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2 March 2016

## **MALAYSIA EQUITY**

# **EARNINGS WRAP**

**Review of corporate earnings**

**Quarter Ended December 2015**

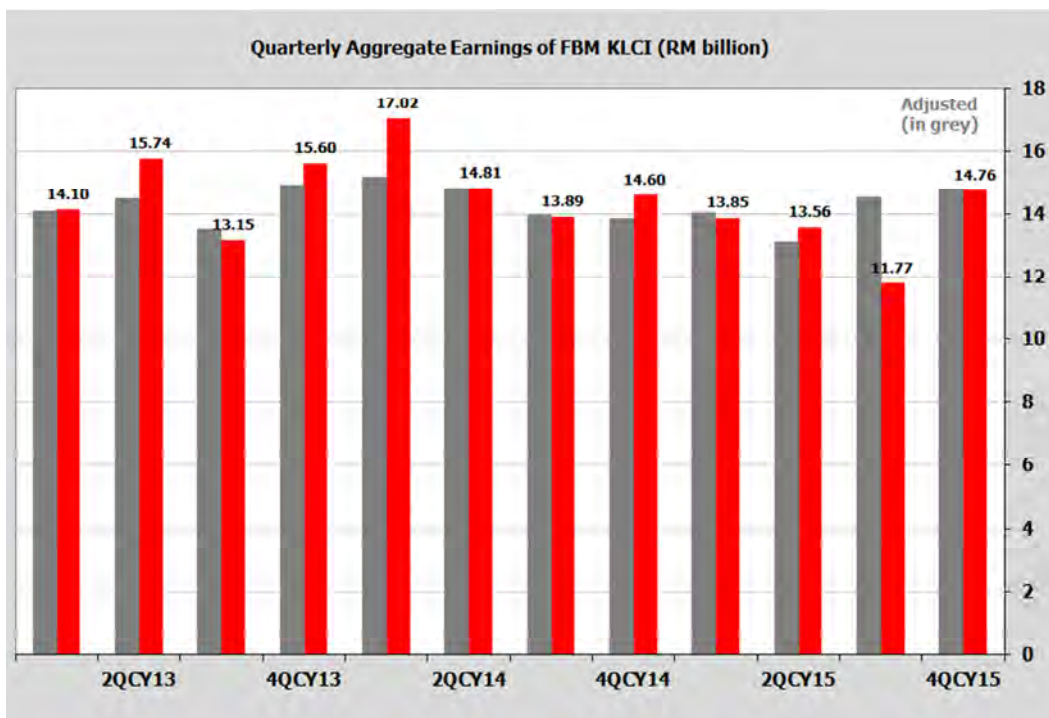
2 March 2016 | Earnings Wrap

## Expectation met for the second consecutive quarter

- The aggregate reported earnings of current 30 FBM KLCI constituents totalled RM14.76b in 4QCY15, rocketing high sequentially but comparatively tepid on-year at +25.5%qoq and +1.2%yoy respectively.
- In contrast, the aggregate normalized growth figures were much moderated at +1.8%qoq but improved to +6.7%yoy.
- The 4QCY15 aggregate adjusted earnings of RM14.76b came within expectation at 101% of our estimate.
- Overall key earnings met our expectation for the second consecutive quarter, after six quarters of disappointment in a row.
- Within MIDFR Universe, 21% of stocks under coverage reported higher than expected earnings. Of the rest, 22% posted earnings that were lower than expected versus 58% which came within expectations.
- Target price changes involved 27 upward adjustments and 24 downward adjustments.
- We made 9 changes to our stock recommendations with 2 upgrades and 7 downgrades.
- We added Eco World Development Group Berhad to our universe and ceased coverage of NCB Holdings Berhad pursuant to its delisting.
- Maintain year-end 2016 FBM KLCI target of 1,800 points.

### FBM KLCI

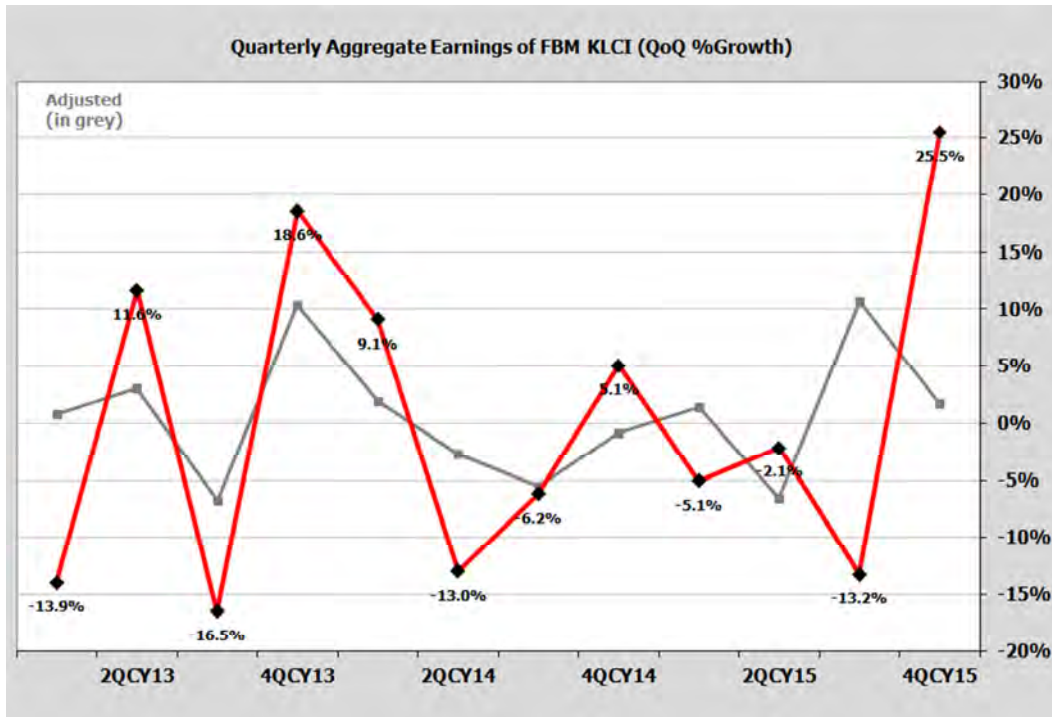
The aggregate reported earnings of current 30 FBM KLCI constituents totalled RM14.76b in 4QCY15. The figure was markedly higher sequentially but comparatively tepid on-year at +25.5%qoq and +1.2%yoy respectively. However, the aggregate reported earnings figures require some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance.



Source: Bloomberg, MIDFR

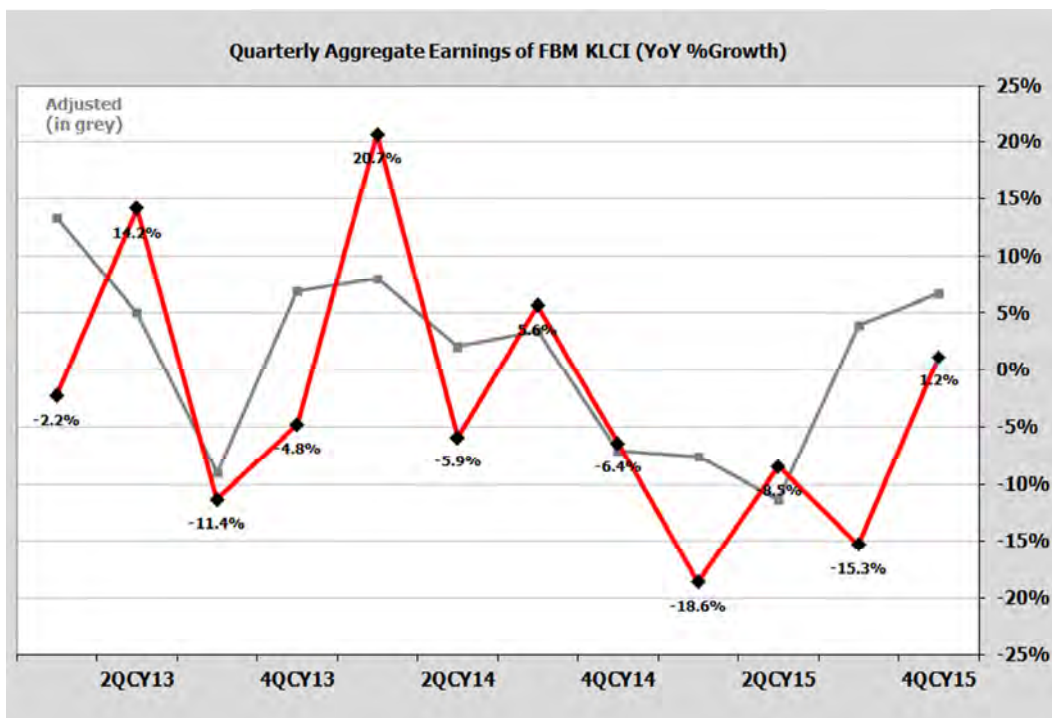
The aggregate adjusted earnings of current 30 FBM KLCI constituents also totalled RM14.76b in 4QCY15, which is about identical to the reported amount, as the non-ordinary items cancelled out each other. Some of the major non-ordinary items reported during the review quarter include (i) RM172m MSS expense by Hong Leong Bank, (ii)

RM338m impairment on O&G assets by UMW Holdings, (iii) RM570m non-core income (disposal profit, derivative gain, forex loss, provisions) by KL Kepong, and (iv) RM196m non-core income (currency translation gain, etc.) by IOI Corp.



Source: Bloomberg, MIDFR

After normalizing the impact of non-ordinary items (4QCY15: +RM1.66m, 3QCY15: +RM2.74b, 4QCY14: -RM751m), the adjusted sequential growth in 4QCY15 was substantially lower at +1.8%qoq. In contrast, the adjusted on-year growth number improved higher to +6.7%yoy, which was also superior to the +3.9%yoy adjusted growth performance during the preceding 3QCY15 quarter.

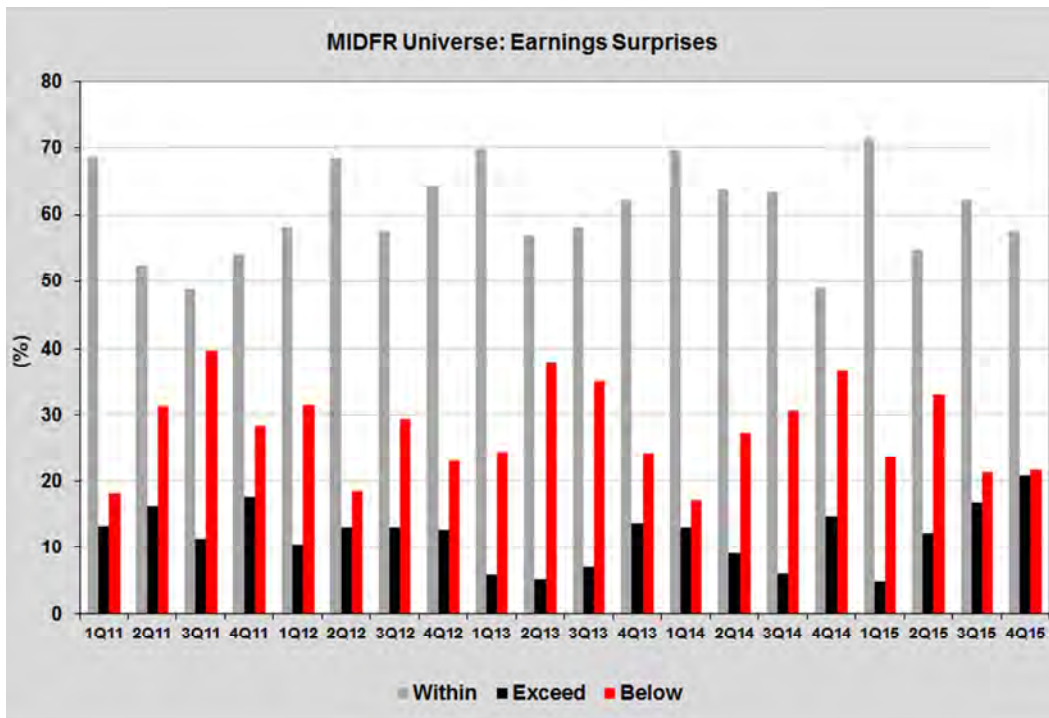


Source: Bloomberg, MIDFR

In our 4QCY15 earning preview report dated 16 February 2016, the aggregate adjusted estimated earnings of FBM KLCI was anticipated at RM14.59b. On this score, basing on the adjusted aggregate actual earnings of RM14.76b in 4QCY15, the actual figure accounted for 101% of our estimate.

## MIDFR Universe

Under the MIDFR Universe, we made 9 changes to our stock recommendations with 2 upgrades and 7 downgrades. In addition, target price changes involved 27 upward adjustments against 24 downward adjustments. For the record, we added Eco World Development Group Berhad to our universe in January 2016 and ceased coverage of NCB Holdings Berhad pursuant to its delisting. Refer to [Appendix 1](#) for company-specific details with regard to changes in recommendations and target prices.



Source: MIDFR

The percentage of companies within the MIDFR Universe which registered earnings that came below our expectations recorded a slight increase to 22% in 4QCY15 from 21% in the preceding quarter. However, it is noteworthy that the proportion of positive surprises improved to 21% during the quarter under review vis-à-vis 17% recorded in 3QCY15.

## MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	50%	0%	50%
BANKING	60%	0%	40%
BUILDING MATERIAL	67%	0%	33%
CONSTRUCTION	30%	50%	20%
CONSUMER	75%	13%	13%
FINANCE	50%	0%	50%
GLOVE	100%	0%	0%
HEALTHCARE	100%	0%	0%
INSURANCE	33%	67%	0%
MEDIA	67%	33%	0%
OIL & GAS	64%	21%	14%
PLANTATION	22%	33%	44%
PROPERTY	67%	22%	11%
REIT	83%	0%	17%
TECHNOLOGY	0%	50%	50%
TELECOMMUNICATIONS	50%	25%	25%
TOBACCO	100%	0%	0%
TRANSPORT	38%	38%	25%
UTILITY	100%	0%	0%
<b>TOTAL</b>	<b>58%</b>	<b>21%</b>	<b>22%</b>

Source: MIDFR



Accordingly, companies with results that were in line with expectations fell to 58% in 4QCY15 from 62% 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 %	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13	1Q13
<b>AUTOMOTIVE</b>	(220.6)	(312.9)	-220	104	167	273	183	280	275	331	211	168	355	337
<b>BANKING</b>	(2.8)	(2.4)	5,589	5,728	5,738	5,589	5,753	6,068	6,035	5,938	6,019	6,210	5,696	5,762
<b>BUILD MATERIAL</b>	(182.8)	(172.0)	20	-28	-60	38	-24	36	-334	95	99	56	40	105
<b>CONSTRUCTION</b>	21.3	7.2	558	521	649	468	460	359	445	376	962	431	388	385
<b>CONSUMER</b>	(15.5)	(14.5)	403	472	268	438	478	374	375	457	357	435	417	475
<b>FINANCE</b>	(92.2)	(69.7)	35	115	135	171	446	245	280	242	167	179	220	204
<b>GLOVE</b>	89.0	14.8	295	257	207	181	156	156	161	154	172	182	172	178
<b>HEALTHCARE</b>	29.7	105.5	466	227	323	243	359	185	254	197	292	151	189	164
<b>INSURANCE</b>	(4.5)	31.6	162	123	141	120	170	114	108	105	115	109	97	88
<b>MEDIA</b>	77.8	(8.7)	187	205	245	185	105	214	204	155	231	206	203	136
<b>OIL &amp; GAS</b>	(31.2)	(37.6)	1,155	1,852	1,850	1,801	1,679	2,152	2,141	1,999	1,653	2,040	2,592	2,215
<b>PLANTATION</b>	97.3	2,031	2,312	108	1,727	753	1,172	1,328	2,293	3,866	2,576	1,513	2,356	1,932
<b>PROPERTY</b>	(23.2)	(6.4)	699	746	833	843	910	578	658	477	1,564	454	593	658
<b>REIT</b>	(16.8)	122.7	671	301	668	312	806	405	539	304	653	301	583	303
<b>TECHNOLOGY</b>	107.1	24.6	76	61	49	41	37	45	28	23	-78	15	10	0
<b>TELECOM</b>	(11.8)	(19.5)	1,510	1,875	1,728	1,603	1,712	1,756	1,607	1,855	1,758	1,877	1,767	1,631
<b>TOBACCO</b>	3.8	(24.3)	195	257	215	243	187	241	248	225	189	219	211	204
<b>TRANSPORT</b>	(55.9)	3,343	608	18	2,301	754	1,378	544	819	936	1,463	857	519	583
<b>UTILITY</b>	(13.9)	107.7	2,514	1,210	1,278	2,612	2,919	1,816	2,498	2,315	2,365	882	2,345	1,818
<b>TOTAL</b>	<b>(8.7)</b>	<b>21.8</b>	17,232	14,151	18,464	16,636	18,884	16,898	18,633	20,021	20,771	16,180	18,784	17,180

Source: MIDFR

Construction, Glove, Healthcare, Plantation and Technology were the sectors which recorded higher total earnings (as reported) in 4QCY15 when compared to both the preceding quarter and corresponding period last year.

On the other hand, sectors such as Auto, Banking, Building Material, Consumer, Finance, Oil & Gas, Property and Telecommunication were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 4QCY15.

## Results met expectation

Recall our 4QCY15 earning preview report dated 16 February 2016 in which we estimated the aggregate earnings of FBM KLCI at RM14.59b. Pursuant to the just concluded results season, we thereby conclude that the 4QCY15 earnings came well within ( $\pm 5$ pts) our expectation as the adjusted aggregate actual earnings of RM14.76b accounted for 101% of our estimate. It is notable that earnings have met our expectation for the second consecutive quarter, after six quarters of disappointment in a row since 1QCY14.

It is also noteworthy that we have witnessed quite an enduring improvement among the FBM KLCI constituents with regard to the ratio of outperformer against underperformer. Recall again that in 3QCY15 there were 5 outperformers against 8 underperformers among FBM KLCI constituents. Earlier on, the ratio stood at 4:9 in 2QCY15 and a measly 0:10 in the 1QCY15 period.

In comparison, the latest 4QCY15 season fared comparatively better than the previous ones as the numbers of outperformers against underperformers improved further to 7 each. The outperformers were Astro, IOI Corp, PPB Group, Public Bank, SapuraKencana, Tenaga Nasional and Telekom Malaysia. On the other hand, the underperformers were AMMB, Digi, HLF, KLCCP, RHB Cap, Sime Darby and UMW Holdings.

In gist, the latest reporting season seems pointing toward the possible resumption of earnings upcycle.

## FBM KLCI: Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
4QCY15	7	7
3QCY15	5	8
2QCY15	4	9
1QCY15	0	10

Source: MIDFR

### Changes to estimates

The aggregate FY2015 earnings of the 28 FBM KLCI constituents under our coverage ended higher by +1.8% to RM54.76b vis-à-vis our earlier estimate pursuant to the prior reporting season. However, the aggregate FY2016 earnings estimate of the 28 FBM KLCI constituents under our coverage was cut by -1.8% to RM56.69b.

Furthermore, the aggregate FY2015 earnings of the 106 stocks under MIDFR coverage universe ended only -0.6% lower at RM67.95b vis-à-vis our earlier estimate pursuant to the prior reporting season. Likewise, the aggregate FY2016 earnings estimate of the 106 stocks under MIDFR coverage universe was trimmed by -1.3% to RM73.71b.

It seems that while the overall key earnings results have ceased to disappoint lately, the tendency to not to err on the downside in regard to forward expectations remain quite prevalent. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

### Maintain FBM KLCI year-end target

We maintain our year-end 2016 FBM KLCI target at 1,800 points.



## APPENDIX 1

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

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Tan Chong	Auto	Neutral	Neutral	2.90	2.50
UMW	Auto	Neutral	Neutral	6.90	6.30
Affin	Banking	Sell	Sell	1.90	1.98
Alliance	Banking	Neutral	Neutral	3.80	3.85
AMMB	Banking	Neutral	Neutral	5.10	4.80
HLFG	Banking	Buy	Buy	16.90	16.10
Public Bank	Banking	Neutral	Neutral	18.80	19.30
RHB Cap	Banking	Neutral	Neutral	6.20	5.40
Lafarge	Build Material	Neutral	Sell	9.15	7.75
Lion Ind.	Build Material	Neutral	Sell	0.22	0.12
Eversendai	Construction	Buy	Neutral	1.28	0.85
Gamuda	Construction	Sell	Buy	4.83	5.11
WCT	Construction	Buy	Buy	1.70	1.90
AEON	Consumer	Neutral	Neutral	3.60	2.56
Daibochi	Consumer	Neutral	Neutral	3.83	1.96
MSM	Consumer	Buy	Buy	6.02	5.36
Bursa Malaysia	Finance	Buy	Neutral	9.45	8.88
MBSB	Finance	Neutral	Neutral	1.42	1.31
Kossan	Glove	Neutral	Buy	7.64	8.94
Supermax	Glove	Neutral	Neutral	2.40	3.21
IHH Health	Healthcare	Neutral	Neutral	7.06	7.10
KPJ Health	Healthcare	Neutral	Neutral	4.75	4.34
LPI Capital	Insurance	Neutral	Neutral	13.66	15.81
Tune Protect	Insurance	Buy	Buy	1.86	1.89
Star	Media	Neutral	Neutral	2.22	2.43
Petronas Chem	Oil & Gas	Neutral	Neutral	5.49	6.86
Petronas Dagang	Oil & Gas	Neutral	Neutral	18.89	22.04
Wah Seong	Oil & Gas	Neutral	Neutral	1.13	0.85
FGV	Plantation	Sell	Sell	1.30	1.33
IJM Plant	Plantation	Neutral	Neutral	3.65	3.30
IOI Corp	Plantation	Buy	Buy	4.95	5.40
PPB Group	Plantation	Neutral	Neutral	18.00	18.20
Sime Darby	Plantation	Neutral	Neutral	8.20	7.30
TSH Res	Plantation	Buy	Neutral	2.33	2.00

E&O	Property	Neutral	Neutral	1.63	1.60
Sunway	Property	Neutral	Neutral	3.20	3.25
Axis REIT	REIT	Neutral	Neutral	1.66	1.68
CMMT	REIT	Buy	Buy	1.62	1.66
IGB REIT	REIT	Buy	Buy	1.53	1.60
KLCCP	REIT	Neutral	Neutral	7.44	6.94
Pavilion	REIT	Neutral	Neutral	1.53	1.63
Globetronics	Technology	Buy	Buy	6.74	7.05
Unisem	Technology	Buy	Buy	3.13	3.22
Axiata	Telecom	Buy	Neutral	6.20	6.26
Digi.com	Telecom	Buy	Neutral	6.70	5.34
Maxis	Telecom	Neutral	Neutral	6.80	6.57
BAT	Tobacco	Neutral	Neutral	66.44	60.75
AirAsia	Transport	Buy	Buy	1.82	1.94
AirAsiaX	Transport	Buy	Buy	0.26	0.29
Litrak	Transport	Neutral	Neutral	5.34	5.11
Westports	Transport	Buy	Buy	4.36	4.42

Source: MIDFR

## APPENDIX 2

### MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below)	COMMENT
Gamuda	Construction	Above	Buoyed by MRT2 and LRT3 packages.
MRCB	Construction	Above	Turnaround story backed by rationalization plan to reduce debt levels and unlock its value through construction arm.
Muhibbah	Construction	Above	Steady inflows of jobs from RAPID, Pengerang and recurring income through airport concessions.
Sunway Con	Construction	Above	Prospects of clinching BRT packages.
WCT	Construction	Above	Rationalizing plan through asset securitization to par down debt.
Panasonic	Consumer	Above	9MFY16 earnings increased by +46.3% mainly drive by the improved profit margins from its home appliances and fan products which expanded by +2.6ppts and +2.3ppts respectively.
LPI Capital	Insurance	Above	Strong performance reflected fire and motor insurance segments' gross earned premiums.
Tune Protect	Insurance	Above	The improvement was supported by its healthy double digit growth in net earned premium for both global travel (+15.8%yoy) and general insurance (+12%yoy) coupled with a stable combined ratio of circa 84%.
Star	Media	Above	Better-than-expected earnings across its business segment except for the event segment.



Bumi Armada	Oil & Gas	Above	Normalised earnings exceeded expectations despite reported earnings registered a net loss. Large chunk of earnings from higher activity levels from FPSO.
Dayang Ent.	Oil & Gas	Above	Lesser than anticipated losses from Perdana Petroleum.
Wah Seong	Oil & Gas	Above	Renewable energy segment outperformed expectations.
IOI Corp	Plantation	Above	Downstream division margin came in better than expected at 5.1% (against our initial assumption of 4.1%).
PPB Group	Plantation	Above	Grains & Agribusiness (G&A) division EBIT margin came in higher than expected at 9.6% (against our expectation of 8.5% and FY14's 7.9%) as raw material costs stay low.
Ta Ann	Plantation	Above	Earnings above expectation due to lower-than-expected tax rate in 4QFY15.
SP Setia	Property	Above	Faster than expected recognition of local projects.
Sunway	Property	Above	Earnings beat expectation due to stronger-than-expected earnings by property division in 4QFY15 as the recognition of some projects were faster than expected.
Unisem	Technology	Above	Higher volume production; Expansion in profit margin; Favourable USDMYR exchange rate.
TM	Telecom	Above	Prudent cost management.
AirAsia	Transport	Above	Better than expected capacity (ASK) growth of +5%yoy followed by utilization rate (load factor) of 85%.
AirAsiaX	Transport	Above	Revenue per unit (RAS) rose better than expected at +15%yoy.
MISC	Transport	Above	Better than expected results from the Petroleum segments benefitting from better charter rates (+>50%yoy).
Tan Chong	Auto	Below	Weak sales, higher than expected promotional cost and strong USD.
UMW	Auto	Below	Operational losses in O&G division, weaker than expected Toyota TIV.
Affin	Banking	Below	Higher provisions and Opex.
AMMB	Banking	Below	Lower top line growth. Lower than expected NOII and stronger than expected compression in NIM impacting NII.
HLFG	Banking	Below	Lower contribution from banking division. Due to drop in contribution of bank of Chengdu, associate of Hong Leong Bank.
RHB Cap	Banking	Below	Lower than expected NII from slower than anticipated loan growth and higher than expected contraction in NIM.
Lion Ind.	Build Material	Below	Due to higher losses of steel division from lower selling prices and tonnages for steel.
Eversendai	Construction	Below	Concentration risk through structural steel fabrication segment.
Hock Seng Lee	Construction	Below	Pan Borneo Highway package is not enough to support long term earnings visibility.
AEON	Consumer	Below	FY15 earnings fell -37.9% due to higher operating costs, higher interest expenses and the initial costs associated with the newly opened stores. Operating costs and interest costs increased by +2.0%yoy and +147.0%yoy respectively.
MBSB	Finance	Below	The large variance to our expected earnings was mainly due to higher than expected allowance for loan impairment on loans.

KNM Group	Oil & Gas	Below	Most projects are either at its infancy or at a delivery stage. Revenue and profit recognition are at its lowest during these phases.
MMHE	Oil & Gas	Below	Poor offshore activity levels and poor yard utilisation rate.
FGV	Plantation	Below	Unexpected Loss Before Tax (LBT) of RM94m in the Trading, Marketing and Logistics (TML) division.
IJM Plant	Plantation	Below	Earnings below expectation due to lower than expected realized CPO price from Indonesia division after the USD50/MT export tax implementation.
Sime Darby	Plantation	Below	Industrial division earnings disappointed with its 1HFY16 EBIT declined -60%yoy to RM124m as continued low coal prices resulted in lower than expected equipment deliveries and margin.
TSH Res	Plantation	Below	Lower than expected realized CPO price from Indonesia division pursuant to the implementation of USD50/MT export tax.
E&O	Property	Below	The negative deviation came from higher than expected expenses and finance cost.
KLCCP	REIT	Below	Earnings below expectation due to higher-than-expected minority interest charge.
Globetronics	Technology	Below	Lower volume loading which impacted the topline contribution.
Digi.com	Telecom	Below	Challenging operating environment and aggressive network expansion affected profit margin.
Litrak	Transport	Below	Larger than expected drop in traffic volume of c. -3%yoy.
MAHB	Transport	Below	Higher depreciation and amortization charges which rose 3-fold yoy.

Source: MIDFR

## APPENDIX 3

### MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2015		FY2016 (E)		FY2015	FY2016
	Old (E)	New (A)	Old	New		
<b>TOTAL (MIDFR Univ.)</b>	68,390.9	67,952.2	74,674.2	73,705.3	<i>(0.6)</i>	<i>(1.3)</i>
<b>Annual % Change</b>	<i>(8.8)</i>	<i>(9.4)</i>	9.2	8.5		
<b>TOTAL (FBM KLCI) *</b>	53,806.2	54,760.9	57,747.9	56,687.8	1.8	<i>(1.8)</i>
<b>Annual % Change</b>	<i>(7.0)</i>	<i>(5.4)</i>	7.3	3.5		

Source: MIDFR; (A) – actual, (E) – estimate; \* Aggregate earnings of 28 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.