

2 March 2018

**MALAYSIA EQUITY**

# **EARNINGS WRAP**

**Review of corporate earnings**

**Quarter Ended December 2017**

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DISCLOSURES

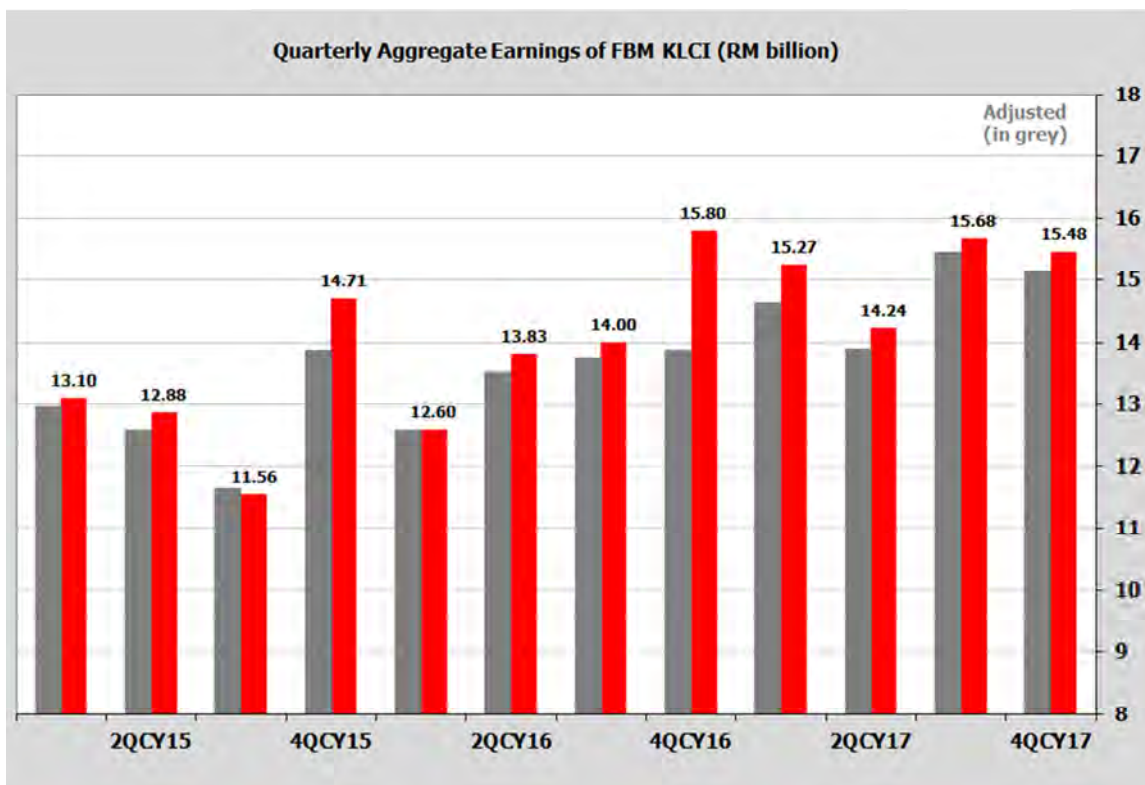
2 March 2018 | Earnings Wrap

## On-year (normalized) growth attests to continued earnings recovery

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM15.48b in 4QCY17, negative both sequentially at -1.3%qoq and on-year at -2.0%yoy.
- While the aggregate normalized sequential growth figure was also negative at -1.9%qoq, but more pertinently, the normalized on-year number was positive at +9.2%yoy.
- Within MIDFR Universe, 16% of stocks under coverage reported higher than expected earnings. Of the rest, 19% posted earnings that were lower than expected versus 65% which came within expectations.
- Target price changes involved 35 upward adjustments and 19 downward adjustments.
- We made 15 changes to our stock recommendations with 8 upgrades and 7 downgrades.
- We recently added KKB Engineering into our stock universe.
- For the first time in 2 years, the ratio of outperformer against underperformer among FBM KLCI constituents under our coverage skewed towards the former at 3:1 in 4QCY17.
- We reiterate our year-end 2018 FBM KLCI target at 1,900 points.

### FBM KLCI

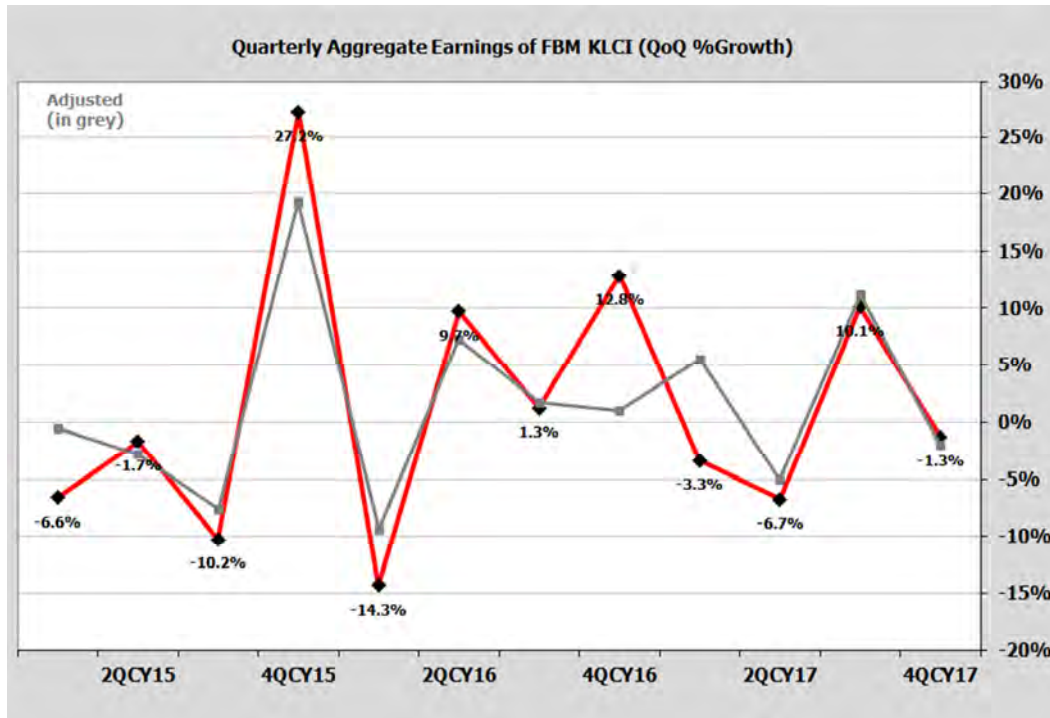
The aggregate reported earnings of FBM KLCI 30 constituents totalled RM15.48b in 4QCY17, negative both sequentially at -1.3%qoq and on-year at -2.0%yoy.



Source: Bloomberg, MIDFR

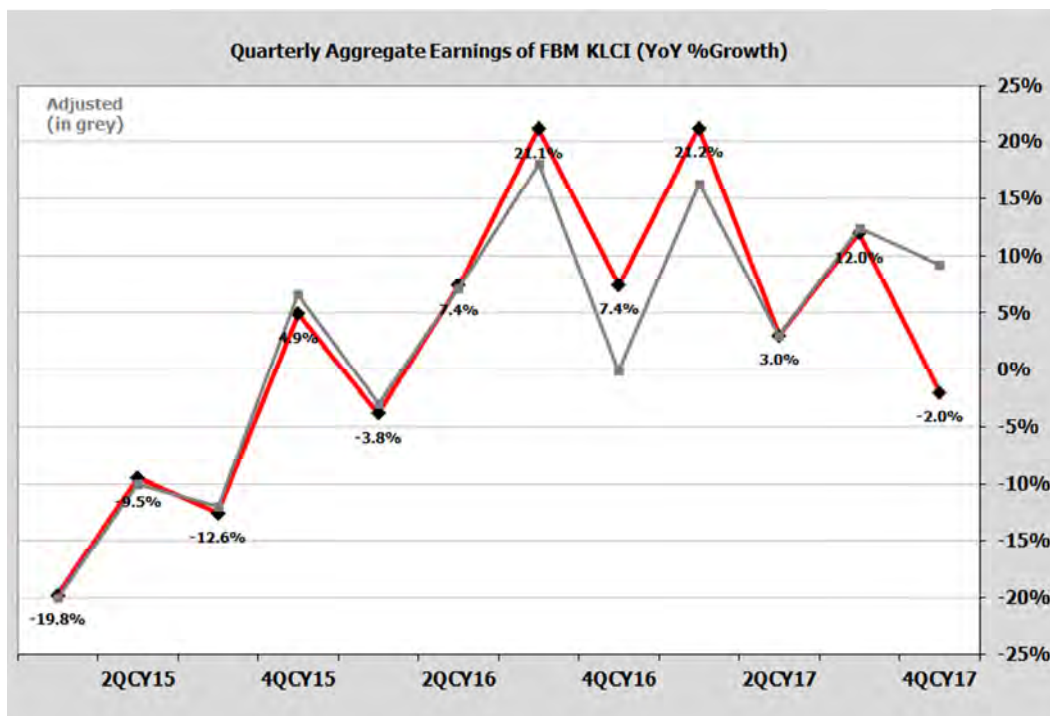
However, the aggregate reported earnings figure requires some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance. On this score, the aggregate normalized 4QCY17 earnings of FBM KLCI 30 constituents were slightly lower at RM15.16b.

After neutralizing the impact of non-operational items (4QCY17: -RM324m, 3QCY17: -RM226m, 4QCY16: -RM1.92b), the aggregate normalized growth figures remained negative sequentially at -1.9%qoq but, more relevantly, turned positive on-year at +9.2%yoy.



Source: Bloomberg, MIDFR

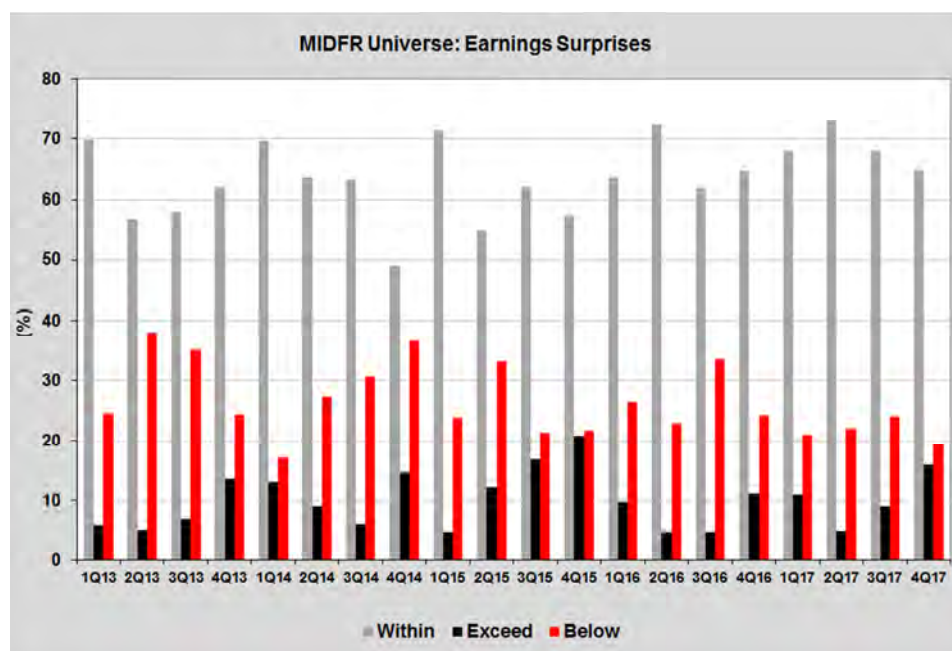
Nonetheless, it is also noteworthy that the normalized sequential and on-year performances in 4QCY17 tapered in comparison to the +11.1%qoq and +12.4%yoy adjusted growth during the preceding 3QCY17 quarter.



Source: Bloomberg, MIDFR

## MIDFR Universe

Under MIDFR Universe, we made 15 changes to our stock recommendations with 8 upgrades and 7 downgrades. Moreover, target price changes involved 35 upward against 19 downward adjustments. Also, we recently added KKB Engineering 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 declined to 15-quarter low (since 1QCY14) of 19% in 4QCY17 from 24% in the prior quarter. Furthermore, the percentage of positive surprises increased to 8-quarter high (since 4QCY15) of 16% in 4QCY17 from 9% in the prior quarter.

## MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	100%	0%	0%
BANKING	80%	10%	10%
BUILDING MATERIAL	0%	0%	100%
CONSTRUCTION	60%	10%	30%
CONSUMER	89%	0%	11%
FINANCE	67%	33%	0%
GLOVE	50%	50%	0%
HEALTHCARE	75%	25%	0%
INDUSTRIAL	88%	0%	13%
INSURANCE	33%	33%	33%
MEDIA	67%	0%	33%
OIL & GAS	50%	33%	17%
PLANTATION	67%	11%	22%
PROPERTY	56%	22%	22%
REIT	86%	0%	14%
TECHNOLOGY	50%	33%	17%
TELECOMMUNICATION	100%	0%	0%
TOBACCO	100%	0%	0%
TRANSPORTATION	10%	30%	60%
UTILITY	100%	0%	0%
<b>TOTAL</b>	<b>65%</b>	<b>16%</b>	<b>19%</b>

Source: MIDFR

Accordingly, companies with results that were in line with expectations declined to 65% in 4QCY17 from 68% 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 (%)	4Q17	3Q17	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
AUTOMOTIVE	(60.2)	2,346	-609	-25	-195	29	-1,531	-71	44	39	-217	104	167	273
BANKING	4.0	1.7	6,977	6,858	6,083	6,344	6,706	6,257	5,328	5,509	5,636	5,763	5,767	5,589
BUILD MATERIAL	(336)	90.7	-80	-42	-44	-49	34	4	18	21	45	71	63	74
CONSTRUCTION	(7.0)	45.4	631	434	504	565	678	515	451	311	665	518	707	693
CONSUMER	13.0	55.6	462	297	378	449	409	368	464	534	504	476	405	493
FINANCE	51.2	11.6	246	221	223	235	163	157	175	150	88	163	193	227
GLOVE	45.2	5.2	300	286	228	239	207	190	166	237	295	257	207	181
HEALTHCARE	1,819	214	486	155	386	555	25	270	283	309	484	247	339	274
INDUSTRIAL	(18.9)	6.4	78	73	68	44	96	92	86	51	90	100	87	96
INSURANCE	7.6	(3.8)	148	153	126	139	137	137	285	135	162	123	141	120
MEDIA	(298)	(203)	-387	376	72	113	195	27	274	237	187	205	245	185
OIL & GAS	1,217	(29.1)	1,780	2,510	1,875	1,969	135	1,713	792	91	1,319	1,756	1,803	1,712
PLANTATION	8.7	30.2	1,971	1,514	2,147	2,281	1,814	1,209	1,035	1,526	2,368	-49	1,630	930
PROPERTY	(32.5)	0.6	960	954	1,081	696	1,421	758	1,028	699	1,197	920	1,168	755
REIT	45.7	97.2	721	366	466	341	495	344	401	343	704	310	678	320
TECHNOLOGY	9.1	3.8	201	194	188	171	184	151	150	105	160	148	127	107
TELECOM	68.8	(12.1)	1,221	1,389	1,551	1,348	723	1,358	1,237	1,608	1,510	1,875	1,728	1,603
TOBACCO	(72.0)	(44.3)	81	145	147	119	289	209	48	175	195	257	215	243
TRANSPORT	(41.9)	(38.5)	905	1,471	1,021	1,650	1,559	840	2,049	1,961	1,850	53	2,380	826
UTILITY	17.5	21.0	2,414	1,995	2,395	1,928	2,055	2,059	2,948	1,727	2,514	1,210	1,226	2,612
<b>TOTAL</b>	<b>17.2</b>	<b>(4.2)</b>	18,505	19,323	18,698	19,165	15,795	16,588	17,262	15,767	19,756	14,506	19,277	17,186

Source: MIDFR

Cumulatively, the reported earnings of companies under MIDFR Universe totalled RM18.50b in 4QCY17. While the aggregate earnings growth was negative sequentially at -4.2%qoq, but more pertinently, it was positive on-year at +17.2%yoy.

Banking, Consumer, Finance, Glove, Healthcare, Plantation, REIT, Technology and Utility were the sectors which recorded higher total earnings (as reported) in 4QCY17 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Media, Tobacco and Transport sectors were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 4QCY17.

### Actual versus estimates

The actual aggregate FY2017 earnings of the FBM KLCI constituents under our coverage came in higher by +1.7% at RM53.5b vis-à-vis our earlier estimate prior to the latest reporting season. Likewise, the actual aggregate FY2017 earnings of the stocks under MIDFR coverage universe also came in slightly higher by +0.2% at RM73.0b vis-à-vis our earlier estimate prior to the latest reporting season.

### Change to estimates

Furthermore, the aggregate FY2018 earnings estimate of the FBM KLCI constituents under our coverage was unchanged at RM57.6b vis-à-vis our earlier estimate prior to the latest reporting season. Similarly, the aggregate FY2018 earnings estimate of the stocks under MIDFR coverage universe was unchanged at RM80.1b vis-à-vis our earlier estimate prior to the latest reporting season. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

**Outperformer versus underperformer**

It is notable that the ratio of outperformer against underperformer among the FBM KLCI constituents under our coverage has always been skewed towards the latter, at least since the beginning of 2016. However, the inauspicious streak has finally ended as the number of outperformer trumped underperformer at 3:1 in 4QCY17.

**FBM KLCI: Outperformer versus Underperformer**

	No. of Outperformer	No. of Underperformer
4QCY17	3	1
3QCY17	1	3
2QCY17	2	3
1QCY17	1	3
4QCY16	2	3
3QCY16	2	5
2QCY16	1	4
1QCY16	0	8

Source: MIDFR

In the review quarter, the outperformers were CIMB, MISC, and Petronas Dagangan while the sole underperformer was AMMB.

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

Looking forward, with the expectations of continued healthy macro environment (i.e. sustained domestic and external demands) as well as continued recovery in corporate earnings performance this 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
BAuto	Auto	Buy	Buy	2.50	2.70
UMW Holdings	Auto	Buy	Neutral	6.00	6.70
AMMB	Banking	Neutral	Neutral	4.40	4.30
CIMB	Banking	Buy	Buy	7.17	7.80
HLFG	Banking	Trading Buy	Neutral	17.67	18.70
Hong Leong Bank	Banking	Neutral	Neutral	15.72	18.55
Maybank	Banking	Buy	Buy	10.30	11.20
Public Bank	Banking	Buy	Buy	23.50	25.70
RHB	Banking	Neutral	Neutral	5.22	5.70
Suncon	Construction	Buy	Neutral	2.67	2.67
Vivocom	Construction	Buy	Buy	0.33	0.23
WCT	Construction	Sell	Neutral	1.47	1.47
Fraser & Neave	Consumer	Neutral	Neutral	25.47	30.03
Nestle	Consumer	Neutral	Neutral	82.76	116.50
QL Resources	Consumer	Neutral	Neutral	4.13	4.74
Spritzer	Consumer	Buy	Neutral	2.53	2.10
Hartalega	Glove	Neutral	Neutral	7.30	9.68
Kossan	Glove	Neutral	Neutral	7.57	8.78
Supermax	Glove	Buy	Buy	2.42	2.70
Top Glove	Glove	Neutral	Neutral	5.53	8.55
KPJ Healthcare	Healthcare	Buy	Buy	1.06	1.12
Daibochi	Industrial	Buy	Buy	2.51	2.59
PIE Industrial	Industrial	Neutral	Buy	2.16	2.16
United U-Li	Industrial	Buy	Buy	4.68	3.23
Syarikat Takaful	Insurance	Buy	Buy	4.90	4.65
Tune Protect	Insurance	Buy	Buy	1.42	1.26
Dayang Ent	Oil & Gas	Buy	Buy	0.95	1.06
Dialog	Oil & Gas	Neutral	Neutral	2.16	2.55
MMHE	Oil & Gas	Trading Sell	Neutral	0.70	0.87
Petronas Chem	Oil & Gas	Buy	Buy	8.18	8.72
Genting Plant	Plantation	Buy	Buy	12.60	12.70
IJM Plant	Plantation	Neutral	Neutral	2.85	2.36
PPB	Plantation	Neutral	Buy	17.69	19.46
IOI Prop	Property	Buy	Neutral	2.41	2.09
Sunway	Property	Neutral	Neutral	1.76	1.77
Amanahraya REIT	REIT	Buy	Buy	1.09	1.12

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
CMMT	REIT	Neutral	Neutral	1.65	1.49
KLCCP Stapled	REIT	Neutral	Neutral	7.60	7.59
Globetronics	Technology	Neutral	Trading Buy	5.31	6.68
Inari	Technology	Buy	Neutral	3.26	3.26
MYEG	Technology	Neutral	Neutral	2.10	2.47
Unisem	Technology	Buy	Buy	4.58	4.27
D&O Green Tech	Technology	Neutral	Neutral	0.66	0.70
Axiata	Telecommunication	Neutral	Neutral	5.43	5.31
Digi	Telecommunication	Neutral	Neutral	5.02	4.62
Maxis	Telecommunication	Neutral	Neutral	5.80	5.93
BAT	Tobacco	Neutral	Buy	44.40	41.10
AirAsia	Transportation	Buy	Buy	4.02	4.80
AirAsiaX	Transportation	Buy	Buy	0.43	0.46
GDEX	Transportation	Neutral	Neutral	0.59	0.57
Malaysia Airports	Transportation	Buy	Buy	9.98	9.80
MMC Corp	Transportation	Buy	Buy	2.67	2.72
Tasco	Transportation	Buy	Buy	2.68	2.62
Tiong Nam	Transportation	Neutral	Neutral	1.43	1.23
Westports	Transportation	Neutral	Buy	3.83	3.89
Tenaga	Utility	Buy	Neutral	16.80	16.30
YTL Corp	Utility	Buy	Buy	1.40	1.82
YTL Power	Utility	Neutral	Buy	1.20	1.48

## APPENDIX 2

### MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	Versus EXPECTATION (Above/Below)	COMMENT
CIMB	Banking	Above	Higher than expected Islamic Banking income
AQRS	Construction	Above	Recognition of SUKE works
MBSB	Finance	Above	Lower allowance for impairment losses on financing
Hartalega	Glove	Above	Higher revenue and earnings are attributable to: (i) better demand; (ii) increase in ASPs; (iii) higher utilization rate of above 90% and; (iv) improvement in internal processes
Supermax	Glove	Above	Revenue and earnings during the quarter was boosted by: (i) higher ASPs; (ii) higher output arising from revamp work on its older production lines and; (iii) increased output from newly commissioned production lines
KPJ Healthcare	Healthcare	Above	Revenue and earnings during the quarter was boosted by: (i) higher revenue contributions from newly opened



STOCK	SECTOR	Versus EXPECTATION (Above/Below)	COMMENT
			hospitals; (ii) higher inpatient admissions and; (iii) higher complex cases undertaken
Syarikat Takaful	Insurance	Above	Higher sales generated in family takaful and general takaful segments
Deleum	Oil & Gas	Above	Execution of higher margin jobs ie. engine retrofit
Gas Malaysia	Oil & Gas	Above	Higher than expected volume sales growth
MMHE	Oil & Gas	Above	Largely attributable to change orders secured totalling approximately RM100m
Petronas Dagang	Oil & Gas	Above	Large increase in crude oil price, average selling prices and lower than expected decline in sales volume
FGV	Plantation	Above	FFB growth came in better than expected at 9% yoy growth in FY17
Magna Prima	Property	Above	The positive deviation is attributed to faster-than-expected progress billing
SP Setia	Property	Above	Higher-than-expected margin achieved in 4QFY17
Globetronics	Technology	Above	Higher volume loadings and mass production of new products
D&O Green Tech	Technology	Above	Better product mix and margins
AirAsia	Transportation	Above	Higher ancillary income and ticket sale
MISC	Transportation	Above	Rebound in heavy engineering segment
Westports	Transportation	Above	Claims on the Investment Tax Allowance from RM812m of capex
AMMB	Banking	Below	Higher provisions instead of previous trend of write backs
Lafarge	Building Material	Below	Opex and shifts in industry dynamics
HSL	Construction	Below	Slower progress billings
MRCB	Construction	Below	Unwavering Opex
Vivocom	Construction	Below	Slower progress billings
MSM	Consumer	Below	High raw sugar costs
United U-Li	Industrial	Below	Higher than expected input and operating costs
Tune Protect	Insurance	Below	Higher net claims incurred, leading to compression in underwriting margin
Media Prima	Media	Below	Declining trend of traditional advertising revenue
Dayang Ent	Oil & Gas	Below	Kitchen sinking involving recognition of deferred tax liabilities
KNM	Oil & Gas	Below	High depreciation charges related to commencement of bio-ethanol plant in Thailand
Fima Corp	Plantation	Below	Weaker than expected earnings in the "production of security and confidential documents" (PSCD) division
IJM Plant	Plantation	Below	Higher-than-expected production cost
IOI Prop	Property	Below	Lower-than-expected contribution from overseas projects
UEM Sunrise	Property	Below	Higher-than-expected marketing and promotional expenses in 4QFY17
Amanahraya	REIT	Below	Higher expenses outweigh higher revenue

STOCK	SECTOR	Versus EXPECTATION (Above/Below)	COMMENT
Unisem	Technology	Below	Lower than expected profit margin
AirAsiaX	Transportation	Below	Due to one-off doubtful debt provision
GDEX	Transportation	Below	Expiry of pioneer tax status incentive
Malaysia Airports	Transportation	Below	Due to one-off provision in staff expenses
MMC Corp	Transportation	Below	No sale of land in Senai Airport City and completion of KVMRT1 line
Tasco	Transportation	Below	Delay in acquisition of MILS Cold Chain Logistics
Tiong Nam	Transportation	Below	Higher effective tax rate in 3QFY18

Source: MIDFR

## APPENDIX 3

### MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2017		FY2018		FY2017	FY2018
	Old (E)	New (A)	Old (E)	New (E)		
<b>TOTAL (MIDFR Univ.)</b>	72,859.9	73,041.9	80,132.9	80,097.6	0.2	(0.0)
<b>Annual % Change</b>	4.0	4.3	10.0	9.7		
<b>TOTAL (FBM KLCI) *</b>	52,635.3	53,525.9	57,603.1	57,625.0	1.7	0.0
<b>Annual % Change</b>	6.9	8.7	9.4	7.7		

Source: MIDFR; (A)–actual, (E)–estimate; \* Aggregate earnings of 25 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 >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.