

2 March 2017

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended December 2016

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

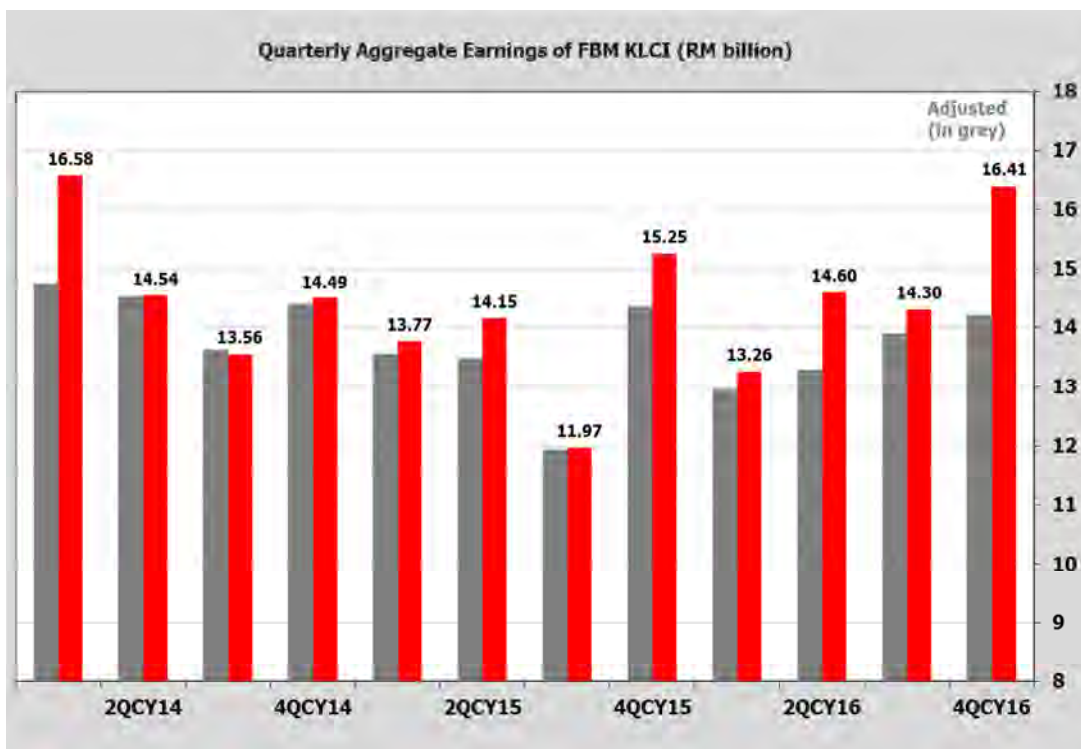
2 March 2017 | Earnings Wrap

Well within expectation

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM16.41b in 4QCY16, higher sequentially and on-year at 14.7%qoq and 7.6%yoy respectively
- However, the aggregate normalized growth figures were lower both sequentially at 2.2%qoq and on-year at -0.9%yoy
- The 4QCY16 aggregate normalized earnings met our expectation at 98.0% of our estimate
- Within MIDFR Universe, 11% of stocks under coverage reported higher than expected earnings. Of the rest, 24% posted earnings that were lower than expected versus 65% which came within expectations
- Target price changes involved 34 upward adjustments and 14 downward adjustments
- We made 10 changes to our stock recommendations with 4 upgrades and 6 downgrades
- We recently added Gabungan AQRS, Pharmaniaga and GD Express into our stock universe
- We maintain our year-end 2017 FBM KLCI target at 1,830 points

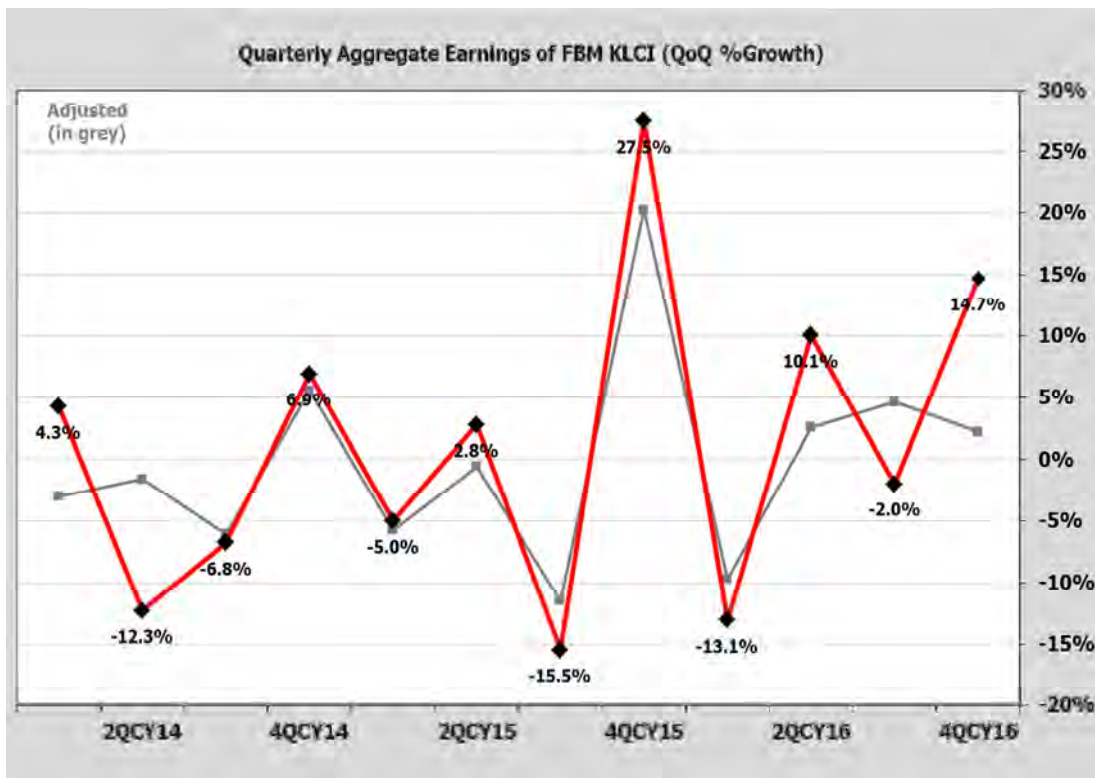
FBM KLCI

The aggregate reported earnings of FBM KLCI 30 constituents totalled RM16.41b in 4QCY16, higher sequentially and on-year at 14.7%qoq and 7.6%yoy respectively. 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.



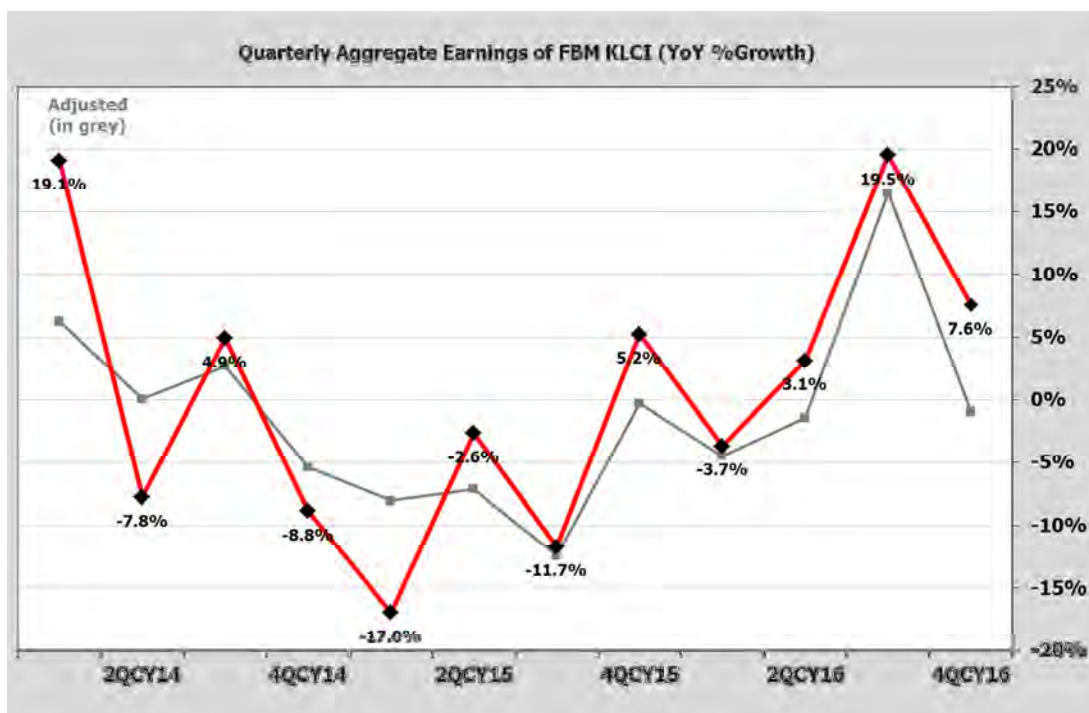
Source: Bloomberg, MIDFR

The aggregate normalized 4QCY16 earnings of FBM KLCI 30 constituents were lower at RM14.21b. Some of the major non-operational items reported during the review quarter were mainly attributable to the: (i) RM1.3b gain on disposal of investment in Genting Hong Kong Limited by Genting Malaysia, and (ii) RM159m gain on the disposal of the land and building of a factory located at the Virginia Park site by British American Tobacco.



Source: Bloomberg, MIDFR

After neutralizing the impact of non-operational items (4QCY16: -RM2.2b, 3QCY16: -RM402m, 4QCY15: -RM909m), the normalized sequential growth in 4QCY16 was lower at 2.2%qoq. Furthermore, the normalized on-year growth number substantially dropped to -0.9%yoy. This was much inferior to the strong 16.5%yoy normalized growth performance of the preceding 3QCY16 quarter.

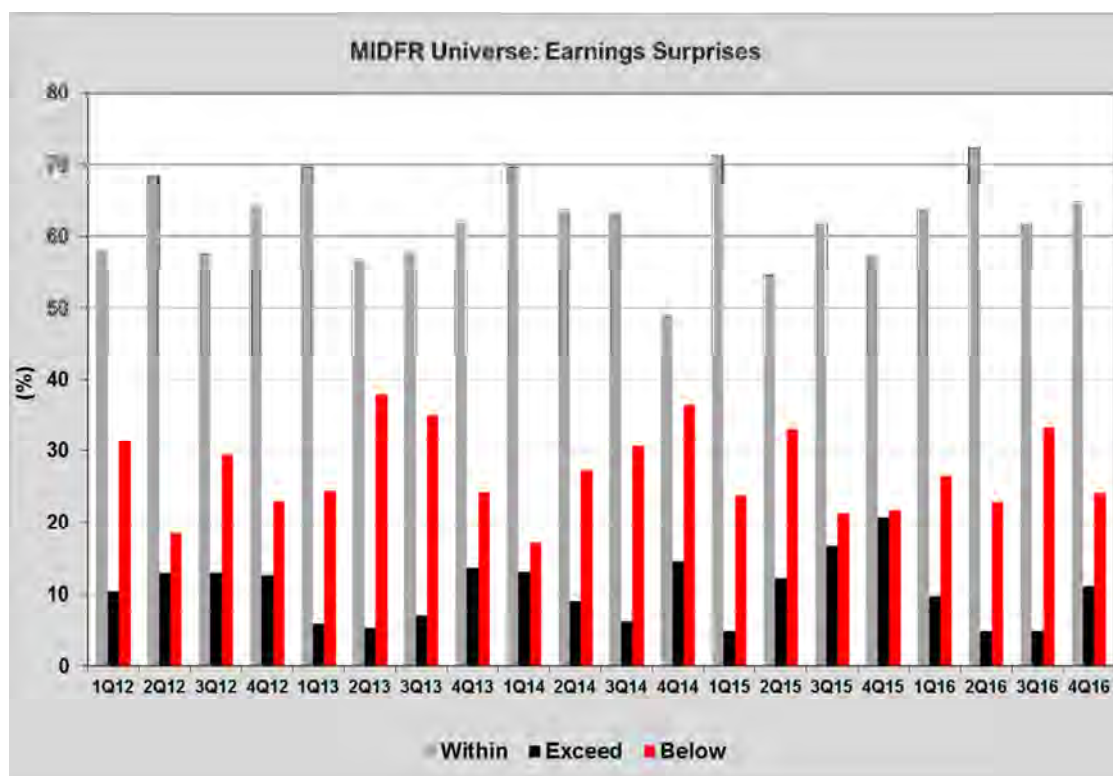


Source: Bloomberg, MIDFR

It is notable that prior to the 4QCY16 earnings reporting season, the aggregate normalized earnings of FBM KLCI constituents was estimated to come in at RM14.50b (refer to our Strategy report dated 17 February 2017). On that score, basing on the actual results, the aggregate normalized figure of RM14.21b accounted for 98.0% of our estimate.

MIDFR Universe

Under MIDFR Universe, we made 10 changes to our stock recommendations with 4 upgrades and 6 downgrades. Moreover, target price changes involved 34 upward against 14 downward adjustments. Also, we recently added Gabungan AQRS Bhd, Pharmaniaga Bhd and GD Express Carrier Bhd to our coverage 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 decreased to 24% in 4QCY16 from 33% in the prior quarter. It is noteworthy that the percentage of positive surprises increased to 11% during the quarter under review vis-à-vis merely 5% in 3QCY16.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	75%	0%	25%
BANKING	80%	20%	0%
BUILDING MATERIAL	67%	0%	33%
CONSTRUCTION	22%	11%	67%
CONSUMER	67%	17%	17%
FINANCE	100%	0%	0%
GLOVE	50%	0%	50%
HEALTHCARE	75%	0%	25%
INSURANCE	100%	0%	0%
MEDIA	33%	33%	33%
OIL & GAS	42%	17%	42%
PLANTATION	33%	22%	44%
PROPERTY	70%	20%	10%
REIT	100%	0%	0%
TECHNOLOGY	75%	0%	25%
TELECOMMUNICATION	100%	0%	0%
TOBACCO	100%	0%	0%
TRANSPORTATION	80%	10%	10%
UTILITY	67%	0%	33%
TOTAL	65%	11%	24%

Source: MIDFR

Accordingly, companies with results that were in line with expectations slightly increased to 65% in 4QCY16 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 (%)	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14
AUTOMOTIVE	594.5	2,058.3	-1,531	-71	44	39	-220	104	167	273	183	280	275	331
BANKING	20.0	7.2	6,706	6,257	5,328	5,496	5,589	5,728	5,738	5,589	5,753	6,068	6,035	5,938
BUILD MATERIAL	568.5	461.0	135	24	-571	-89	20	-28	-60	38	-24	36	-334	95
CONSTRUCTION	(23.2)	0.8	490	486	406	307	638	513	647	455	439	470	467	311
CONSUMER	(25.1)	7.5	321	298	401	471	428	402	352	429	361	349	341	395
FINANCE	84.7	3.6	163	157	175	150	88	163	193	227	495	293	336	290
GLOVE	(30.0)	8.6	207	190	166	237	295	257	207	181	156	156	161	154
HEALTHCARE	(94.7)	(90.6)	25	270	283	309	482	247	339	274	396	200	270	224
INSURANCE	(15.3)	0.2	137	137	285	135	162	123	141	120	170	114	108	105
MEDIA	4.4	612.0	195	27	274	237	187	205	245	185	105	214	204	155
OIL & GAS	(89.7)	(92.1)	135	1,713	792	949	1,318	1,825	1,803	1,712	1,574	2,058	2,046	1,928
PLANTATION	(19.6)	31.3	1,857	1,415	1,424	1,839	2,312	108	1,727	753	1,172	1,328	2,293	3,866
PROPERTY	62.6	88.2	1,636	869	1,052	718	1,006	862	1,234	951	1,190	679	1,071	566
REIT	(28.3)	43.4	481	336	392	333	671	301	668	312	806	405	539	304
TECHNOLOGY	14.3	23.5	168	136	135	93	147	135	113	98	91	91	74	62
TELECOM	(52.1)	(46.7)	723	1,358	1,237	1,608	1,510	1,875	1,728	1,603	1,712	1,756	1,607	1,855
TOBACCO	48.7	38.7	289	209	48	175	195	257	215	243	187	241	248	225
TRANSPORT	79.1	42.6	1,143	801	2,003	1,928	638	31	2,324	798	1,394	563	838	972
UTILITY	(18.2)	(0.2)	2,055	2,059	2,948	1,727	2,514	1,210	1,278	2,612	2,919	1,816	2,498	2,315
TOTAL	(14.7)	(8.0)	15,348	16,684	16,831	16,671	17,991	14,328	19,071	16,831	19,085	17,125	19,084	20,068

Source: MIDFR

Automotive, Banking, Building Material, Finance, Media, Property, Technology, Tobacco and Transport were the sectors which recorded higher total earnings (as reported) in 4QCY16 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Healthcare, Oil & Gas, Telecommunication and Utility sectors were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 4QCY16.

Overall results well within expectation

Prior to the just concluded earnings reporting season, the aggregate normalized 4QCY16 earnings of FBM KLCI constituents were estimated to come in at RM14.50b. Hence, basing on the actual results, we thereby conclude that the 4QCY16 normalized earnings of FBM KLCI constituents met (i.e. within ± 5 ppts) our expectation as the aggregate normalized figure of RM14.21b accounted for 98.0% of our estimate.

FBM KLCI: Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
4QCY16	2	3
3QCY16	2	5
2QCY16	1	4
1QCY16	0	8
4QCY15	7	7
3QCY15	5	8

Source: MIDFR

It is also notable that while the ratio of outperformer against underperformer among the FBM KLCI constituents improved somewhat in 4QCY16, nonetheless it remains skewed toward the latter at 2:3 in 4QCY16. The outperformers were PPB Group and Maybank while the underperformers were IJM Corp, Sime Darby and YTL Corp.

Changes to estimates

The aggregate FY2017 earnings estimate of the FBM KLCI constituents under our coverage remains largely unchanged at RM56.12b vis-à-vis our earlier estimate of RM56.11b pursuant to the prior reporting season. However, the aggregate FY2017 earnings of the stocks under MIDFR coverage universe was revised upward by 0.6% to RM75.79b vis-à-vis our earlier estimate of RM75.34b pursuant to the prior reporting season. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

Maintain FBM KLCI year-end 2017 target at 1,830 points

As the overall 4QCY16 results met our expectation and coupled with the improving macro environment (i.e. sustained domestic and improving external demands) as well as expected recovery in corporate earnings performance this year, we thereby reiterate our FBM KLCI year-end 2017 target at 1,830 points.

APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
AirAsia	Aviation	Buy	Buy	3.34	3.45
UMW	Auto	Buy	Buy	6.00	6.50
AAX	Aviation	Buy	Buy	0.50	0.56
MAHB	Aviation	Buy	Buy	7.60	7.75
Maybank	Bank	Neutral	Buy	8.10	9.40
Hong Leong Bank	Bank	Buy	Buy	15.00	15.50
Public Bank	Bank	Buy	Buy	22.20	22.60
Lafarge	Building Material	Sell	Sell	5.50	3.80
Sunway Construction	Construction	Buy	Neutral	1.74	1.74
Cahaya Mata Sarawak	Construction	Buy	Buy	4.36	4.62
Hock Seng Lee	Construction	Buy	Buy	2.17	2.19
F&N	Consumer	Neutral	Neutral	20.69	22.52
MSM	Consumer	Neutral	Sell	4.02	3.15
Padini	Consumer	Neutral	Buy	2.81	2.98
Hong Leong Financial Group	Financial	Buy	Buy	17.20	17.59
KPJ Healthcare	Healthcare	Neutral	Neutral	4.02	4.20
Pharmaniaga	Healthcare	Buy	Neutral	5.80	5.20
Tiong Nam	Logistics	Buy	Buy	1.93	2.16
Media Prima	Media	Sell	Neutral	0.78	1.1
Deleum	Oil & Gas	Buy	Buy	1.25	1.18
KNM Group	Oil & Gas	Neutral	Neutral	0.41	0.35
Petronas Dagangan	Oil & Gas	Neutral	Neutral	24.80	26.91
Petronas Chemicals	Oil & Gas	Neutral	Neutral	6.46	7.18
Gas Malaysia	Oil & Gas	Buy	Buy	3.07	3.33
Malaysia Marine & Heavy Engineering	Oil & Gas	Sell	Sell	0.77	0.56
Sime Darby	Plantation	Neutral	Neutral	9.05	9.00
IJM Plantations	Plantation	Neutral	Neutral	3.3	3.53
Genting Plantations	Plantation	Neutral	Neutral	11.5	11.55
PPB Group	Plantation	Neutral	Neutral	16.80	17.69
Ta Ann	Plantation	Buy	Neutral	4.70	4.25
MMC Corp	Port	Buy	Buy	2.94	2.98
Glomac	Property	Neutral	Neutral	0.76	0.75
SP Setia	Property	Neutral	Neutral	3.38	3.40
E&O	Property	Neutral	Neutral	1.58	1.82
UOA Development	Property	Buy	Buy	2.68	2.75

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Sunway REIT	REIT	Buy	Buy	1.83	1.88
IGB REIT	REIT	Neutral	Neutral	1.63	1.73
CMMT	REIT	Buy	Neutral	1.69	1.69
KLCCP Stapled Group	REIT	Neutral	Neutral	7.30	7.60
Pavilion REIT	REIT	Neutral	Neutral	1.68	1.77
Kossan	Rubber Gloves	Buy	Buy	7.85	7.52
Supermax	Rubber Gloves	Neutral	Neutral	2.42	2.20
Top Glove	Rubber Gloves	Neutral	Neutral	5.24	5.31
MISC	Shipping	Neutral	Neutral	7.96	7.90
Maybulk	Shipping	Buy	Neutral	1.04	0.73
Globetronics	Technology	Neutral	Neutral	3.64	4.65
Unisem	Technology	Buy	Buy	3.06	3.13
Maxis	Telecommunication	Neutral	Neutral	6.55	6.58
Axiata	Telecommunication	Neutral	Neutral	4.74	4.98
British American Tobacco	Tobacco	Sell	Neutral	41.27	48.90
YTL Corp	Utilities	Neutral	Neutral	1.50	1.30

Source: MIDFR

APPENDIX 2

MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Affin	Banking	Above	The positive variance was due to the Group registering lower net impairment losses.
UMW	Auto	Below	Due to larger than expected O&G losses and O&G asset impairments ahead of disposals
Air Asia X	Aviation	Above	The favourable variance in profits was predicated on better than expected RPK growth of +32%yoy against our forecast of +23%yoy.
Maybank	Banking	Above	Higher recoveries, robust income and lower OPEX in 4QFY16.
Affin	Banking	Above	Lower provisions and robust income growth
MRCB	Construction	Above	Higher construction progress
Vivocom	Construction	Below	Cost transfer from higher orderbook
Hock Seng Lee	Construction	Below	Pan Borneo project still at an early stage
Cahaya Mata Sarawak	Construction	Below	Lower progress billings from Pan Borneo

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
WCT	Construction	Below	Higher total expenses
IJM Corp	Construction	Below	Gap of billings recognition
Gabungan AQRS	Construction	Below	Project such as KK Waterfront City yet to be recognized
Lafarge	Building Material	Below	Unwavering Opex
MSM	Consumer	Below	High raw material costs due to the high raw sugar price and weakening Ringgit
Padini	Consumer	Above	Revenue grew due to the positive same-store-sales-growth (SSSG) and opening of new stores
Pharmaniaga	Healthcare	Below	Lower revenue coming from government concession business as well as additional costs incurred on financing and selling and distribution caused earnings to decline
Tiong Nam	Logistics	Below	The shortfall in earnings was mainly due to an increase in depreciation and interest expenses while lower contributions from the property development segment did not help either.
Media Prima	Media	Above	TV network segment performed better than expected
Star	Media	Below	Print and digital segment underperformed
Bumi Armada	Oil & Gas	Below	Massive impairment charges on FPSO and OSV segment. Operating losses recorded due to low activity levels
Wah Seong Corp	Oil & Gas	Below	Impairment charges on assets, investments and inventories
Deleum	Oil & Gas	Below	Low activity levels coupled with impairments and write-offs on PPE
KNM Group	Oil & Gas	Below	Impairments on doubtful debts and on assets associated with weak Canadian oil sand segment
Dayang Enterprise	Oil & Gas	Above	Narrowing losses from Perdana Petroleum and commendable vessel utilisation rate in excess of 60%
Gas Malaysia	Oil & Gas	Above	Strong rise in gas volume sold on strong new customer acquisition
Malaysia Marine & Heavy Engineering	Oil & Gas	Below	Depleting orderbook, activity levels and tail-end jobs. Impairment charges on machineries also pulled earnings into the red
IJM Plantations	Plantation	Below	Weaker-than-expected FFB production and higher-than-expected cost of production.
Genting Plantations	Plantation	Above	Lower-than-expected cost of production in 4QFY16
Sime Darby	Plantation	Below	Weaker-than-expected earnings performance from industrial division
PPB Group	Plantation	Above	Better than expected earnings performance from PPB's Grains and Agribusiness division
FGV	Plantation	Below	Sugar and downstream division earnings disappoint
Ta Ann	Plantation	Below	Timber division earnings was affected by low prices of export log and plywood
E&O	Property	Above	Higher-than-expected sale of completed properties and better-than-expected margin in 3QFY17.
Glomac	Property	Below	Lower than expected recognition of property sales
SP Setia	Property	Above	Possibly due to better than expected margin from Parque Melbourne project in Australia

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Top Glove	Rubber Gloves	Below	Higher production costs such as: minimum wage as well as the fluctuating raw materials price impacted earnings during the quarter
Supermax	Rubber Gloves	Below	Lower output from older production lines caused revenue to decline yoy and qoq.
Globetronics	Technology	Below	Reduction in end customers' demand
YTL Corp	Utilities	Below	Due to weaker than expected cement division performance – industry overcapacity and price competition

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2016		FY2017		FY2016	FY2017
	Old	New	Old	New		
TOTAL (MIDFR Univ.)	69,415.1	68,523.2	75,339.9	75,789.2	<i>(1.3)</i>	<i>0.6</i>
Annual % Change	<i>3.3</i>	<i>1.9</i>	<i>8.5</i>	<i>10.6</i>		
TOTAL (FBM KLCI) *	51,713.3	50,489.1	56,109.7	56,121.6	<i>(2.4)</i>	<i>0.0</i>
Annual % Change	<i>(0.4)</i>	<i>(2.7)</i>	<i>8.5</i>	<i>11.2</i>		

Source: MIDFR; (A)–actual, (E)–estimate; * Aggregate earnings of 27 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.