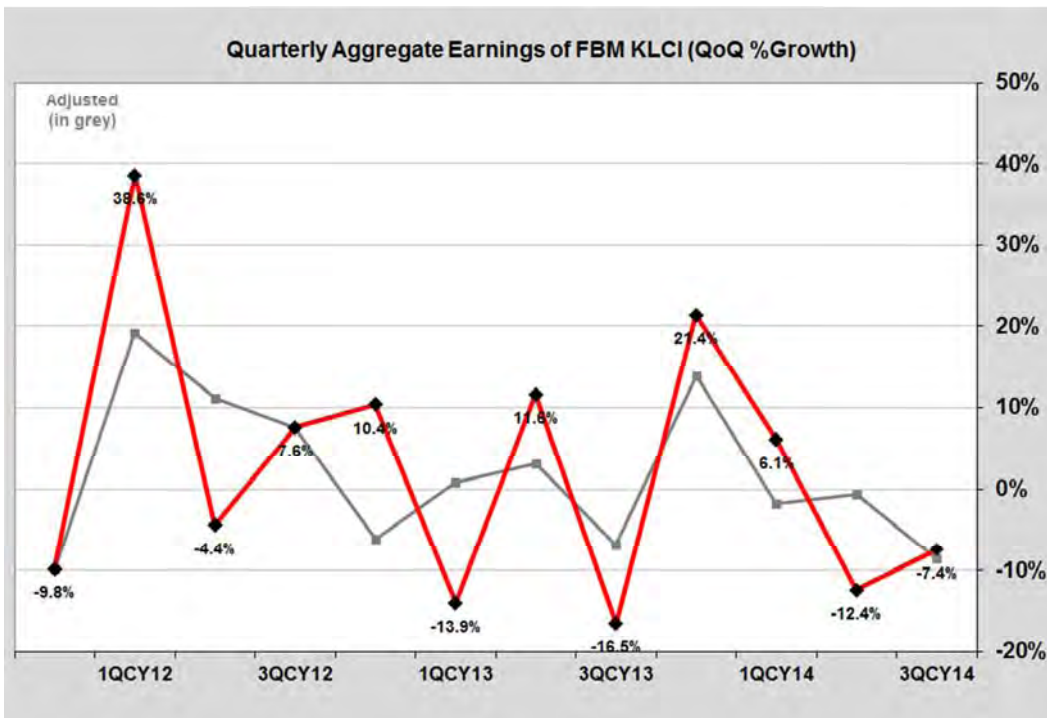
The aggregate reported earnings of current 30 FBM KLCI constituents totalled RM13.74b in 3QCY14. The figure was sequentially lower yet improved on-year at -7.4%qoq and +4.5%yoy respectively.



Source: Bloomberg, MIDFR

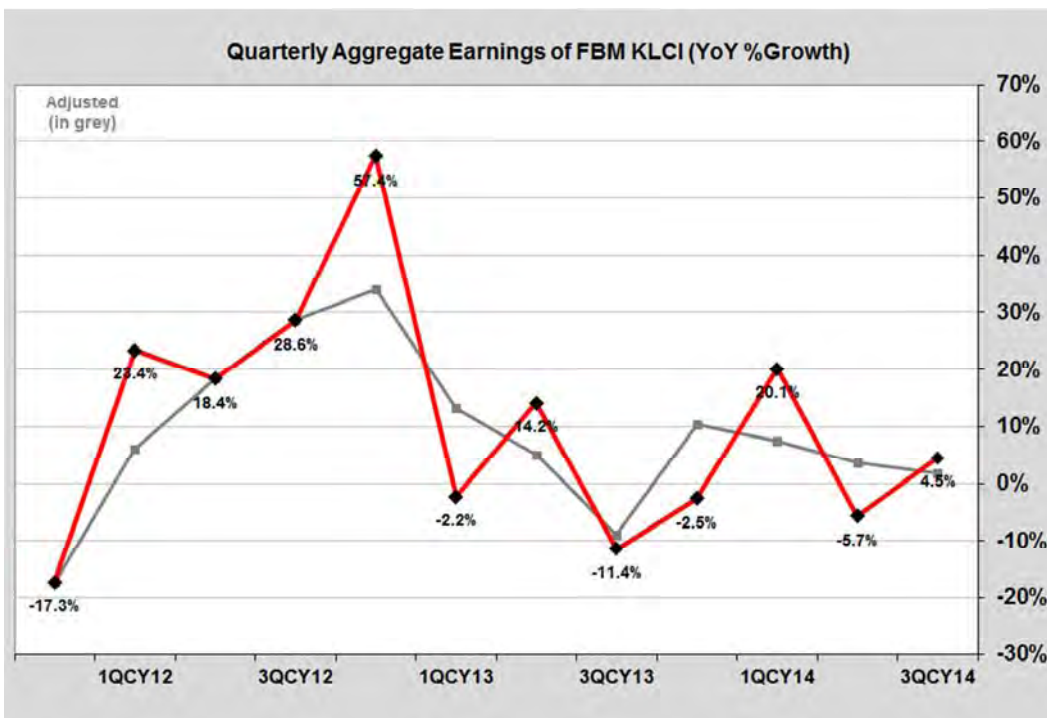
The sequential and on-year reported growth figures were however not quite reflective of the true picture.

The reported sequential growth number was slightly buttressed due to the low-base effect from an RM183m forex loss suffered by Axiata in 2QCY14. Similarly, the on-year growth number was also bumped up due to the effect of (i) CIMB Group's RM515m gain from disposal of CIMB Aviva, RM200m restructuring charges and RM50m tax impact, as well as (ii) Tenaga Nasional's RM617m forex translation loss in 3QCY13.



Source: Bloomberg, MIDFR

After deducting the relevant exceptional items, the adjusted sequential growth figure in 3QFY14 showed a bigger decline of -8.5%qoq and the on-year growth figure was similarly damped to +2.5%yoy.

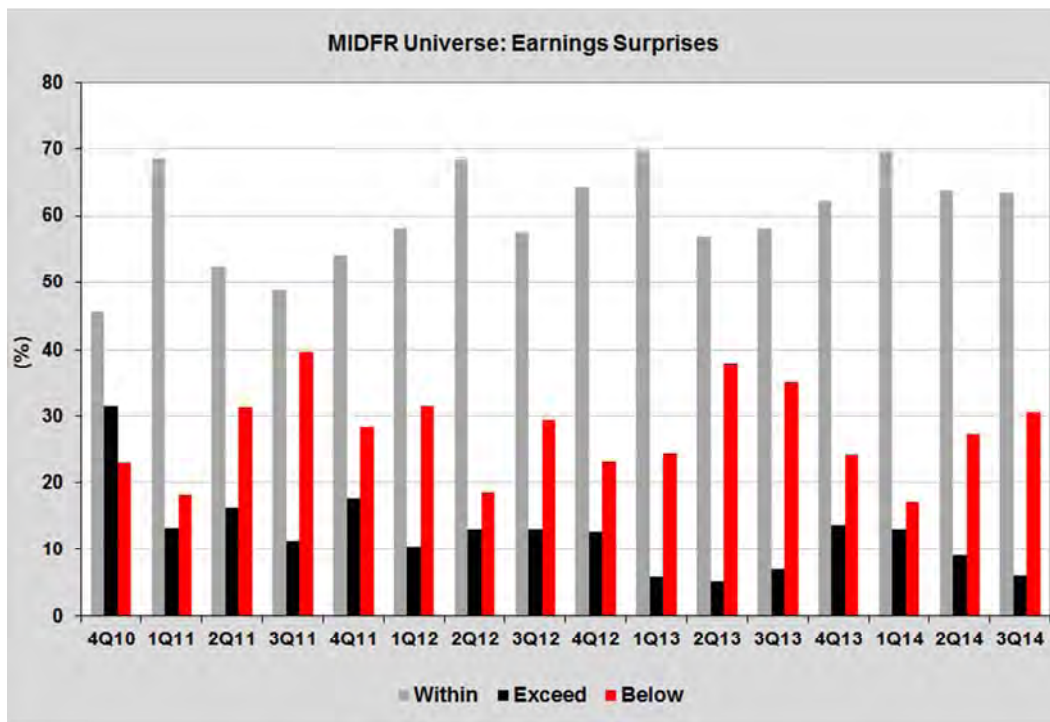


Source: Bloomberg, MIDFR

The aggregate earnings and growth figures for 3QCY14 came in plainly below expectations. Recall our earnings preview Strategy report dated 19 November 2014 which anticipated (i) aggregate earnings of RM15.50b, (ii) sequential adjusted growth figures of +3.2%qoq, and (iii) on-year adjusted growth figures of +14.8%yoy.

MIDFR Universe

Under the MIDFR Universe, we made 8 changes to our stock recommendations with 4 upgrades and 4 downgrades. In addition, target price changes involved 11 upward adjustments against 26 downward adjustments. We removed Kinsteel Berhad from our coverage universe during the review period. Refer to [Appendix 1](#) for company-specific details with regard to changes in stock recommendations and target prices.



Source: MIDFR

The percentage of companies within the MIDFR Universe which reported earnings that were below expectations jumped to 31% (highest since third quarter 2013) in 3QCY14 from 27% in the preceding quarter. Conversely, the proportion of positive surprises declined to 6% (lowest since second quarter 2013) during the quarter under review vis-à-vis 9% recorded in 2QCY14.

MIDFR Universe: 3QCY14 Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	89%	0%	11%
TELECOMMUNICATIONS	50%	0%	50%
MEDIA	67%	0%	33%
SEMICONDUCTOR	100%	0%	0%
PLANTATION	40%	20%	40%
TOBACCO	0%	100%	0%
GLOVE	33%	0%	67%
HEALTHCARE	75%	0%	25%
CONSUMER (F&B, Retail)	63%	0%	38%
BANKING	67%	0%	33%
FINANCE	100%	0%	0%
OIL & GAS	60%	0%	40%
PROPERTY	88%	0%	13%
REIT	100%	0%	0%
TRANSPORT	60%	10%	30%
UTILITY	67%	33%	0%
AUTOMOTIVE	0%	0%	100%
BUILDING MATERIAL	25%	25%	50%
TOTAL	63%	6%	31%

Source: MIDFR

The remaining 63% of stocks under our coverage performed within expectations in 3QCY14, a 1%-pt drop as compared to the prior quarter figure. Refer to [Appendix 2](#) for company-specific details with regard to the earnings outperformers and underperformers.

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

	YoY %	QoQ %	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11
CONSTRUCTION	62.0	(16.4)	434	519	354	921	268	346	354	587	431	356	346	409
TELECOM	(6.4)	9.3	1,756	1,607	1,855	1,758	1,877	1,767	1,631	1,558	1,769	1,803	1,709	2,437
MEDIA	3.8	5.3	214	204	155	231	206	203	136	288	93	101	53	125
SEMICONDUCTOR	208.3	59.3	45	28	23	-78	15	10	0	-8	23	2	-7	2
PLANTATION	(18.0)	(54.0)	1,033	2,245	3,765	2,336	1,259	2,250	2,044	657	2,523	4,060	2,029	2,365
TOBACCO	9.9	(2.8)	241	248	225	189	219	211	204	197	186	221	195	181
GLOVE	(12.3)	(4.2)	128	134	128	147	146	137	146	148	151	131	125	106
HEALTHCARE	14.3	(28.5)	183	256	201	274	160	194	168	305	136	461	221	117
CONSUMER	(13.6)	0.3	369	368	450	350	428	411	468	401	398	374	503	430
BANKING	(2.7)	1.7	5,550	5,456	5,400	5,547	5,704	5,237	5,368	5,136	5,292	5,062	4,815	4,647
FINANCE	37.2	(12.2)	245	280	242	167	179	220	204	219	127	132	120	115
OIL & GAS	9.4	2.0	1,881	1,845	1,763	1,433	1,720	2,309	1,896	1,719	1,523	1,783	1,828	1,493
PROPERTY	(5.7)	0.9	620	614	728	1,657	657	662	712	778	520	623	414	639
REIT	46.9	(27.0)	347	476	233	459	237	470	216	781	161	478	151	128
TRANSPORT	(200.4)	(219.0)	-275	231	371	960	274	296	335	1,264	545	1,411	-296	-2,663
UTILITY	225.4	(25.2)	1,660	2,219	1,972	2,005	510	2,076	1,589	1,684	1,339	1,105	3,146	98
AUTOMOTIVE	33.4	(1.2)	224	227	300	211	168	355	337	287	367	297	293	108
BUILD MATERIAL	(35.0)	(110.9)	36	-334	95	99	56	40	105	109	47	2	66	136
TOTAL	4.3	(11.6)	14,693	16,623	18,262	18,668	14,084	17,225	15,913	15,992	15,625	18,402	15,271	10,874

Source: MIDFR

Semiconductor, Media and Oil & Gas were the sectors which recorded higher total earnings (as reported) in 3QCY14 when compared to both the preceding quarter and corresponding period last year.

On the other hand, sectors such as Plantation, Transport and Glove were among those that showed negative sequential as well as on-year earnings (as reported) growth percentage in 3QCY14.

Overall results below expectation


Pursuant to the 3QCY14 results season, the overall numbers came in clearly below expectations. This is attested by (i) negative variances between the aggregate earnings of both MIDFR Universe stocks and FBM KLCI constituents against their earlier estimates prior to the just concluded reporting season, and (ii) rise in percentage of earnings underperformers to 31% in our coverage universe.

Among the FBM KLCI constituents under our coverage, Tenaga Nasional and British-American Tobacco were the only companies that reported better than expected earnings. On the contrary, there were twelve earnings underperformers, namely AMMB, Axiata, CIMB, FGV, IHH Healthcare, IOI Corp, KL Kepong, Petronas Chemicals, Petronas Gas, Sime Darby, Telekom Malaysia and UMW Holdings.

Changes to estimates

Consequently, the aggregate earnings estimates for FY2014 and FY2015 of the 23 FBM KLCI stocks under our coverage were lowered by -0.8% and -4.4% to RM52.91b and RM53.83b respectively vis-à-vis their earlier estimates prior to the just concluded reporting season. Concomitantly, the aggregate earnings estimates for FY2014 and FY2015 of stocks under MIDFR Universe were also adjusted lower by -1.4% and -4.3% to RM67.15b and RM70.83b respectively. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

FBM KLCI targets

We reaffirm our FBM KLCI year-end 2015 target of 1,970 points and year-end 2014 range target of 1,850-1,800 points. But in view of the disappointing 3QCY14 results, we may expect the local benchmark to gravitate towards the lower end of the year-end 2014 target range. 

APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Tan Chong	Automotive	Buy	Buy	5.55	4.60
UMW Holdings	Automotive	Neutral	Neutral	13.15	12.20
AirAsia X	Aviation	Buy	Neutral	0.96	0.69
MAHB	Aviation	Neutral	Neutral	8.02	7.53
Affin	Banking	Neutral	Neutral	3.70	3.30
Affin Holdings	Banking	Neutral	Neutral	3.80	3.70
AMMB	Banking	Neutral	Neutral	7.60	7.30
CIMB	Banking	Neutral	Trading Buy	7.27	7.27
Maybank	Banking	Buy	Buy	11.50	11.20
Public Bank	Banking	Neutral	Neutral	19.60	19.50
IJM Corp	Construction	Neutral	Neutral	6.98	7.20
Protasco	Construction	Buy	Buy	2.57	2.45
WCT	Construction	Buy	Neutral	2.59	1.90
F&N	Consumer	Neutral	Neutral	18.70	16.73
Panasonic	Consumer	Buy	Buy	24.43	26.58
Parkson	Consumer	Sell	Neutral	2.51	2.44
KKB Eng	General Industries	Buy	Trading Buy	2.84	2.15
Hartalega	Gloves	Trading Buy	Neutral	7.10	7.24
IHH	Healthcare	Neutral	Neutral	4.50	4.55
Astro	Media	Neutral	Neutral	3.84	3.75
Media Prima	Media	Neutral	Neutral	2.17	2.01
Dialog Group	Oil and Gas	Neutral	Neutral	1.67	1.55
KNM Group	Oil and Gas	Neutral	Buy	1.15	1.15
Petronas Chem	Oil and Gas	Neutral	Neutral	6.10	5.12
Petronas Gas	Oil and Gas	Neutral	Neutral	21.38	19.09
FGV Holdings	Plantation	Neutral	Neutral	4.24	3.40
IJM Plant	Plantation	Neutral	Neutral	3.00	3.30
IOI Corp	Plantation	Neutral	Neutral	4.20	4.70
KL Kepong	Plantation	Neutral	Neutral	25.00	20.04
Sime Darby	Plantation	Neutral	Neutral	9.70	9.02
TH Plant	Plantation	Buy	Buy	2.50	2.00
Tenaga	Power	Neutral	Neutral	12.40	14.23
Maybulk	Shipping	Buy	Buy	2.02	1.72
MISC	Shipping	Neutral	Neutral	6.53	6.80
Westport	Shipping	Neutral	Neutral	3.11	2.95
Ann Joo	Steel	Neutral	Neutral	1.25	1.30
Lion Ind	Steel	Neutral	Neutral	0.72	0.60
Unisem	Technology	Neutral	Buy	1.60	2.45
Telekom	Telecom	Neutral	Neutral	5.95	6.42

Source: MIDFR

APPENDIX 2

MIDFR Universe: 3QCY14 Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below %)	COMMENT
Favelle Favco	Industrial Products	Above	3QFY14 earnings growth came from its activities inside Malaysia which contributed approximately 60% of its revenue. Further supporting the growth were its lower administration costs and higher finance income.
Ta An	Industrial/Timber	Above	Higher sales volume and better average products selling prices.
IJM Plant	Plantation	Above	Higher FFB production from Indonesian operation.
Tenaga	Power	Above	Favourable generation cost during the quarter under review.
Westport	Shipping	Above	Double digit growth in container throughput.
Ann Joo	Steel	Above	Margins improved from lower prices of raw materials.
BAT	Tobacco	Above	Higher revenue growth of +3.3%yoy to RM1.2b.
MBM Res	Automotive	Below	Earnings lagged expectations but we're expecting a strong catch up in 4Q14 from Perodua following the launch of Perodua Alza.
Tan Chong	Automotive	Below	Cut FY14 by another 41%; the reduction accounts for higher-than-expected discounts which was needed for TCM to clear out old stocks of Nissan Almera.
UMW Holdings	Automotive	Below	Cut FY14 by 29%; the reduction accounts for the poor performance of the Heavy Equipment division and legacy businesses.
AirAsia X	Aviation	Below	Extended losses due to depressed yield and low travel demand.
MAHB	Aviation	Below	Higher operational expenses from KLIA2 and slower growth in passenger statistics.
Affin	Banking	Below	Higher than expected operating expenses offsetting the increase in Non Interest Income after acquiring the IB and Fund Management business of Hwang-DBS.
AMMB	Banking	Below	Lower than expected Non Interest Income.
CIMB	Banking	Below	Weaker contribution from CIMB Niaga, Indonesia and lower NOII.
Lafarge	Cement	Below	Lagging expectation on account of: (i) Strong cement price competition, (ii) higher operating expense as a result of electricity tariff hike, and (iii) lower sales from aggregate and concrete segment following the completion of KLIA2 project.
WCT	Construction	Below	Lower earnings contribution from slower property development progress billings and thinner operating margin.
F&N	Consumer	Below	Operating margin was lower than expected. Dragged by Dairies Thailand.
Padini	Consumer	Below	Lower margin attributed to lower revenue growth and high operating cost.
Parkson	Consumer	Below	Weaker overall performance from China's operation.
KKB Eng	General Industries	Below	Dragged by lower revenue from the completion and finalization of its major Structural Steel and Cladding Works/Project in Bintulu, Sarawak and its other on-going projects which have approached the tail-end of construction stage coupled with higher construction costs.
Hartalega	Gloves	Below	2QFY15 earnings were impacted by the drop in input causing glove manufacturers to push down their respective ASPs to meet customers' expectations and to maintain their market share. Moreover, pre-operating expenses from the New Generation Integrated Glove Manufacturing Complex (NGC) project and higher electricity as well as natural gas costs.
Kossan	Gloves	Below	Lower average selling prices and lower production in FY14 from the water supply disruptions in 2Q14.

IHH	Healthcare		Below	Cut FY14 by 16%; the disappointment was due to lower-than-expected growth in revenue intensity and inpatient admissions.
Media Prima	Media		Below	Lower topline contribution due to challenging market environment and ill-fated aviation disaster.
Bumi Armada	Oil and Gas		Below	Offshore support vessel and transportation & installation segment underperformed due to fleet rationalisation.
Dialog Group	Oil and Gas		Below	Lower sales from foreign operations in Asia Pacific.
Petronas Chem	Oil and Gas		Below	Lower plant utilisation rate caused by gas supply limitations and statutory turnaround activities.
Petronas Gas	Oil and Gas		Below	The drop in profitability was due to higher costs of revenue stemming from the revision of fuel gas prices in January and July 2014.
FGV Holdings	Plantation		Below	Higher LLA fair value charge.
IOI Corp	Plantation		Below	Subdued resource-based manufacturing (RBM) segment.
KL Kepong	Plantation		Below	Poor performance of downstream segment.
Sime Darby	Plantation		Below	Poor performance of industrial segment.
TSH Res	Plantation		Below	High-base effect arising from the abnormal profit recorded in 3QFY13 arising from the recognition of gains on disposal of its stake in Pontian United.
MRCB	Property		Below	We had earlier assumed higher construction and property margin for the Group in FY14. Accordingly, we have tweaked our FY14 earnings projections lower by 8% but left our forecast unchanged for FY15.
Maybulk	Shipping		Below	Widening losses in dry bulk segment and lower associate POSH contribution.
Lion Ind	Steel		Below	Lower selling prices and drop in sales tonnage.
Axiata	Telecom		Below	Higher operating costs as a result of Axis' integration in Indonesia.
Telekom	Telecom		Below	Higher operating costs and higher tax charges.

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2014E		FY2015E		FY2014E	FY2015E
	Old	New	Old	New		
TOTAL (MIDFR Universe)	68,103.7	67,152.2	73,979.2	70,832.2	(1.4)	(4.3)
Annual % Change	4.5	3.0	8.6	5.5		
TOTAL (FBM KLCI) *	53,327.1	52,911.5	56,327.5	53,829.4	(0.8)	(4.4)
Annual % Change	6.5	5.7	5.6	1.7		

Source: MIDFR; (E) - estimate; * Aggregate non-weighted earnings of 23 FBM KLCI constituents under MIDFR coverage

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.