

08 February 2017 | Strategy

Breaking the trading band

On expectation of further earnings recovery

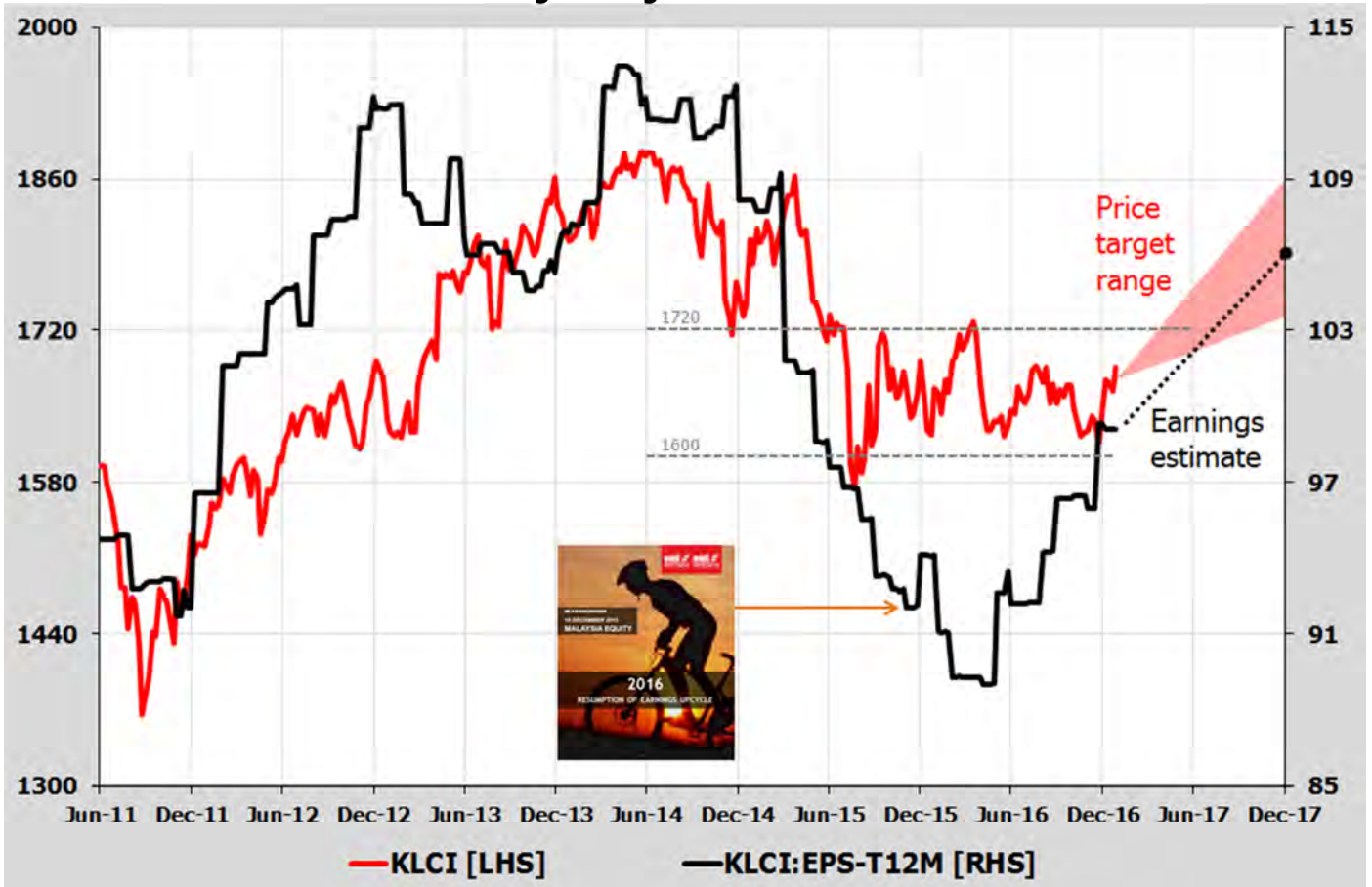
KLCI: 1,688.84 points

2017 Year-end Target: 1,830 points

Price consolidated within a trading band during past 1.5 years... The FBM KLCI has been stuck in a price consolidation from the second half of 2015 until today. During the past 1.5 years, prices were trading largely within a band of between 1,600 and 1,720 points.

...despite plunging earnings and the ensuing resumption of upcycle... However, it is notable that the FBM KLCI price consolidation was against the backdrop of deteriorating earnings which dropped from 98 points in July 2015 to 89 points in June 2016. Thereafter, the earnings upcycle resumed until it reached nearly 100 points in December 2016.

FBM KLCI: Price versus 12-Month Trailing Earnings



Source: Bloomberg, MIDFR

...as the initial plunge was arguably seen as transient. The FBM KLCI price consolidation during the period of earnings slump and throughout the ensuing resumption of earnings upcycle indicates that the market may have viewed the initial slump as transient hence disregarded the fluctuations in earnings. On this score, recall our 2016 outlook report dated 10 December 2015 titled "Resumption of Earnings Upcycle".

As earnings caught up with price and given expectation of further earnings recovery,... The valuation gap is narrowing drastically pursuant to FBM KLCI earnings recovery since middle of last year. Moreover, given the

MIDF RESEARCH is a unit of MIDF AMANAH INVESTMENT BANK

Kindly refer to the last page of this publication for important disclosures


expectation of further recovery this year whereby earnings (Bloomberg consensus) are estimated to reach a level of circa 106 points, the FBM KLCI is likely to regain its upward price momentum moving forward.

...the FBM KLCI would plausibly be breaking above the trading band moving forward. Thus, we expect the FBM KLCI to break above the trading band towards a target range between 1,730 and 1,860 points by the end of 2017.

FBM KLCI historical and forward consensus earnings growth

	EPS	YoY (%change)
CY2017(F)	106.01	+6.93
CY2016(E)	99.14	+5.30
CY2015	94.15	-12.98
CY2014	108.19	+1.93
CY2013	106.14	-5.05

Source: Bloomberg, MIDFR

FBM KLCI year-end baseline target. We reiterate our FBM KLCI 2017 year-end baseline target at 1,830 points which equates to PER17 of 17.1x. 

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

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.