

23 September 2014 | Strategy

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## Next year earnings lend valuation support

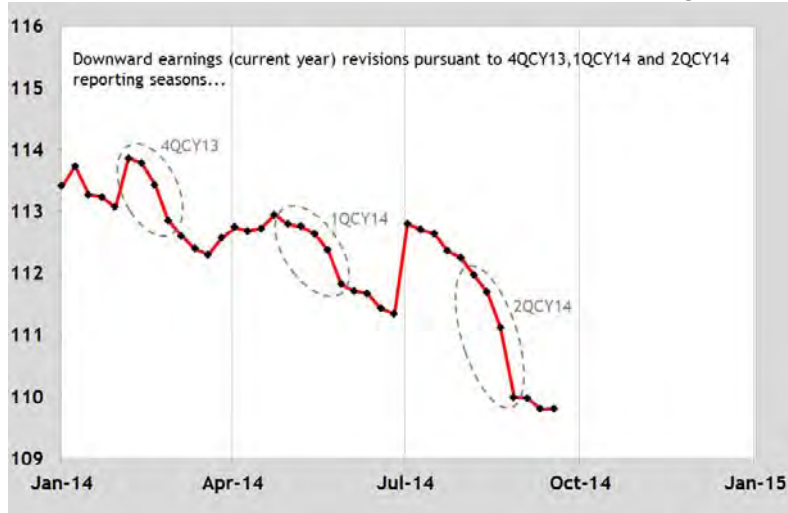
KLCI: 1,846.05

*FBM KLCI may see upside at circa 1,970 points next year*

*(2014 Year-end Target: 1,900 points)*

**Downward revisions in earnings estimate...** The current year consensus earnings estimate of FBM KLCI has seen persistent down revisions pursuant to the past three reporting seasons. It was rather perplexing as the earnings underperformance coincided with the better than expected macroeconomic numbers which led to the upward revision in Malaysia's 2014 GDP target. The apparent disconnect may be attributable to the externally-driven macro performance vis-à-vis the mainly domestic earnings dependency among the major listed companies. Consequently, the 2014 EPS estimate has declined from 113.41 in early January to 109.81 in mid-September.

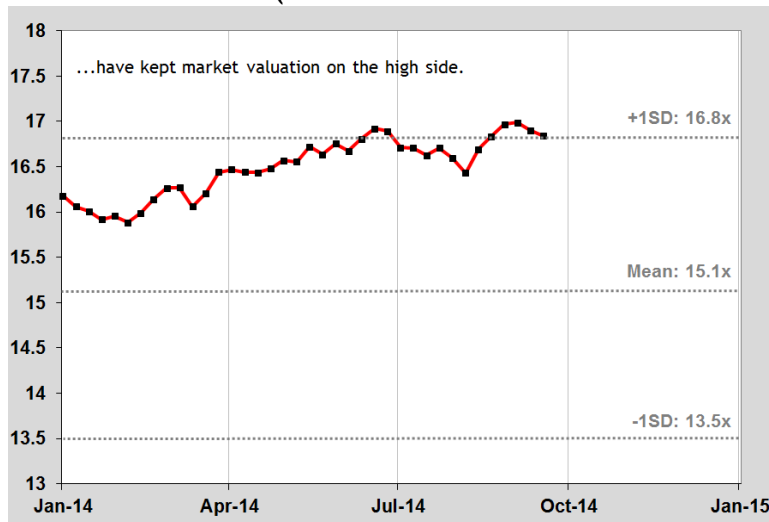
### FBM KLCI: Revisions in Consensus Current Year Earnings Estimate



Source: Bloomberg, MIDFR

**...have kept market valuation lofty...** The spate of downward earnings revisions is not a healthy situation particularly in light of the prevailing above mean valuation. The market valuation which currently stands at slightly above +1.0SD is certainly not tenable over an extended period. Hence we foresee it to ease toward between +0.50SD to +0.75SD within the next 12-15 months.

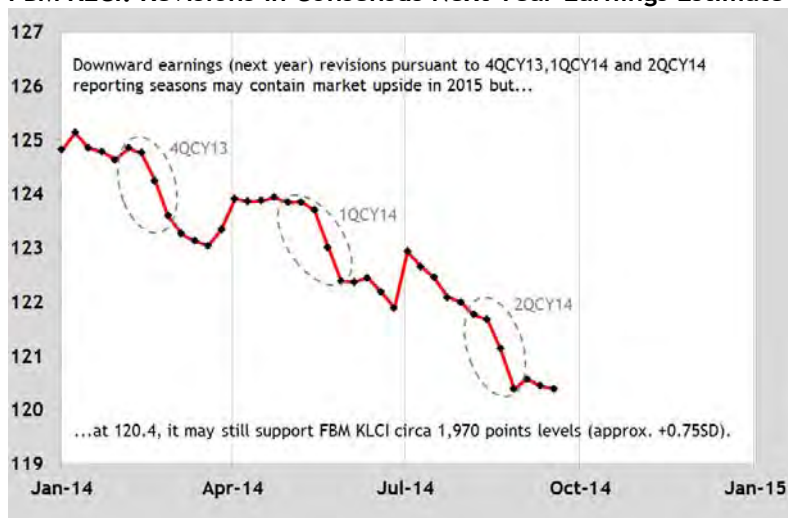
### PE Ratio of FBM KLCI (with Mean and +/- 1-Standard deviation lines)



Source: Bloomberg, MIDFR Note: Data for Mean and SD calculations from Jan 2006 to present

...but the high current year market valuation is supportable by next year earnings. The consensus earnings estimate for next year was also not spared the recent spate of downward revisions. Consequently, the 2015 EPS estimate has dropped from 124.82 in early January to 120.39 in mid-September. The implied earnings growth for next year was also lowered albeit slightly from 10.1% to 9.6% respectively. But it is important to note that the high current year market valuation remains supportable by next year earnings despite the recent cut in forward estimate. It is noteworthy that the FBM KLCI is currently trading at PER of 15.3x or mere +0.13SD based on next year earnings.


## FBM KLCI: Revisions in Consensus Next Year Earnings Estimate



Source: Bloomberg, MIDFR

FBM KLCI may see upside at circa 1,970 points next year... As stated earlier, we are expecting the market valuation to ease toward between +0.50SD to +0.75SD in 2015 from the current level of slightly above +1.0SD. Hence at 2015 EPS of 120.39, the FBM KLCI may see an upside at circa 1,970 points in the next 12-15 months.

...or even better if corporate earnings eventually revert higher. The 1,970 points upside may even be surpassed if and when corporate earnings eventually break the recent spate of underperformance and begin to revert higher in line with the improved macro picture.

Reiterate FBM KLCI 2014 year-end target at 1,900 points. The prospect in 2015 notwithstanding, we reiterate our FBM KLCI 2014 year-end target of 1,900 points. 

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#### 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.