

5 December 2017

MALAYSIA EQUITY

EARNINGS WRAP

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Review of corporate earnings

Quarter Ended September 2017

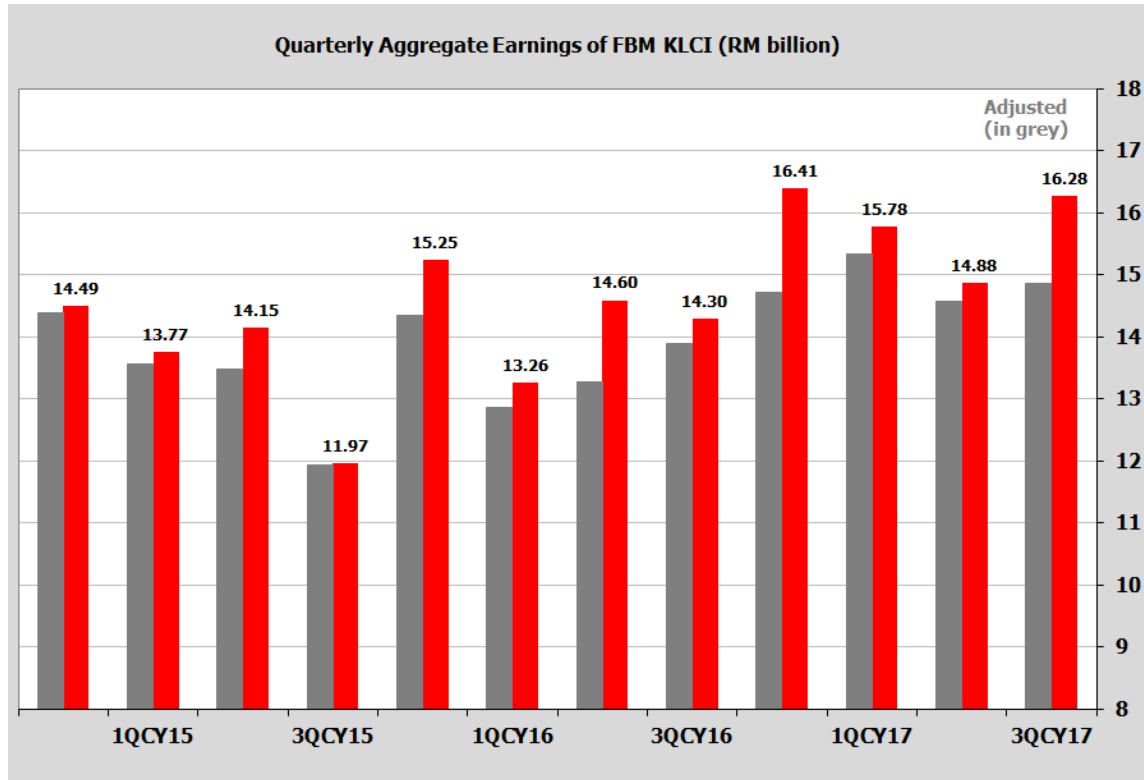
5 December 2017 | Earnings Wrap

Higher sequentially and on-year

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM16.28b in 3QCY17, higher sequentially at 9.4%qoq and on-year at 13.8%yoy.
- The aggregate normalized growth figures were also positive sequentially at 2.0%qoq and on-year at 6.9%yoy.
- Within MIDFR Universe, 9% of stocks under coverage reported higher than expected earnings. Of the rest, 24% posted earnings that were lower than expected versus 67% which came within expectations.
- Target price changes involved 21 upward adjustments and 22 downward adjustments.
- We made 19 changes to our stock recommendations with 15 upgrades and 4 downgrades.
- We recently added MBM Resources, Can-One and Scicom into our stock universe.
- We revised our year-end 2017 FBM KLCI target to 1,740 points on persistent pre-election effect.
- We reiterate our year-end 2018 FBM KLCI target at 1,900 points.

FBM KLCI

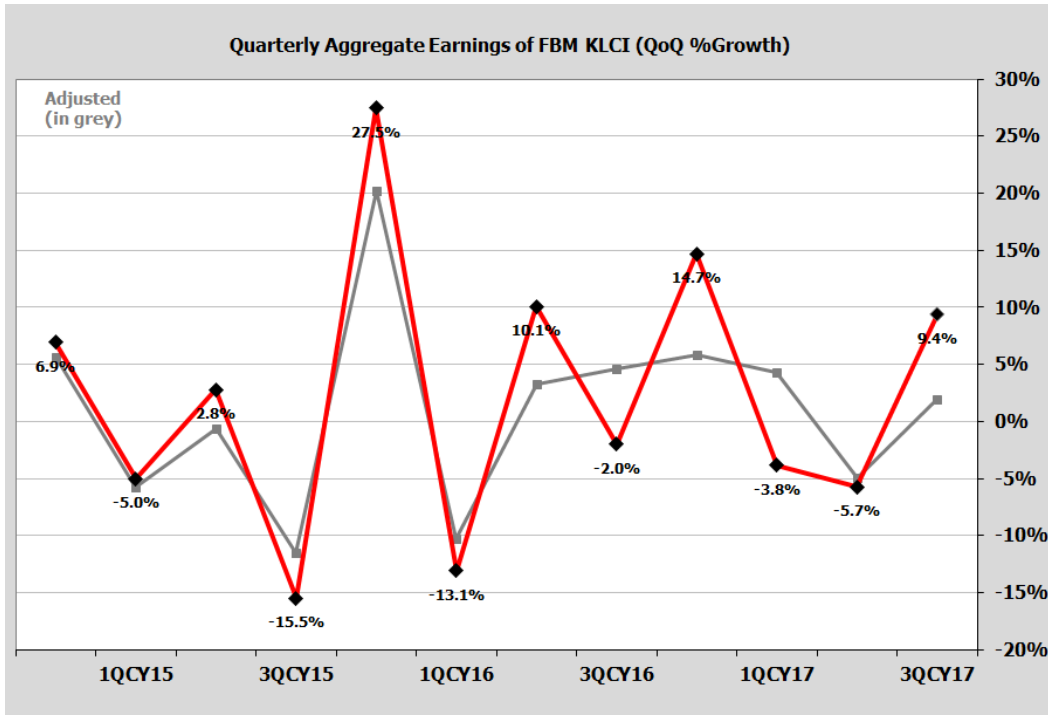
The aggregate reported earnings of FBM KLCI 30 constituents totalled RM16.28b in 3QCY17, higher sequentially at 9.4%qoq as well as on-year at 13.8%yoy.



Source: Bloomberg, MIDFR

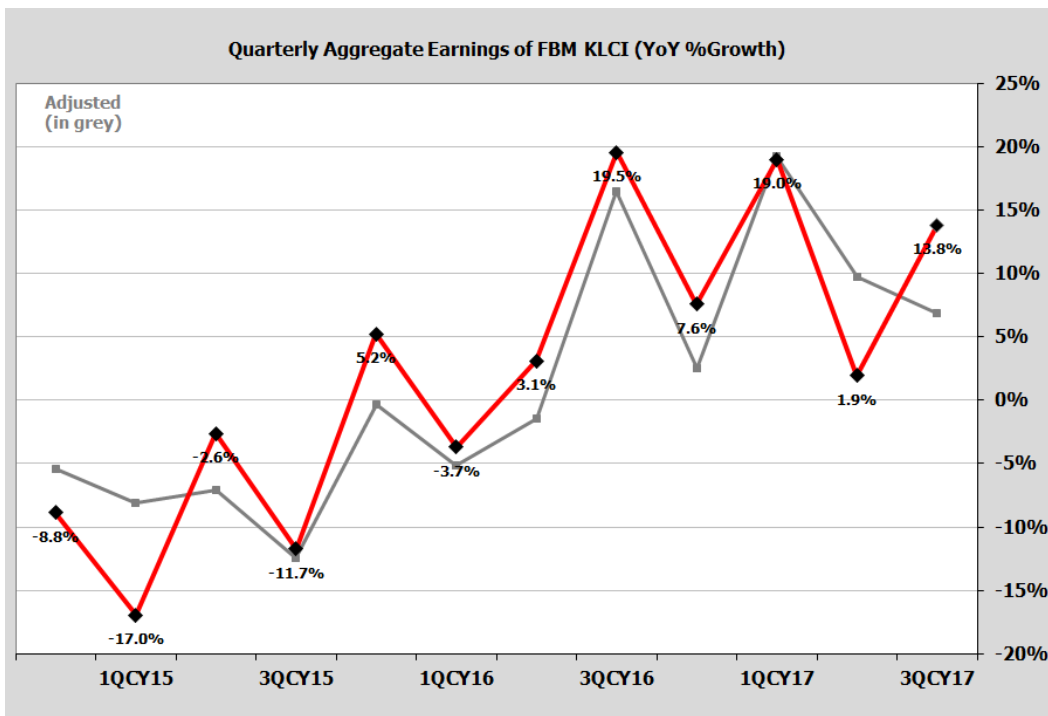
However, the aggregate reported earnings figure requires some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance. On this score, the aggregate normalized 3QCY17 earnings of FBM KLCI 30 constituents were also higher at RM14.86b.

After neutralizing the impact of non-operational items (3QCY17: +RM1.42b, 2QCY17: +RM304m, 3QCY16: +RM402m), the aggregate normalized growth figures were positive sequentially at 2.0%qoq and on-year at 6.9%yoy.



Source: Bloomberg, MIDFR

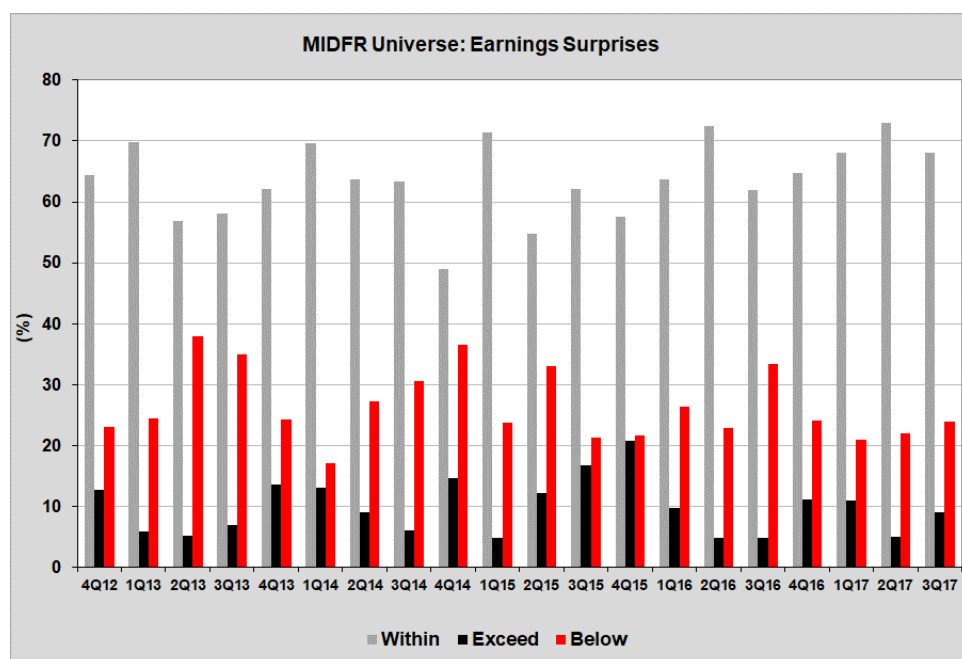
It is also noteworthy that the normalized sequential and on-year performances in 3QCY17 were respectively superior and inferior to the -5.0% and 9.7%yoy adjusted growth in the preceding 2QCY17 quarter.



Source: Bloomberg, MIDFR

MIDFR Universe

Under MIDFR Universe, we made 19 changes to our stock recommendations with 15 upgrades and 4 downgrades. Moreover, target price changes involved 21 upward against 22 downward adjustments. Also, we recently added MBM Resources, Scicom and Can-One into our stock universe. 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 increased to 24% in 3QCY17 from 22% in the prior quarter. Nonetheless, it is noteworthy that the percentage of positive surprises also increased to 9% in 3QCY17 from 5% in the prior quarter.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	75%	0%	25%
BANKING	90%	0%	10%
BUILDING MATERIAL	0%	0%	100%
CONSTRUCTION	20%	0%	80%
CONSUMER	44%	0%	56%
FINANCE	67%	33%	0%
GLOVE	75%	25%	0%
HEALTHCARE	75%	25%	0%
INDUSTRIAL	75%	0%	25%
INSURANCE	67%	0%	33%
MEDIA	67%	33%	0%
OIL & GAS	100%	0%	0%
PLANTATION	67%	0%	33%
PROPERTY	67%	22%	11%
REIT	100%	0%	0%
TECHNOLOGY	60%	20%	20%
TELECOMMUNICATION	100%	0%	0%
TOBACCO	100%	0%	0%
TRANSPORTATION	30%	30%	40%
UTILITY	67%	0%	33%
TOTAL	67%	9%	24%

Source: MIDFR

Accordingly, companies with results that were in line with expectations declined to 67% in 3QCY17 from 73% in the prior quarter. 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 (%)	3Q17	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14
AUTOMOTIVE	(64.9)	(87.2)	-25	-195	29	-1,531	-71	44	39	-217	104	167	273	183
BANKING	9.6	12.7	6,858	6,083	6,344	6,706	6,257	5,328	5,496	5,589	5,728	5,738	5,589	5,753
BUILD MATERIAL	(1,227.2)	(4.7)	-42	-44	-49	34	4	18	21	43	71	63	74	50
CONSTRUCTION	(15.8)	(13.9)	434	504	565	678	515	451	311	665	518	707	693	434
CONSUMER	(19.2)	(21.5)	297	378	449	409	368	464	534	504	476	405	493	438
FINANCE	40.3	(1.0)	221	223	235	163	157	175	150	88	163	193	227	495
GLOVE	50.0	25.3	286	228	239	207	190	166	237	295	257	207	181	156
HEALTHCARE	(42.6)	(59.8)	155	386	555	25	270	283	309	482	247	339	274	396
INDUSTRIAL	(26.2)	(9.4)	68	75	45	100	92	86	53	94	104	80	70	100
INSURANCE	12.1	21.7	153	126	139	137	137	285	135	162	123	141	120	170
MEDIA	1,268.1	425.2	376	72	113	195	27	274	237	187	205	245	185	105
OIL & GAS	46.5	33.9	2,510	1,875	1,969	135	1,713	792	949	1,318	1,825	1,803	1,712	1,574
PLANTATION	75.2	95.9	2,479	1,265	1,830	1,857	1,415	1,424	1,839	2,312	108	1,727	753	1,172
PROPERTY	25.8	(11.8)	954	1,081	697	1,421	758	1,229	699	1,197	920	1,168	755	1,167
REIT	38.5	(17.6)	477	578	451	495	344	401	343	704	310	678	320	879
TECHNOLOGY	31.6	2.7	183	178	160	172	139	138	95	149	138	117	98	91
TELECOM	2.3	(10.4)	1,389	1,551	1,348	723	1,358	1,237	1,608	1,510	1,875	1,728	1,603	1,712
TOBACCO	(30.2)	(1.2)	145	147	119	289	209	48	175	195	257	215	243	187
TRANSPORT	75.0	43.9	1,471	1,022	1,648	1,548	840	2,049	1,961	1,766	53	2,351	826	1,423
UTILITY	(3.1)	(16.0)	1,995	2,374	1,928	2,055	2,059	2,948	1,727	2,514	1,210	1,278	2,612	2,919
TOTAL	21.4	13.8	20,393	17,917	18,826	15,831	16,793	17,852	16,927	19,568	14,702	19,363	17,078	19,410

Source: MIDFR

Banking, Gloves, Insurance, Media, Oil & Gas, Plantation, Industrial, REIT, Technology, Telecommunication and Tobacco were the sectors which recorded higher total earnings (as reported) in 2QCY17 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Automotive, Building Material, Construction, Consumer, Healthcare, Industrials, Tobacco and Utility sectors were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 3QCY17.

Changes to estimates

The aggregate FY2017 earnings of the FBM KLCI constituents under our coverage were adjusted lower by -1.1% to RM53.72b vis-à-vis our earlier estimate prior to the latest reporting season. Likewise, the aggregate FY2017 earnings of the stocks under MIDFR coverage universe was also trimmed by -1.2% to RM72.86b vis-à-vis our earlier estimate prior to the latest reporting season. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

Reiterate FBM KLCI year-end 2018 target at 1,900 points

In addition to the improving corporate earnings performance, i.e. FBM KLCI aggregate normalized earnings higher by 6.9%yoy in 3QCY17, other favourable factors that normally would have brought cheers to the local market include (i) better than expected macro performance with 3Q17 GDP growth at 6.2%, (ii) steady crude oil prices with the benchmark Brent currently trading at more than USD60pb which is positive to government's fiscal position, as well as (iii) recovering Ringgit against US Dollar with the USD/MYR now trading at circa 4.06 levels.

However, the performance of local equity market especially in 2H17 has failed to reflect the favourable underpinnings. As discussed in our Strategy report titled ["General Election: Market Reactions"](#) dated 31 October 2017, the FBM KLCI is now seems to be behaving the way it did during the months leading up to the GE13.

As we enter the final month of the year and despite the record breaking equity performance regionally and internationally, i.e. both MSCI Asia-Pacific and World indices hovering at record levels, there seems to be no let-up in regard to the selling pressure on the local equity market. Hence, we cut our FBM KLCI 2017 year-end target from 1,830 points to 1,740 points.

As transpired post-GE13, we expect the prevailing pre-election “discount” to likewise normalize after the upcoming general election. Furthermore, with the expectations of continued healthy macro environment (i.e. sustained domestic and external demands) as well as continued recovery in corporate earnings performance next year, we thereby reiterate our FBM KLCI year-end 2018 target at 1,900 points.

APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
UMW	Automotive	Buy	Buy	7.20	6.00
Air Asia Berhad	Aviation	Buy	Buy	3.94	4.02
Air Asia X	Aviation	Neutral	Buy	0.43	0.43
AMMB	Bank	Neutral	Neutral	4.50	4.35
Alliance Bank	Banking	Buy	Buy	4.60	4.65
MMC	Conglomerate	Buy	Buy	2.63	2.67
Vivocom	Construction	Buy	Buy	0.40	0.33
MSM	Consumer	Neutral	Neutral	3.31	4.09
Aeon Co	Consumer	Neutral	Neutral	2.21	2.02
Padini	Consumer	Neutral	Neutral	3.79	4.77
Oldtown	Consumer	Neutral	Neutral	3.1	2.6
Spritzer	Consumer	Buy	Buy	2.46	2.53
HLFG	Finance	Neutral	Buy	17.64	17.67
Hartalega	Gloves	Neutral	Neutral	6.99	7.3
Supermax	Gloves	Neutral	Buy	1.92	2.42
Top Glove	Gloves	Neutral	Neutral	5.15	5.53
KPJ healthcare	Healthcare	Neutral	Neutral	1.08	1.06
IHH Healthcare	Healthcare	Buy	Buy	7.06	6.91
UEM Edgenta	Healthcare	Neutral	Buy	2.86	3.09
PIE Industrial	Industrial	Neutral	Neutral	2.49	2.16
Superlon	Industrial	Buy	Neutral	2.26	2.36
Tune Protect	Insurance	Buy	Buy	1.47	1.42
Tiong Nam	Logistics	Neutral	Neutral	1.72	1.43
Tasco	Logistics	Buy	Buy	2.91	2.68
GDEX	Logistics	Neutral	Neutral	0.70	0.59
Star Media Group	Media	Sell	Buy	1.80	1.80
Bursa	Non-banks	Neutral	Buy	11.00	11.25
Aeon Credit Service	Non-banks	Buy	Buy	14.27	14.75
Wah Seong	Oil and Gas	Neutral	Sell	1.02	1.02
KNM Group	Oil and Gas	Neutral	Neutral	0.21	0.22
Dayang	Oil and Gas	Sell	Buy	0.83	0.83
Deleum Bhd	Oil and Gas	Neutral	Neutral	0.77	1.03
Sapura Energy	Oil and Gas	Neutral	Buy	1.69	1.69
Petronas Gas Bhd	Oil and Gas	Neutral	Buy	20.00	20.00
MMHE	Oil and Gas	Neutral	Sell	0.70	0.70
KLK	Plantation	Buy	Buy	29.65	29

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
FGV	Plantation	Neutral	Neutral	1.59	1.96
TSH	Plantation	Buy	Buy	2.25	1.9
IJM Plantations	Plantation	Neutral	Neutral	3.15	2.85
ECOWLD	Property	Buy	Neutral	1.8	1.7
UEM Sunrise	Property	Neutral	Buy	1.24	1.24
UOA Development	Property	Neutral	Buy	2.80	2.80
Mah Sing Group	Property	Neutral	Buy	1.59	1.68
IGB REIT	REIT	Neutral	Buy	1.73	1.73
Westports	Shipping	Neutral	Neutral	3.98	3.67
MISC	Shipping	Buy	Buy	7.43	7.68
Inari	Technology	Neutral	Buy	2.29	3.26
Telekom Malaysia	Telecommunication	Buy	Buy	7.77	7.72
Axiata	Telecommunication	Neutral	Neutral	5.28	5.43
BAT	Tobacco	Neutral	Neutral	48.6	44.4
Sunway Berhad	Trading/Services	Neutral	Neutral	1.84	1.75
YTL Corp	Utilities	Neutral	Buy	1.54	1.41
YTL Power	Utilities	Neutral	Neutral	1.56	1.20

APPENDIX 2

MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
UMW	Auto	Below	An increase in non-listed O&G losses
Air Asia	Aviation	Above	Increase in staffs' cost and marginally higher user charges, due to audit adjustments.
Air Asia x	Aviation	Below	Weakening MYR against USD, higher fuel expenses and doubtful debt provision steered AAX into a loss.
Affin	Bank	Below	Higher OPEX due to Voluntary Separation Scheme. Also, due to higher than expected provisions.
Lafarge	Building Materials	Below	Increase in OPEX
MMC	Conglomerate	Above	One-off provision for impairment on SMART
Vivocom	Construction	Below	Lower revenue recognition from projects due to progress billings and delays in certification of construction progress.
CMSB	Construction	Below	Expectation of higher progress rate of Pan Borneo Highway.
Muhibbah	Construction	Below	Lower revenue of RM1.08bn (-15%YoY) coupled by higher foreign currency translation of RM32.7m (-22.7%) and higher tax expense of RM17.1m (-56.8%).
IJM Corp	Construction	Below	Unexpected decline in infrastructure and plantation segments on the back of higher tax rate of 32.0%.

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
HSL	Construction	Below	Lower progress billings
WCT	Construction	Below	lower contribution from property segment, unwavering admin expenses
MRCB	Construction	Below	unwavering operating expenses (OPEX) which sprouted aggressively from previous quarter
Sunway Construction	Construction	Below	N/A
Fraser & Neave	Consumer	Below	Thailand segment posted a decline in operating profit
MSM	Consumer	Below	Higher remaining balance of high cost raw sugar inventory
Aeon Co	Consumer	Below	The retail segment performance fell into the red again in the 3QFY17 after the encouraging performance recorded in the last quarter
Oldtown	Consumer	Below	Slower than expected recovery of the F&B segment
Panasonic Manufacturing	Consumer	Below	Earnings impacted by a weaker domestic demand
Supermax	Gloves	Above	Supermax's above than expected performance during the quarter was mainly attributable to the increase in volume sold which is the result of revamping its old production lines for the past few quarters. It is also benefitting from the switch in demand from vinyl gloves to rubber gloves.
UEM Edgenta	Healthcare	Above	Edgenta's above than expected performance during the quarter was mainly due to the better contribution coming from 2 of its business divisions mainly: healthcare support services as well as infrastructure services.
United U-Li	Industrial	Below	Slower-than-expected sales growth as well as higher raw material and operating costs. It has not declared any dividend ytd.
PIE Industrial	Industrial	Below	Prolonged shortage in raw material, which resulted in lower gross profit margin and lower production efficiency.
Tune Protect	Insurance	Below	Challenging business environment
Tasco	Logistics	Below	Higher than expected costs and lower contributions from acquisitions, where the synergistic financial impact will only be felt in FY19.
Tiong Nam	Logistics	Below	Increases in staff headcount, warehouse footprint and vehicle count. Besides that, start-up costs related to new ventures could have also dampened earnings
GDEX	Logistics	Below	No major festivities to boost the e-commerce segment while there were many public holidays that affected the B2B segment.
Star Media Group	Media	Above	Improvement in profit margin as the group continues to focus on creating a leaner cost structure
MBSB	Non-banks	Above	Overestimation in provisioning
KLK	Plantation	Below	Weaker than expected margin in the manufacturing division due to high CPKO prices
TSH	Plantation	Below	Weaker than expected earnings from the JV with Wilmar in the downstream industry.
IJM Plantations	Plantation	Below	Higher-than-expected cost of production.
Eco World	Property	Below	Higher than expected finance costs and share of the initial losses

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
			incurred by joint venture (JV) companies
UEM Sunrise	Property	Above	Earnings boosted by land sales.
Magna Prima	Property	Above	Higher-than-expected earnings from local and oversea projects.
MISC	Shipping	Above	Contribution from new Seri C class vessels
Inari	Technology	Above	Overwhelming demand of the group's existing and new products which came on-stream during the past two quarters and Improvement in profit margin due to changes in product mix
Axiata	Telco	Below	Losses from Idea, dilution from Robi-airtel merger and lower contribution from Celcom
YTL Power	Utilities	Below	Higher than expected borrowings and borrowing cost

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2017		FY2018		FY2017	FY2018
	Old	New	Old	New		
TOTAL (MIDFR Univ.)	73,715.4	72,858.3	79,815.5	80,130.2	<i>(1.2)</i>	<i>0.4</i>
Annual % Change	<i>5.2</i>	<i>4.0</i>	<i>8.3</i>	<i>10.0</i>		
TOTAL (FBM KLCI) *	54,299.1	53,721.2	58,111.3	58,533.6	<i>(1.1)</i>	<i>0.7</i>
Annual % Change	<i>7.5</i>	<i>6.4</i>	<i>7.0</i>	<i>9.0</i>		

Source: MIDFR; (A)–actual, (E)–estimate; * Aggregate earnings of 27 FBM KLCI constituents under MIDFR coverage

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

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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 <i>rise</i> 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 <i>fall</i> 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.