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2 December 2022

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended September 2022

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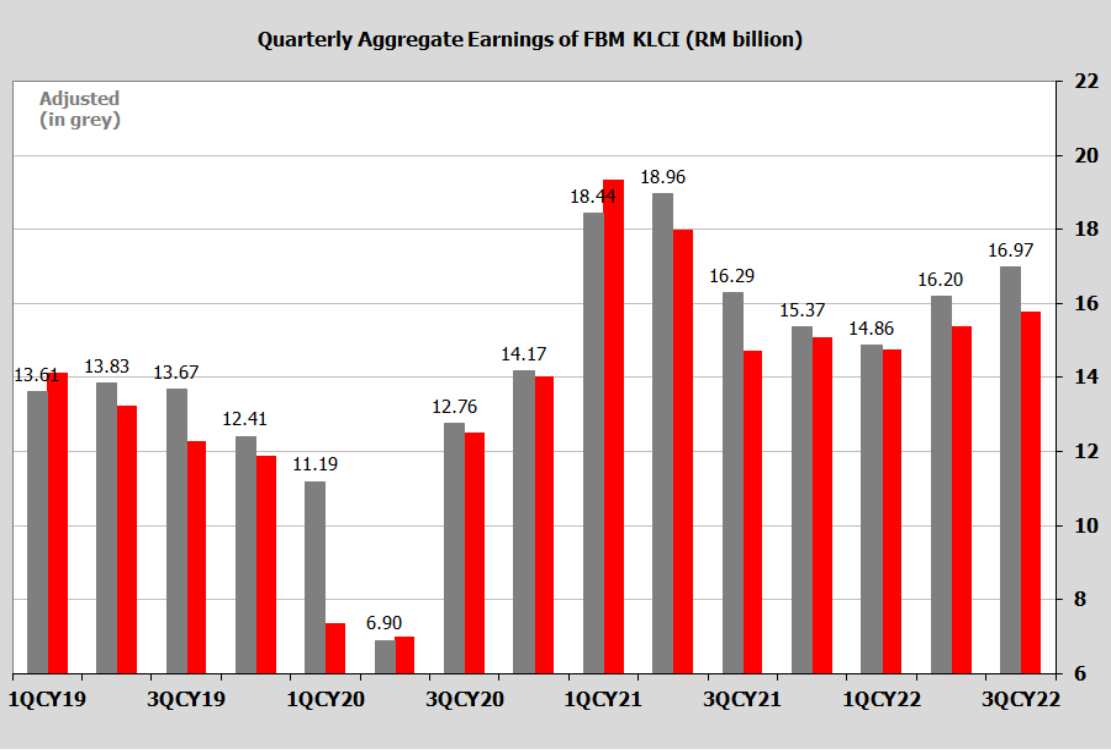
2 December 2022 | Earnings Wrap

Still positive earnings momentum

- *In 3QCY22, the aggregate reported quarterly earnings of FBM KLCI 30 constituents improved vis-à-vis preceding quarter at +2.5%qoq as well as against corresponding quarter last year at +7.0%yoy to RM15.8b. On adjusted basis, the aggregate normalized earnings of FBM KLCI 30 constituents in 3QCY22 improved sequentially at +4.8%qoq and on-year at +4.2%yoy to RM17.0b.*
- *Within MIDFR Universe, 18% of stocks under coverage reported higher than expected earnings. Of the rest, 34% posted earnings that were lower than expected versus 48% which came within expectations. Target price changes involved 23 upward adjustments and 41 downward adjustments. Moreover, we made 10 changes to our stock recommendations with 2 upgrades and 8 downgrades.*
- *The aggregate FY2022 and FY2023 earnings estimate and forecast of the FBM KLCI constituents under our coverage were tweaked lower by -0.9% to RM64.8b and by -1.8% to RM67.2b respectively. They were mainly due to the recent lumpy cuts to forward earnings of Maybank and Petronas Chemicals.*
- *We maintain our FBM KLCI end-2022 target at 1,550 points.*

FBM KLCI

In 3QCY22, the aggregate reported quarterly earnings of FBM KLCI 30 constituents improved vis-à-vis preceding quarter as well as against corresponding quarter last year to RM15.8b. It registered positive sequential growth at 2.5%qoq and on-year at 7.0%yoy.



Source: Bloomberg, MIDFR; *Note: Earnings hump in 1QCY21 & 2QCY21 due to bumper results of Glove constituents

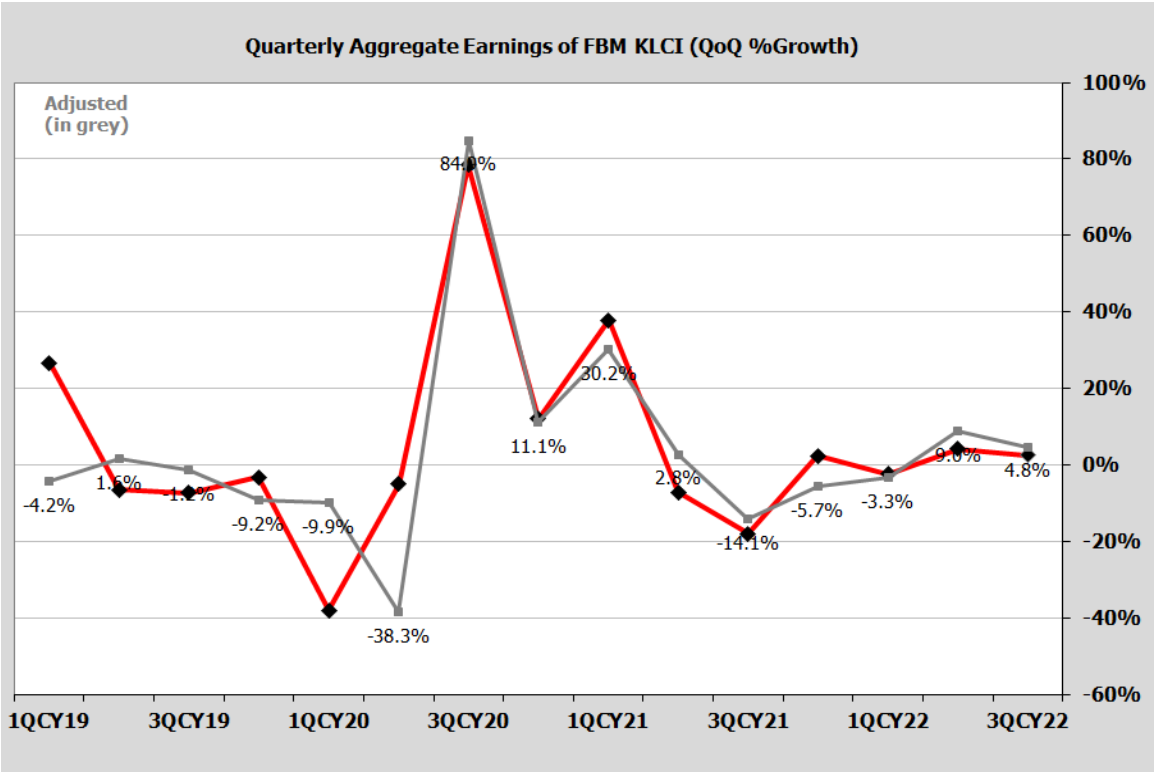
After adjusting for non-operational items incurred during the review quarter (mainly extraordinaries of Axiata, TNB, IOI Corp and Sime Darby Plant), the aggregate normalized quarterly earnings of FBM KLCI 30 constituents came in higher at RM17.0b in 3QCY22. After neutralizing the non-operational items during relevant quarters (3QCY22: -1.21b, 2QCY22: -823m, 3QCY21: -RM1.55b), the aggregate normalized growth in 3QCY22 came in at 4.8%qoq and 4.2%yoy. Looking at above chart, it is notable that the aggregate quarterly earnings in both 2021 and thus far in 2022 are superior vis-à-vis the pre-pandemic quarters in 2019. Manifestly, a V-shaped corporate earnings recovery with positive earnings momentum during the most recent two quarters.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	3QCY22	2QCY22	QoQ	3QCY21	YoY
CONSUMER P&S	1,761.31	1,692.29	4.1%	367.00	379.9%
ENERGY	125.80	118.20	6.4%	128.80	-2.3%
FINANCIAL SERVICES	7,534.00	6,817.00	10.5%	6,401.60	17.7%
HEALTHCARE	151.60	442.90	-65.8%	2,104.30	-92.8%
INDUSTRIAL P&S	2,210.80	2,284.46	-3.2%	2,247.59	-1.6%
PLANTATION	1,270.70	1,962.20	-35.2%	1,546.70	-17.8%
TECHNOLOGY	85.30	69.20	23.3%	106.94	-20.2%
TELCO & MEDIA	1,282.30	1,323.30	-3.1%	1,336.10	-4.0%
TRANSPORT & LOGISTICS	820.60	-19.10	+>100%	417.20	96.7%
UTILITIES	1,728.50	1,506.00	14.8%	1,630.30	6.0%
TOTAL	**16,970.91**	**16,196.45**	**4.8%**	**16,286.53**	**4.2%**

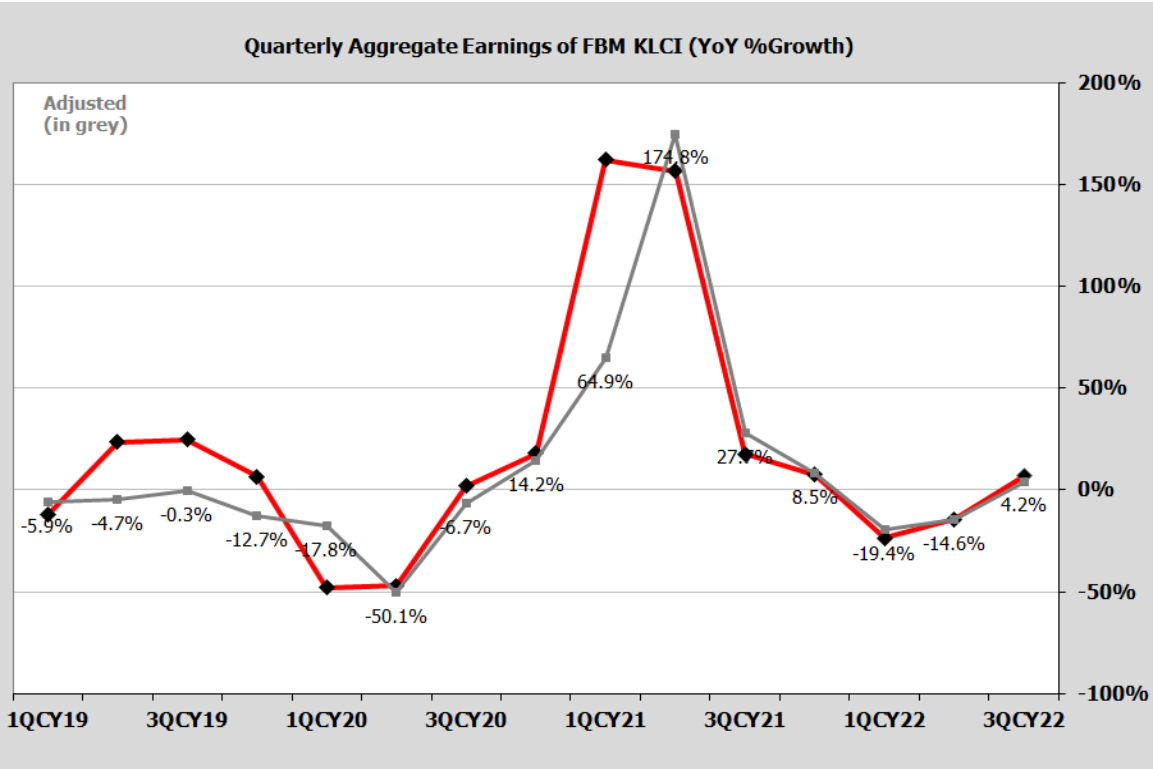
Source: Bloomberg, MIDFR

The sequential growth in 3QCY22 could be attributed to continued macro recovery albeit moderated by softness in commodities and related sectors. The positive on-quarter growth performance was mainly contributed by earnings improvement among its Financial Services (such as Maybank, Public Bank, CIMB and Hong Leong Bank) as well as Transport & Logistics (namely MISC) constituents.



Source: Bloomberg, MIDFR

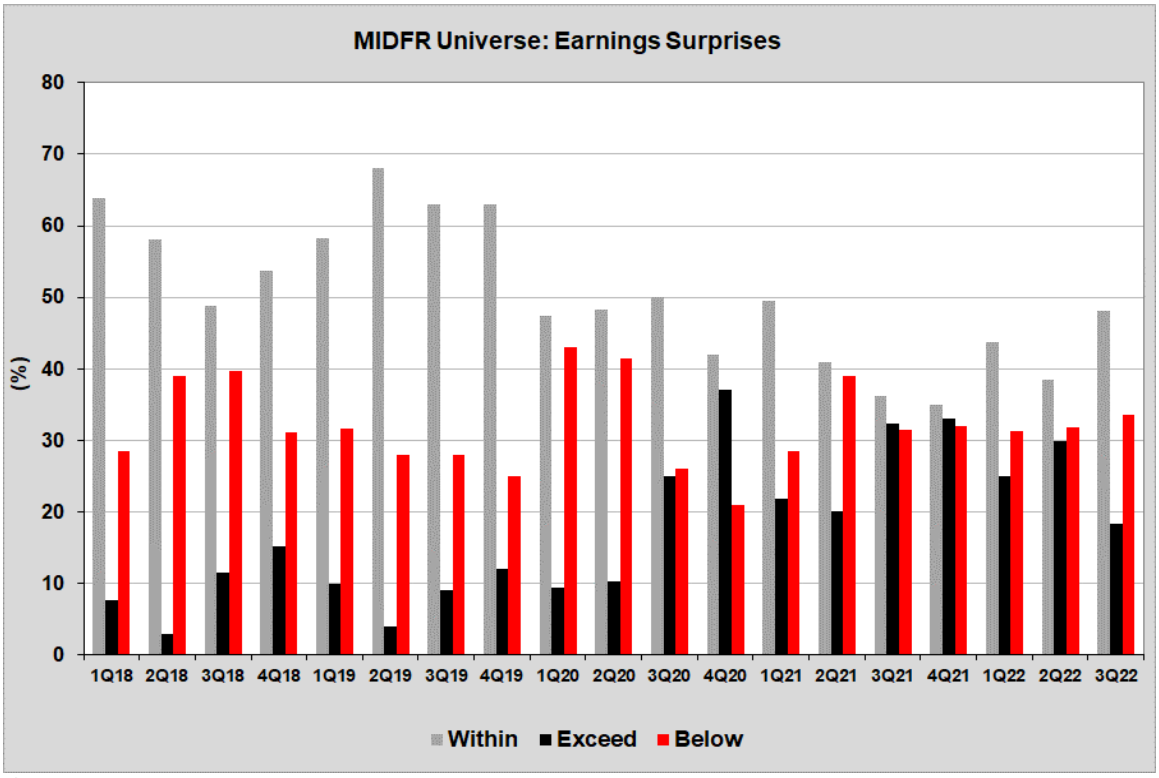
Similarly, the on-year growth performance in 3QCY22 could be attributed to macro rebound (after partial lockdown in 3QCY21) albeit moderated by softness in commodities and related sectors. The positive on-year growth performance was mainly contributed by earnings recovery among its Consumer P&S (particularly Genting and Genting Malaysia) as well as improvements recorded by its Financial Services (such as Maybank, Public Bank, CIMB and Hong Leong Bank) and Transport & Logistics (namely MISC) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations dropped to 18% in 3QCY22 as compared to 30% in the prior quarter. Meanwhile, the percentage of negative surprises increased slightly to 34% in 3QCY22 from 32% in the prior quarter.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation jumped to 48% in 3QCY22 from 38% in the prior quarter. Moreover, Consumer P&S sector recorded the highest percentage of positive surprises at 41% of stocks under our coverage while Healthcare sector continued to register the biggest percentage of underperformers at 86% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	14%	14%	71%
CONSUMER PRODUCTS & SERVICES	29%	41%	29%
ENERGY	50%	25%	25%
FINANCIAL SERVICES	75%	8%	17%
HEALTH CARE	0%	14%	86%
INDUSTRIAL PRODUCTS & SERVICES	44%	11%	44%
PLANTATION	86%	0%	14%
PROPERTY	50%	25%	25%
REITS	83%	17%	0%
TECHNOLOGY	50%	0%	50%
TELECOMMUNICATIONS & MEDIA	29%	29%	43%
TRANSPORTATION & LOGISTICS	88%	13%	0%
UTILITIES	33%	17%	50%
TOTAL	**48%**	**18%**	**34%**

Source: MIDFR

In total, we made 10 changes to our stock recommendations with 2 upgrades and 8 downgrades. Furthermore, target price changes involved 23 upward against 41 downward adjustments.

The aggregate reported earnings of companies under MIDFR Universe grew 9.0%yoy and 7.0%qoq to RM20.3b in 3QCY22.

MIDFR Universe: Sectoral Quarterly Net Profit (as reported, RM Million)

	YoY (%)	*QoQ (%)*	2Q22	3Q22	1Q22	4Q21	3Q21	2Q21	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19
CONSTRUCTION	*(63.4)*	*(14.5)*	317	371	250	373	865	253	419	26	97	-60	271	241
CONSUMER P&S	*+>100*	*7.0*	810	757	202	642	-169	103	649	-1,323	280	-518	538	804
ENERGY	*17.7*	*(9.5)*	303	335	330	149	258	246	200	265	244	-132	-65	-59
FINANCIAL SERV	*55.3*	*17.3*	9,256	7,890	7,663	7,231	5,959	7,483	4,352	5,261	6,172	4,518	6,155	7,464
HEALTH CARE	*(90.8)*	*(62.2)*	302	799	514	1,246	3,279	6,801	6,425	5,395	3,184	977	86	248
INDUSTRIAL P&S	*6.4*	*5.2*	2,254	2,141	2,348	4,640	2,117	2,017	1,642	761	696	216	597	560
PLANTATION	*(21.3)*	*(36.0)*	1,703	2,659	2,363	2,348	2,163	2,318	1,544	1,120	942	1,061	457	526
PROPERTY	*567.6*	*58.7*	883	557	234	322	132	244	202	191	146	-380	-10	581
REITS	*165.8*	*43.3*	474	331	365	287	179	182	198	-47	234	198	277	535
TECHNOLOGY	*42.3*	*(11.2)*	372	419	279	303	262	251	237	274	232	143	129	120
TELCO & MEDIA	*(30.7)*	*(4.1)*	900	938	966	899	1,299	1,253	1,159	770	1,541	1,013	1,136	1,046
TRANSP & LOGIS	*126.4*	*527.8*	1,085	173	487	623	479	548	464	96	218	360	-977	476
UTILITIES	*(9.3)*	*2.8*	1,630	1,585	2,827	1,426	1,796	433	1,673	1,945	1,745	862	1,252	1,308
TOTAL	***9.0***	***7.0***	20,290	18,955	18,828	20,489	18,619	22,131	19,165	14,736	15,731	8,260	9,846	13,849

Source: MIDFR

Consumer P&S, Financial Services, Industrial P&S, Property, REITs and Transport & Logistics were the sectors which recorded improved total earnings (as reported) in 3QCY22 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Construction, Healthcare, Plantation and Telecommunications & Media were the sectors which registered both negative sequential and on-year earnings (as reported) growth percentages in 3QCY22.

Sectoral commentary

Construction: Most contractors recorded a year-on-year growth in its revenues and core net profits, but the margins were not as encouraging, as higher costs were incurred due to elevated building material prices and insufficient foreign labour. The better top line performance was attributable to the ramping up of activities with the normalisation of operations after the lifting of Covid-19 restrictions. This was in line with the surge in value of work done in the construction sector for the quarter by +23.2%yoy to RM30.5b. Ten out of the 11 construction companies under our coverage have announced their quarterly results for the three-month period ending Sep-22. Eight came in below expectations. Only **Cahya Mata Sarawak (BUY, TP: RM1.47)** exceeded expectations while **Sunway Construction (BUY, TP: RM1.87)** was within expectations. Despite the building material prices and labour factors that weighed on earnings, contractors say these remain manageable moving forward, which is in line with our view as prices of materials such as steel bars and cement have been declining for four consecutive months after peaking in June-22. Based on our analysis of DOSM's monthly figures, the average steel bar price in Malaysia has declined by -6.5% from RM3901.81 per tonne in June-22 to RM3,663.54 in Oct-22. For the average cement price, it has inched lower by -1.2% from RM21.05 per 50kg bag in June-22 to RM20.81 in Oct-22. While some were unable to pass on the costs to their clients, we note that most companies under our coverage were able to do so with variation of price (VOP) and renegotiation of contracts. We expect operating conditions to improve in the coming quarters. Our top picks are the bigger names in the industry with strong balance sheets, such as **Gamuda (BUY, TP: RM4.71), IJM Corp (BUY, TP: RM1.93)** and **Sunway Construction (BUY, TP: RM1.87)**.

Consumer (Retail, F&B): Mixed performance in 3QCY22. Out of the 11 consumer companies under our coverage, only 6 met our estimation. Meanwhile, **QL Resources (BUY, TP: RM6.30), Spritzer (BUY, TP: RM2.64)**, and **Padini (NEUTRAL, TP: RM3.50)** reported better-than-expected earnings. The positive performance was driven by higher-than-expected sales due to stronger demand. Underperformers are **AEON (BUY, TP: RM1.81)** and **Asia File (NEUTRAL, TP: RM1.77)**, due to: (1) a lack of festive celebration during the quarter that resulted in lower-than-expected retail sales in Aeon and (2) softer demand for filing products and high raw material cost that compressed the margin for Asia File. In 3QCY22, we saw that the demand for staple food remained solid. This was despite various price adjustments made by the businesses to pass on the higher input costs. Although there was a slight decline in the cost of freight and raw materials, however, the commodity prices were still high. Meanwhile, the higher labor and energy cost on the back of the increased natural gas tariff and minimum wage hike continue to impact certain consumer companies that are both labor and capital-intensive. We remain **POSITIVE** for the sector but on selected stocks. We prefer staple companies due to its inelastic demand on the ground that consumer will continue to purchase daily necessities in the rising interest rates and inflation environment. Our top picks are QL Resources **(BUY, TP: RM6.30), F&N (NEUTRAL, TP: RM29.70),** and **Leong Hup (BUY, TP: RM0.80)**. We also like **AEON (BUY, TP: RM1.81)**, which offers general merchandise stores for the public to purchase daily use.

Financial Services: Overall bank performance was largely in line with expectations, with only Affin Bank and RHB Bank coming below earnings forecast. Credit cost allocation was skewed towards the lower end – most banks guided for higher overlays in the following quarter. Banks showed significant improvement in NII, with NIM likely peaking within the quarter. NOII recovery was mixed across the board, though fee income, forex and investment income generally moved in a positive direction on a sequential quarter basis. GIL ratios were a mixed bag – while Malaysian GIL should tick upwards due to loan repayment graduation, there was a fair amount of write-offs suppressing potential spikes. Liquidity should present itself as a central issue in the following quarter, as most banks are already reporting elevated Loan/Deposit ratios. OPEX was elevated and expected to be sticky, with wage inflation, union wage negotiations, tech infrastructure spend adding pressure to earnings. We maintain our **POSITIVE** call on sector – while valuations are no longer as attractive, not all shares are fully priced in. Even though tailwind effects are thinning out, dividend yields offer a safe alternative to riskier sectors. Top picks are defensive names such as **Public Bank (BUY, TP: RM5.39) and HL Bank (BUY, TP: RM24.88)**, in light of future economic downturns. We also favour **RHB Bank (BUY, RM6.94)** due to its capital ratios being among the best industry, offering a buffer to funding issues in 4QCY22 as well as preserving its high dividend yield.

Healthcare (Gloves): Disappointed 3QCY22's earnings. Out of the 4 companies we cover, 3 reported a worse-than-anticipated results. Meanwhile, Top Glove scheduled to release their 3QCY22 result in December 2022. The poor performance was due to: (1) a lower utilization rate, with the average industry rate at below 45%, due to weaker-than-expected demand from buyers, (2) a low ASP of between USD18-USD22/1,000 pieces, as compared to the pre-pandemic level of USD22-25/1000pieces, (3) higher input costs brought on by minimum wage hike and increased natural gas prices. Our channel check indicates that the demand for gloves remains low as the current supply in the glove industry exceeds the present consumption by more than 50%. Moving forward, we think that the demand-supply dynamics will unlikely be restored to normal in the next 1- to 1.5 years on the back of the oversupply and low utilization rate in the industry. Reiterate **NEGATIVE** for the sector.

Healthcare (Hospital/Pharmaceuticals): The healthcare sector observed a robust performance in 3QCY22; most notably in healthcare services and hospitals subsector. The major factor to the sudden upsurge in earnings was the phasing out of the Covid-19 pandemic to a more manageable level, with hospitals and medical workforce no longer in dire need to cater to Covid-related patients. Additionally, the reopening of international borders allowed medical tourists to enter and seek local health providers, and we are expecting the growth in patient influx to grow in line with the rising aging population in the region. **KPJ Healthcare (BUY, TP: RM1.39)** and **IHH Healthcare (BUY, TP: RM7.65)** are set to leverage on the increasing inpatient visits and Bed Occupancy Rate (BoR) to near pre-pandemic levels. Nevertheless, the near-term risks to their operations are determined to be China lockdowns and currency depreciation, which had affected IHH Healthcare's 3QFY22 earnings performance in consideration of its operations in China and Turkey. Inflationary pressures on operation costs, as well as supply chain disruption on medical equipment and specialty devices remains the hospitals' long-term risks. Meanwhile, pharmaceuticals reported mixed results. While companies like Duopharma Bhd (NC) are leveraging on its successful governmental concessions with Singapore and Brunei, **Pharmaniaga Bhd's (BUY, TP: RM0.77)** concession with Malaysia's Health Ministry had been having setbacks in delays and lower sales, on top of a new government forming which could alter the policies for this subsector in the near to mid-term. Pharmaniaga had been actively promoting its new products, which impacted on its expenditure for 3QCY22 and as such, offset partly by the private sector. Nevertheless, the demand for OTC medicines, as well as treatments for NCDs, rare diseases and mental health, are expected to be on the rise, hence we believe pharmaceuticals subsector will remain resilient.

Media: The 3QCY22 result season for Media Prima was underwhelming. The negative divergence was caused by a lower than-expected revenue increase in home shopping product sales as customers reverted to traditional shopping due to reopening of economy. Meanwhile, we think the Astro Group could provide attractive dividend yield. Nonetheless, we hope to see improvement in the Adex given that better economic development would likely stimulate spending.

Oil & Gas: The companies we covered under this sector had shown significant improvements from the previous quarter and previous year, on the back of increased activities in the sector as Brent crude oil price averaged USD98pb in 3QCY22. However, breaking the performance by streams, the impact of tight oil supply, geopolitical tensions, China's economic slowdown and hiking interest rates was different in each.

Integrated (MIXED)

Integrated companies that cover more than one stream had seen a boost in earnings in 3QCY22. The pick-up in upstream activities after long delays due to the Covid-19 pandemic limiting the movement of materials, supply and manpower for E&P operations had begun to see recovery in tandem with rising crude oil prices. The shift from midstream-downstream in CY21 to upstream operations in CY22 provides the opportunity for integrated companies like **Dialog Bhd (BUY, TP: RM3.70)** to expand its E&P by acquiring oil and gas fields for the long-term. As such, earnings had been modest for its first reporting quarter to make way for higher project cost and smaller share profit of its newly acquired fields. Other integrated companies such as Hibiscus Petroleum (NC) continue to concentrate on its downstream segment, which still maintains its resiliency and had performed well on the strength of higher demand for crude oil and natural gas during 3QCY22 amid tight global supply.

Upstream (POSITIVE)

With Covid-19 no longer restrict movements and high crude oil prices, upstream operations globally recommenced with subsequent demand for OGSE companies to service renewed projects for major oil players. Under our coverage, **Deleum Berhad (BUY, TP: RM0.98)** reported an earnings surge due to higher upstream activities demanding its services in slickline for well intervention, well simulation, gas lift valves, turbines, and paint blasting. Meanwhile, demand for maintenance projects in the mid-term is expected to decline slightly over interest rate hikes and uncertainties on raw material supplies.

Midstream (POSITIVE)

Dry-docking and ship maintenance demand increased in 3QCY22, of which benefitted shipyard companies ahead of the winter season. Under our coverage, **Malaysia Marine & Heavy Engineering (BUY, TP: RM0.61)** had shown a surge in earnings attributable to ship maintenance and repair activities under its Marine segment. While the stable and elevated oil prices bode well for its prospects, a near-term risk remain for the winter season, as well as a growth in LNG trade, which elevates competition for dry-docking. Meanwhile, the FPSO market is expected to recover steadily in the coming years and gain traction on the back of the recommencement of E&P activities. LNGCs are also on high demand following geopolitical tensions threatening energy security in Europe and East Asia. **Bumi Armada Berhad (BUY, TP: RM0.80)** reported an improvement in its YTD earnings, despite higher vessel operating costs and foreign exchange losses. LNG shipping rates had also seen growth in 3QCY22, which can bring a sail away profit of at least USD500kpd. As such, operations on offshore vessels are expected to remain robust in the near term. Pipeline gas transportation to other industries follows a different trend than shipping, given the elevated global natural gas prices in 3QCY22 which peaked at USD9.70pMMBtu. On this note, **Gas Malaysia (BUY, TP: RM3.92)** reported strong earnings attributed by higher average natural gas selling price, in tandem with the growth in global market price. However, this is mitigated by lower volume of natural gas sold in the local front.

Downstream (MIXED)

The full uplift of border restrictions and the return of international and local travels had boosted demand for gas fuel, particularly Diesel and Jet A1. Additionally, crude oil prices had been on a stable movement in 3QCY22 and is expected to remain so in the coming quarters, barring any unforeseen major events in the oil market. On this juncture, **Petronas Dagangan Berhad (BUY, TP: RM24.52)** managed to leverage on the higher sales volume as well as higher selling average price of refined petroleum. Additionally, the group's earlier mitigation to non-fuel businesses during the pandemic and endemic phases had returned well for its earnings in 3QCY22. With the recovery of the tourism sector back into the pre-pandemic level, we are expecting retail fuel to continue to remain resilient. For the petrochemicals industry, a slowdown in China's demand amid its Covid-19 lockdowns in 3QCY22 had slipped **Petronas Chemicals Group's (BUY, TP: RM11.77)** earnings slightly. Prior to 3QCY22, the group had stockpiled on its products due to minimal plant maintenance. China's economic situation remains to be the industry's major uncertainty; however, the supply of petrochemicals products remains robust in the near term, with demand expected to kick up for the upcoming festive seasons in 4QCY22 and 1QCY23.

Plantation: For the 9MCY22, planter's performance under our coverage was mixed with 1 stock performed better than expected, 6 within and 3 came in below our expectations. The overall improvement in earnings were in line with moderation in CPO price realized, which hovered at around RM4,169-3,989/mt levels during the 3QCY22. The average selling price (ASP) of CPO in 3QCY22 was RM3,989.5/mt (-39.1%qoq, -9.6%yoy), representing a gradual decrease from RM4,413.2/mt in 3QCY21. Among those that reported results that were below our expectations were TSH, FGVH and MSM. TSH earnings were dragged by lower average selling CPO realized of RM3,234/Mt coupled with low FFB produced during the quarter (-3%yoy), whilst FGVH earnings were dragged by MSM performance, as MSM losses were widen on the back of higher production cost, mainly attributed by high gas costs, weakening Ringgit against USD, higher freight, as they could not exercise pass-through mechanism pending to government decision of an increase of the gazette ceiling price. While the others, namely Sime Darby Plant, KLK, IOI, Genting Plant, Sarawak Plant, Ta Ann, and PPB recorded stable performance driven by decent margins fetched from elevated CPO price movement. Production of FFB normally peaks in the second half of the year, but this cropping pattern was impacted by persistent wet weather conditions which affected harvesting and logistic activities, compounded by slow foreign labor intake which led to low FFB produced, yield and sales volume. We expect production level peaked in 4QCY22 tracking the productive cycle months, before moderated in 1CY23, on low cycle season. We slash our FY22/FY23/FY24 earnings estimates by - 15%/-14%/12% (excluded PPB) following our anticipation of weak to-date FFB production catch up apart from increase in manuring and labor cost as well as on possible margin squeeze due to high operational cost ahead. To-date, the production cost has increased from below RM1,500-2,000/Mt to RM2,000-2,500/Mt. On the other hand, global soybean production is down 0.5m tons to 390.5m, tapered off by Argentina production attributed to the reduced harvested area but partly negated by better U.S. soybean production. Its production is forecasted to reach 4.35b bushels, up 33m on higher yields, as Iowa and Missouri account for most of the change in production. Sunflower seed production is reduced in Ukraine on lower reported yields due to challenges in applying inputs like fertilizer in early part of the year amid the ongoing war with Russia. However, supply through the 3 Black Sea ports were reopened prompting possibly around 100-150 cargo ships to be out per month indicating gradual improvement on local agricultural exports in July. The CPO price expected to trade sideways c. RM3,000/mt-RM4,500/mt benefiting from price disparity between CPO against SBO price, which is now around USD512 in November, based on futures data. We pencil in fragile demand outlook for the sector on the back inflationary pressure as well increase in production cost coupled with tight household spending on

high base interest rate locally and globally. All factored in considered, we downgrade our POSITIVE stance to NEUTRAL on the sector as we are turning into CY23.

Property: Earnings of property companies were mixed in 3QCY22. Notably, IOI Properties, Mah Sing Group and Glomac reported earnings that came in within expectations. Meanwhile, UOA Development and UEM Sunrise reported earnings that beat expectations while S P Setia reported earnings that missed expectations. Overall, earnings of property companies were supported by higher progress billing of property project following reopening of economy. On the other hand, property sales were largely on track to meet management new sales target except for UEM Sunrise as new launches were postponed due to delay in authority approval. Looking ahead, we see that earnings outlook for property companies to remain positive due to acceleration of progress billing. Besides, we see risk of rising cost of construction subsiding as prices of building materials eased. In a nutshell, we maintain our **NEUTRAL** stance on property sector.

REITs: Most of REITs reported earnings that met expectation in 3QCY22. Out of six REITs under our coverage, five REITs reported that met expectation while Sunway REIT reported earnings that beat expectation due to stronger than expected earnings from its retail and hotel divisions. Overall, earnings of REIT recovered in 9MCY22 following the reopening of economy which improves shopper footfall and tenant sales. Looking ahead, earnings outlook for retail REITs is expected to stay bright due to improving rental reversion outlook. Meanwhile, Axis REIT which is an industrial asset focused REIT reported steady earnings growth due to solid demand for industrial space. We also see REITs with exposure to hotel industry to see better contribution from hotel assets amid anticipation of higher tourist arrival and year-end holiday season. In a nutshell, we are maintaining our **POSITIVE** stance on REIT.

Technology: The 3QCY22 results for technology companies under our coverage was mixed with 3 companies registering earnings within expectations while another 3 missed expectations. The poor performance was attributed to lower-than-expected volume loadings for our local chip players such as Inari and Globetronics amid slow smartphones demand due to widespread inflation of and labor protests in Zhengzhou iPhone plant. On a side note, our digital player, MYEG also missed our estimates due to lower-than-expected demands for its healthcare-related profit following the country's transition to endemic phase of Covid-19. Overall, we are still optimistic with our sector given the arrival of emerging technologies like 5G, IoT, EV likely remain to be key catalysts for our local technology players.

Telecommunication: The 3QCY22 performance for telecommunication companies under our coverage was mixed with 2 stocks beat expectations, 1 in line and another 1 came in below. TM and Axiata results outperformed as the former was supported by strong customers growth across its operations while the latter Group-wide performance stayed resilient amid prevailing macroeconomics headwinds. Digi, on the other hands, missed our estimate due to higher-than-expected tax rate. Overall, we maintain neutral view on this sector given the uncertainty on 5G roll out plan under the new government.

Transportation: The aviation sector reported a mixed set of results. Encouragingly, MAHB's losses had largely narrowed, and we expect 4Q pax numbers to be strong following homebound travels for GE15 in Nov-22 and the reopening of Taiwan, Japan, and Hong Kong in time for the year-end holidays. Meanwhile, Capital A's losses were wider than expected due to higher staff cost related to the return of furloughed staff and higher than expected maintenance costs to restore serviceable aircraft. On the other hand, the results from all the logistics players have all met our estimates. They continued to receive strong demand for their logistics services as business sectors resumed operations, which has largely offset the impact of normalising freight rates on them. Additionally, most logistics players are servicing multinational corporations (MNCs) from diversified sectors, hence this could partly shield them from economic shocks. Under the port sector, Suria has also reported earnings that were within our expectation as they handled higher throughput volumes. The uptick could be partly driven by the FDI made by South Korea's SK Nexilis to build their manufacturing plant in Kota Kinabalu Industrial Park (KKIP), which had contributed to the throughput at Sapangar Bay Container Port (SBCP).

Outperformer versus underperformer

In comparison to preceding quarter, there was a drop in the number of outperformers among the FBM KLCI constituents under our coverage in 3QCY22 from 7 to 5. Similarly, the number of underperformers also declined from 10 to 9.

FBM KLCI: Outperformer versus Underperformer

Financial Quarter	No. of Outperformer	No. of Underperformer
3QCY22	5	9
2QCY22	7	10
1QCY22	10	10
4QCY21	6	5
3QCY21	8	2

Source: MIDFR

In 3QCY22, the outperformers among FBM KLCI constituents under our coverage comprised of two telco companies namely Axiata and Telekom Malaysia, two consumer counters namely Petronas Dagangan and PPB Group, as well as energy shipper MISC. Meanwhile, the underperformers comprised of three healthcare companies namely IHH Healthcare, Top Glove and Hartalega, three oil & gas players namely Petronas Chemicals, Petronas Gas and Dialog Group, as well as Digi, Inari and RHB Bank.

Earnings revision/ variation

The aggregate FY2022 and FY2023 earnings estimate and forecast of the FBM KLCI constituents under our coverage were tweaked lower by -RM560m (-0.9%) to RM64.8b and by -RM1.2b (-1.8%) to RM67.2b respectively.

FBM KLCI Constituents: Earnings Revision/Variation (RM million)

SECTOR	Stocks	FY2022 (E)	FY2023 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB	990	1,107
ENERGY	Dialog	-0	-14
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG	-1,071	-1,047
HEALTHCARE	Top Glove, Hartalega, IHH	-370	-594
INDUSTRIAL P&S	Petronas Chemicals	-499	-775
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	-382	-493
TECHNOLOGY	Inari Amertron	0	-49
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	206	252
TRANSPORT & LOGISTICS	MISC	620	491
UTILITIES	TNB, Petronas Gas	-54	-90
TOTAL		**-560**	**-1,210**

Source: MIDFR; (E) – Estimate, (F) – Forecast

The lower aggregate figures for both FY2022 and FY2023 were mainly contributed by the recent lumpy cuts to forward earnings of Financial Services (mainly Maybank and HLFG) and Industrial P&S (Petronas Chemicals) as well as Healthcare (mainly IHH Healthcare) and Plantation (mainly Sime Darby Plant and KLK) constituents. However, they were moderated by upward revisions of Consumer P&S, Telco & Media and Transport & Logistics constituents.

Similarly, the aggregate FY2022 and FY2023 earnings estimate and forecast of the stocks under MIDFR Universe were revised lower by -1.8% to RM81.8b and by -2.7% to RM86.2b respectively.

Refer to Appendix for further details.

Maintain FBM KLCI end-2022 target at 1,550 points

In gist, the 3QCY22 results season turned out largely within expectation whereas the downward revisions to aggregate earnings estimate and forecast of both (i) FBM KLCI constituents under our coverage, as well as (ii) stocks under MIDFR Universe, were not systemic but mainly driven by lumpy cuts to forward earnings of a handful of companies.

We maintain our **FBM KLCI end-2022 target at 1,550 points** amid optimism over (i) imminency of Fed pivot in December, (ii) strengthening Ringgit vis-à-vis US Dollar which may further attract inflow of foreign funds, and (ii) Malaysia's hitherto resilient macro recovery as attested by the better-than-expected 3QCY22 GDP growth figure. However, the optimism is moderated by concerns over (i) further postponement to the Fed pivot, and (ii) sudden escalation to the ongoing war in Ukraine.

APPENDIX

MIDFR: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS *(% Chg)*	
	FY2022 (E)		FY2023 (F)		FY2022	FY2023
	Old	New	Old	New		
TOTAL (MIDFR Universe)	83,266.0	81,791.7	88,547.6	86,177.4	*(1.8)*	*(2.7)*
Annual % Change	*2.1*	*0.3*	*6.3*	*5.4*		
TOTAL (FBM KLCI)*	65,380.6	64,820.2	68,454.0	67,244.0	*(0.9)*	*(1.8)*
Annual % Change	*(1.1)*	*(2.0)*	*4.7*	*3.7*		

Source: MIDFR; * Aggregate earnings of 25 FBM KLCI constituents under MIDFR coverage; (E) – Estimate, (F) – Forecast

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology