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2 June 2023

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended March 2023

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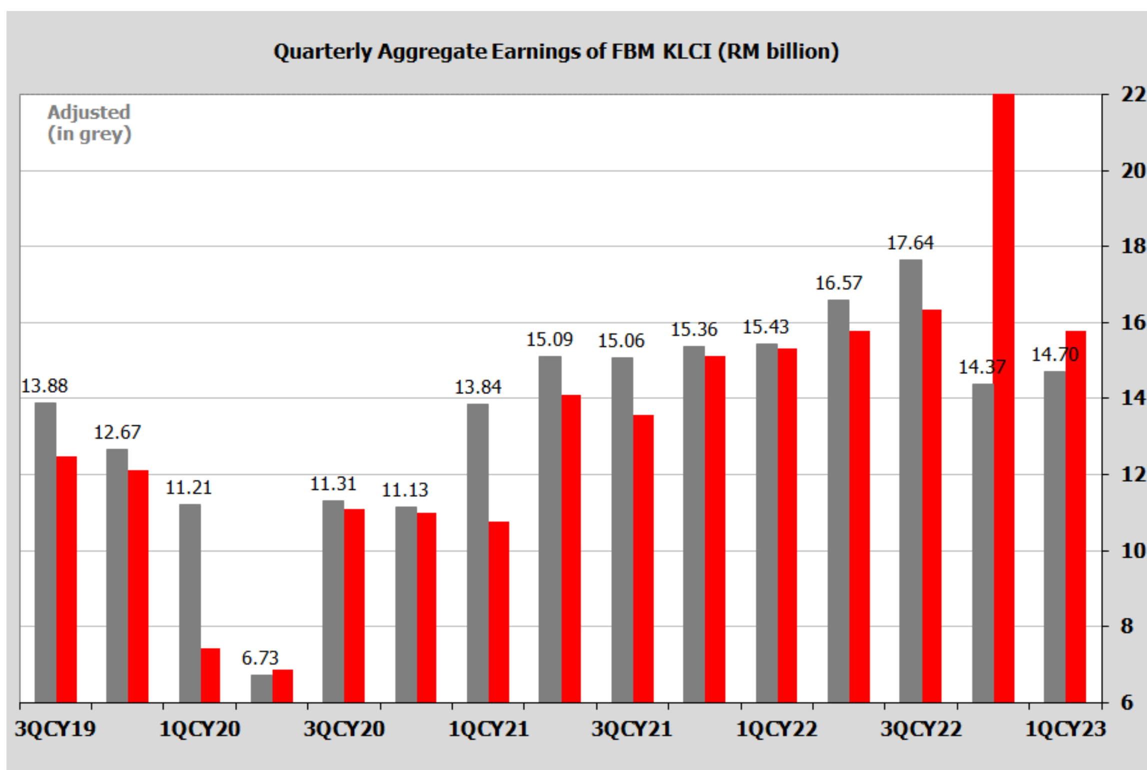
2 June 2023 | Earnings Wrap

Lukewarm

- *In 1QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM15.8b. It slumped sequentially at -34.7%qoq but improved against the corresponding quarter last year at +3.0%yoy.*
- *On adjusted basis, the aggregate normalized earnings of FBM KLCI 30 current constituents in 1QCY23 risen sequentially at +2.3%qoq but declined on-year at -4.8%yoy to RM14.7b.*
- *Within MIDFR Universe, 10% of stocks under coverage reported higher than expected earnings. Of the rest, 36% posted earnings that were lower than expected versus 54% which came within expectations. Target price changes involved 19 upward adjustments and 28 downward adjustments. Moreover, we made 10 changes to our stock recommendations with 4 upgrades and 6 downgrades.*
- *Divergence in net change to forward earnings between heavyweight and lesser cap stocks. The aggregate FY2023 earnings forecast of the FBM KLCI constituents under our coverage was revised lower by -6.7% to RM64.7b. In contrast, the aggregate FY2023 earnings forecast of non-FBM KLCI constituents under our coverage was revised higher by +3.0% to RM17.8b.*
- *We maintain both our end-2023 FBM KLCI and FBM70 targets at 1,590 and 15,000 points respectively in anticipation of post-Fed pause valuation recovery.*

FBM KLCI

In 1QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM15.8b. It registered negative sequential growth at -34.7%qoq (principally due to extraordinary gains by Axiata of RM9.5b in 4QCY22) but positive on-year at +3.0%yoy.



Source: Bloomberg, MIDFR

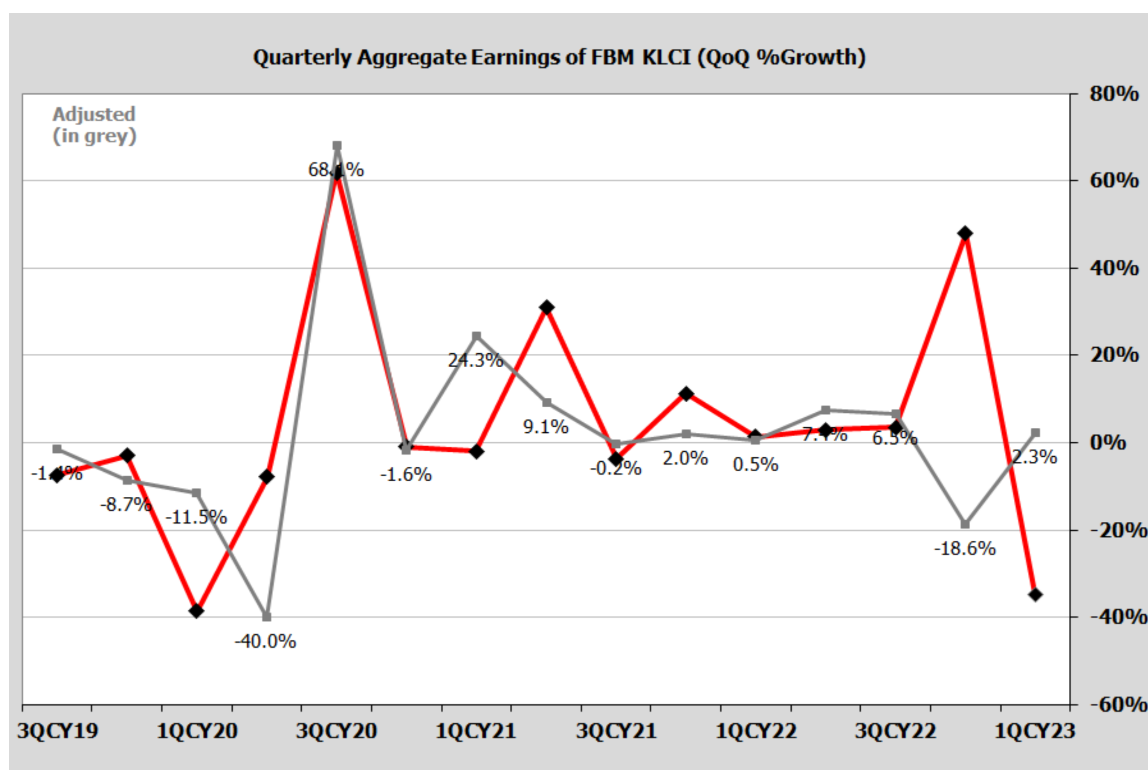
After adjusting for non-operational/recurrence items incurred during the review quarter (mainly RM980m gain on disposal by IHH Healthcare), the aggregate normalized quarterly earnings of FBM KLCI 30 current constituents came in at RM14.7b in 1QCY23. Moreover, after neutralizing the extraordinary items during relevant quarters (1QCY23: 1.08b, 4QCY22: 9.79b, 1QCY22: -RM112m), the aggregate normalized growth in 1QCY23 risen sequentially at +2.3%qoq but declined on-year at -4.8%yoy.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	1QCY23	4QCY22	QoQ	1QCY22	YoY
CONSUMER P&S	1,453.03	1,067.17	36.2%	516.87	181.1%
ENERGY	130.84	127.20	2.9%	133.10	-1.7%
FINANCIAL SERVICES	8,456.00	8,254.00	2.4%	7,269.70	16.3%
HEALTHCARE	329.90	42.20	681.8%	579.10	-43.0%
INDUSTRIAL P&S	821.80	753.21	9.1%	2,490.63	-67.0%
PLANTATION	459.00	1,324.20	-65.3%	1,448.80	-68.3%
TECHNOLOGY	57.16	96.10	-40.5%	86.50	-33.9%
TELCO & MEDIA	1,045.66	1,195.60	-12.5%	1,267.10	-17.5%
TRANSPORT & LOGISTICS	544.00	645.00	-15.7%	376.40	44.5%
UTILITIES	1,398.40	862.80	62.1%	1,261.40	10.9%
TOTAL	**14,695.80**	**14,367.48**	**2.3%**	**15,429.60**	**-4.8%**

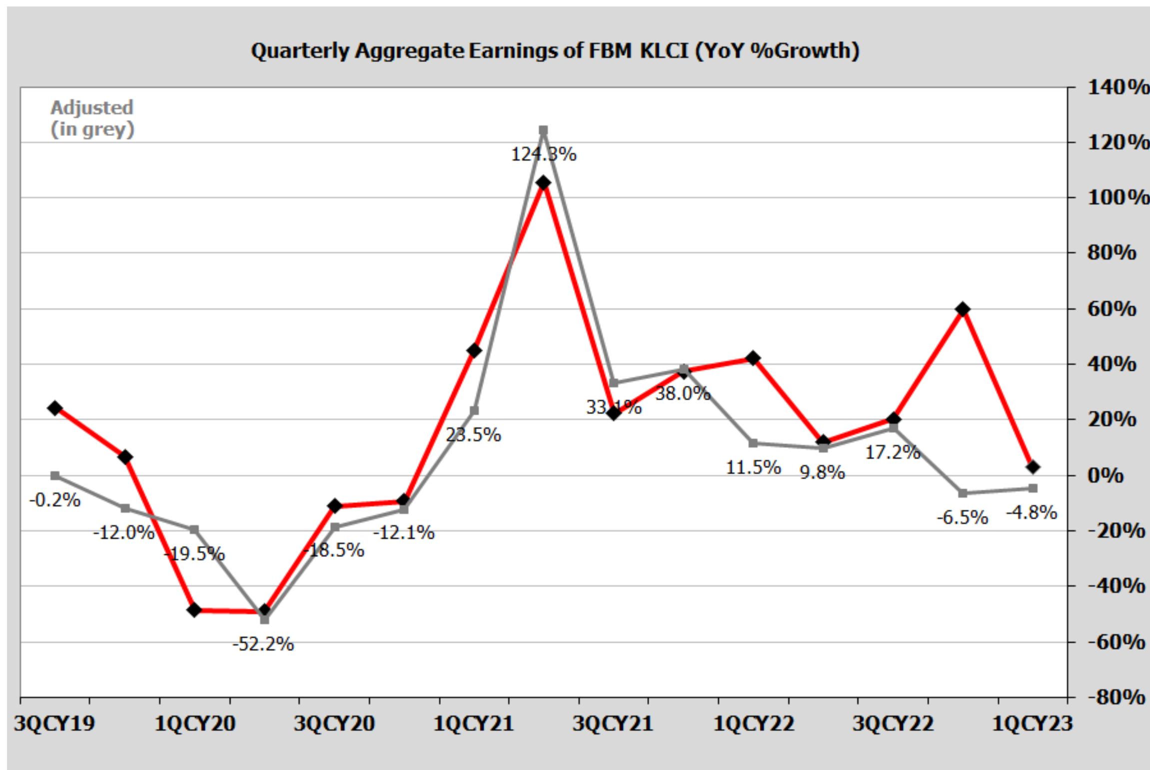
Source: Bloomberg, MIDFR

The positive on-quarter normalized growth performance in 1QCY23 was mainly contributed by earnings improvement among its Utilities (namely Tenaga Nasional), Consumer P&S (such as Petronas Dagangan, Genting and Genting Malaysia) as well as Healthcare (namely IHH Healthcare) constituents.



Source: Bloomberg, MIDFR

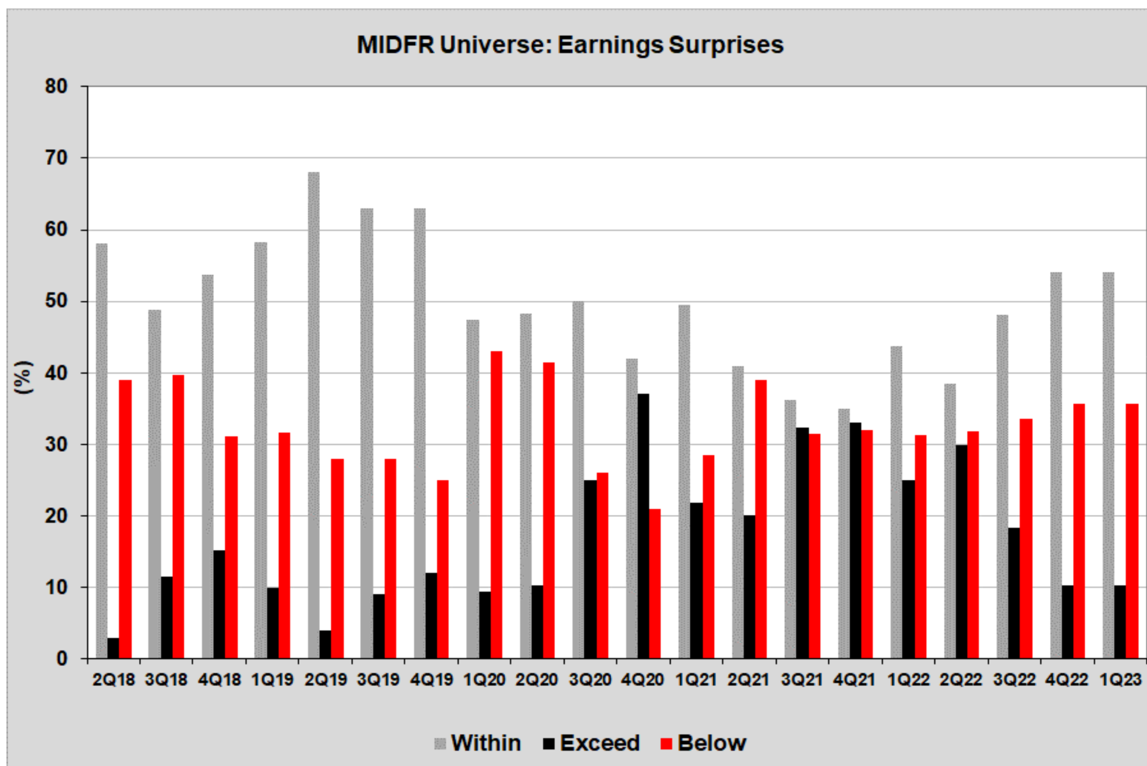
On the other hand, the negative on-year normalized growth performance in 1QCY23 was mainly contributed by earnings diminution among its Industrial P&S (namely Petronas Chemicals) and Plantation (such as Sime Darby Plantation and KL Kepong) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations declined to 10% in 1QCY23 as compared to 33% in the prior quarter. Meanwhile, the percentage of negative surprises increased to 36% in 1QCY23 from 32% in the prior quarter.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation increased to 54% in 1QCY23 from 35% in the prior quarter. Moreover, Utilities sector recorded the highest percentage of positive surprises at 50% of stocks under our coverage while Construction sector registered the biggest percentage of underperformers at 71% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	29%	0%	71%
CONSUMER PRODUCTS & SERVICES	33%	22%	44%
ENERGY	25%	25%	50%
FINANCIAL SERVICES	92%	0%	8%
HEALTH CARE	33%	17%	50%
INDUSTRIAL PRODUCTS & SERVICES	20%	20%	60%
PLANTATION	38%	0%	63%
PROPERTY	43%	0%	57%
REITS	100%	0%	0%
TECHNOLOGY	100%	0%	0%
TELECOMMUNICATIONS & MEDIA	67%	0%	33%
TRANSPORTATION & LOGISTICS	71%	0%	29%
UTILITIES	50%	50%	0%
TOTAL	**54%**	**10%**	**36%**

Source: MIDFR

In total, we made 10 changes to our stock recommendations with 4 upgrades and 6 downgrades. Furthermore, target price changes involved 19 upward against 28 downward adjustments.

In 1QCY23. the aggregate reported earnings of companies under MIDFR Universe came in at RM18.8b. It was unchanged year-on-year. However, it declined -36.0%qoq principally due to extraordinary gains by Axiata of RM9.5b in 4QCY22.

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

	YoY (%)	*QoQ (%)*	1Q23	4Q22	3Q22	2Q22	1Q22	4Q21	3Q21	2Q21	1Q21	4Q20	3Q20	2Q20
CONSTRUCTION	*(1.2)*	*(81.1)*	247	1,304	317	371	250	373	865	253	419	26	97	-60
CONSUMER P&S	*640.9*	*(6.7)*	1,507	1,615	782	766	203	642	-166	91	625	-1,320	265	-506
ENERGY	*4.5*	*(9.0)*	344	379	303	335	330	149	258	246	200	265	244	-132
FINANCIAL SERV	*17.5*	*2.1*	9,000	8,817	9,256	7,890	7,663	7,231	5,959	7,483	4,352	5,261	6,172	4,518
HEALTH CARE	*90.2*	*(263.3)*	953	-584	296	766	501	1,199	2,640	5,843	5,420	4,336	2,394	578
INDUSTRIAL P&S	*(66.1)*	*6.1*	783	738	2,216	2,113	2,309	4,599	2,085	1,984	1,605	703	660	200
PLANTATION	*(75.5)*	*(73.0)*	589	2,178	1,721	2,689	2,406	2,381	2,206	2,347	1,568	1,136	961	1,081
PROPERTY	*54.6*	*(46.2)*	333	619	863	536	215	475	183	251	206	326	174	-287
REITS	*3.4*	*(35.8)*	377	588	474	331	365	287	179	182	198	-47	234	198
TECHNOLOGY	*(28.3)*	*(28.0)*	200	278	372	419	279	303	262	251	237	274	232	143
TELCO & MEDIA	*14.2*	*(89.5)*	1,101	10,439	898	936	964	924	1,354	1,291	1,173	786	1,514	1,039
TRANSP & LOGIS	*87.9*	*(31.6)*	887	1,296	1,008	123	472	563	452	501	412	30	143	338
UTILITIES	*(12.8)*	*46.3*	2,466	1,686	1,630	1,585	2,827	1,426	1,796	433	1,673	1,945	1,745	862
TOTAL	***0.0***	***(36.0)***	18,787	29,352	20,137	18,860	18,784	20,552	18,071	21,155	18,089	13,722	14,837	7,973

Source: MIDFR

Financial Services and Healthcare were the sectors which recorded improved total earnings (as reported) in 1QCY23 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Construction, Plantation and Technology were the sectors which registered both negative sequential and on-year earnings (as reported) growth percentages in 1QCY23.

Sectoral commentary

Construction: The first quarter of the year kicked off on a rather subdued note for most companies under our coverage despite a higher value of work done during the period. While some were still reeling from the effects of higher raw material and labour costs, others were simply going through a slower period as compared to 1QCY22 due to acceleration of some larger projects achieving completion stage last year while newer projects being undertaken in the latest quarter were still at initial stages. The Department of Statistics Malaysia (DOSM) recorded RM32.2b in value of work done in 1QCY23 (+9.4%yoy). This was driven by civil engineering (37.6%, non-residential buildings (30.5%), residential buildings (21.7%) and special trade activities (10.2%). Ten out of the 11 construction and building material companies under our coverage have announced their quarterly/full year results ending Mar-23 (Gamuda's announcement is next month). The outperformer was Malayan Cement (BUY, TP: RM3.74), in line with the stronger value of work done. Its core net profit surged 3.4x to RM62.7m on the back of stronger cement demand and higher selling prices. IJM Corp (BUY, TP: RM1.93) results was the only one that came in within expectations, driven by its property development segment while the other eight companies came in below expectations. On the back of expectations of an improvement in construction job flows and the pick up in activities this year, we opine that companies under our coverage will perform better than FY22. The optimism this year is driven by Budget 2023, with a development expenditure of RM95b comprising a slew of infrastructure and public utilities jobs. The highlight of the year will still be the rollout of the MRT 3 tenders, which has been delayed since Dec-22 due to a re-evaluation to bring the cost down from RM50b to RM45b. The tender evaluation has been extended to Jun-23. We remain Positive on the construction sector, with our top picks being Gamuda (BUY, TP: RM5.04), IJM Corp (BUY, TP: RM1.93), Sunway Construction (BUY, TP: RM2.09) and Malayan Cement (BUY, TP: RM3.74).

Consumer (Automotive): Auto companies under our coverage that have announced its results so far, has been largely within expectations., with the exception of Tan Chong Motor which disappointed with a loss-making quarter. Tan Chong has been impacted by market share loss in the domestic market and losses in the Indochina market given low plant utilization rate and soon, the loss of its MG franchise for the Vietnam market. On the contrary, UMW Holdings and MBM Resources reported impressive high double-digit growth in earnings driven by the rush to deliver Penjana tax holiday bookings before the 31st March 2023 deadline. Additionally, margin trends improved, notwithstanding a stronger USD during the period) on normalizing raw material cost and higher production volume. Order backlog remains elevated with outstanding bookings for key players, Perodua and Toyota, remaining similar to end-March levels signaling still strong new booking momentum despite expiry of the Penjana tax holiday. As for UMW Holdings, its M&E division (comprising auto component & lubricants and aerospace manufacturing) benefitted from the cyclical TIV and air travel recovery, while its equipment division continues to benefit from recovery in the infrastructure, mining and plantation sectors.

Consumer (Retail, F&B): A mixed bag of 1QCY23 performance with 5 companies we cover met our expectations, while the remaining 5 fell short. The companies that met projections are well-known household F&B manufacturers and retailers like Nestle Malaysia, Frasers and Neave, Hup Seng Industries, Aeon Co, and Padini Holdings. Meanwhile, QL Resources' 1QCY23 earnings came in slightly below our estimation due to reduced fishing activities and production volumes caused by the seasonal monsoon season, which raised the production cost per unit and depressed earnings. Besides, the rising global recession fears, interest rates, and inflationary pressure have weakened the demand for non-essential products affecting office supplies manufacturer Asia File and furniture manufacturer Rhong Khen International, whose 1QCY23 results fell short of our expectations. Additionally, the revised employment act implemented in January 2023 and TNB's imposition of ICPT rate hike have raised labour and electricity costs, compressing the margins of Spritzer and Leong Hup International, and resulting in lower-than-expected earnings in 1QCY23.

Going forward, we retain positive outlook for the sector underpinned by: (1) most F&B manufacturers have successfully passed on increased input costs to customers through price hikes, (2) sustain margin on the back of falling commodity prices which more than offset the impact of higher electricity and labor costs, as well as the weaker RM. Furthermore, the stable labour market and return of both local and international tourists are expected to continue supporting retail sales and out-of-home consumption. Hence, we maintain Positive on consumer sector with an emphasis for consumer-related companies due to their resilient demand despite numerous headwinds. Our top picks are QL Resources (BUY, TP: RM6.75), F&N (BUY, TP: RM33.50) and Aeon (BUY, TP: RM1.90).

Financial Services: Deposit competition was the big highlight: Banks attempts to hoard as much liquidity as possible in an uncertain landscape led to double digit NIM compression across the board. This was primarily centred within the 20-30bps range (though RHB fell by >46bps). While it seems that competition on the wholesale side has gone down fairly early in the year, with retail deposit competition was more persistent until the most recent OPR hike. Even so, some banks believe that retail deposit competition has only softened in the higher FD tenure brackets, with the shorter tenure FD space still as competitive as ever. Understandably the deposit hoarding activity has led to higher liquidity ratios and sub-optimal Loan/Deposit ratios – offering more room for NIM optimisation activity in the following quarter. But expect some banks to face further NIM compression in future, while some will rebound.

The NCC situation is a bit more straightforward. BNM has declared that by end-2023 overlay balances must either be written back into the P&L statement, or be converted into account-specific provisions to be retained a bit longer. Only CIMB has explicitly guided that it wants to retain as much provisions as possible, as having such buffers reduce the need for quarterly NCC – and also the timed release of such writeback can provide more consistency in quarterly earnings and ease in achieving stretched ROE targets. Other companies are more tight lipped, but the general feel seems that most companies want to release their overlays in bulk from 2HCY23 onward. Asset quality was largely within expectations – the only companies which saw some issues are ABMB, which faces not only RA loan graduation but also high delinquencies in its Alliance ONE accounts (which, as a mortgage refinancing service, is naturally high risk) and BIMB, which saw severe upticks in retail delinquencies, primarily in personal financing loans that were not tagged with salary deduction.

Aside from that there was NOII recovery (primarily due to improved investment and FX income) – HLBK and CIMB in particular saw very strong improvement. OPEX was largely lower qoq (base effects, as costs tend to be backloaded in 4Q) and expect to see a bit of a uptick yoy, due to additional tech spend. Our top picks are defensive picks: Maybank (BUY, RM9.28) for dividend yields and Hong Leong Bank (BUY, RM24.91) for its excellent asset quality and strong loan growth potential.

Healthcare (Gloves): Glovemakers in our coverage had a mixed performance in the 1QCY23. Kossan Rubber and Top Glove's results were below our expectations, which continued to incur net losses in 1QCY23. This was due to market oversupply and intense competition from Chinese glovemakers that lower plant utilisation rate, and ASP hence resulted in higher production costs per unit that compressed margin. Given that Chinese competitors are offering substantially lower ASP to gain market share, resulting in a utilization rate of over 90% for them, while the Malaysian industry's utilization rate remains below 50%. Meanwhile, Hartalega's earnings exceeded expectations due to higher sales volume for food-related gloves and lower production costs per unit thanks to increased utilization. In 1QCY23, we noticed consolidation in the market as some local players decommissioned their manufacturing plants to improve efficiency, reduce costs, and better compete with Chinese glovemakers. While we view this as a constructive long-term strategy to compete with Chinese competitors, we remain cautious about its near-to-midterm impact on earnings. Looking ahead, we retain cautious outlook for the glove sector as oversupply of gloves is expected to remain throughout CY23, which will continue to impact ASP and utilization rates. Although there might be some restocking activities, it is not consistent as many countries have transitioned to the endemic phase. Moreover, rising labor and energy expenses will put further pressure on operating margins, leading to decreased profitability. Hence, we maintain our NEGATIVE recommendation on glove sector.

Media: In 1QCY23, Media Prima's results failed to meet our expectations. The Group posted a loss in the recent quarter and a quarterly sequential decline in revenue. It is usually expected that the adex outlook for the sector starts off slow early in the calendar year and picks up towards the end, but we do not expect there to be any year-on-year growth even then, due to the challenging economy and slower advertising market. Astro will be releasing its recent quarter results by the end of June. We hope to see some sort of an attractive divided yield provided the market conditions don't affect their dividend policy. Similarly, our outlook for Astro remains the same as Media Prima in terms of advertising sales growth. Overall, we have downgraded our outlook on the sector as a whole to Neutral for now.

Plantation: For the 1QCY23, planter performance under our coverage was mixed with 3 companies performing within expectations and 6 falling short. The total decline in earnings was in line with consolidation of average CPO price realized, which hovered around RM3,691-4,324/Mt levels. In 1QCY23, the average selling price (ASP) of CPO plummeted significantly from 1QCY22's RM6,051/mt to RM3,997/mt (+2.2%qoq, -33.9%yoy). TSH Resources, Sarawak Plantation, Genting Plantations, Sime Darby Plant, FGVH, and PPB were a some of the companies that produced results that fell short of our expectations. The variation was mostly caused by decreased operating profit in the plantation segment due to lower CPO prices realised and output (on poor seasonality months) combined with high fixed and upkeeping costs incurred.

The softening demand for oleochemical and biodiesel products, on the other hand, has a significant negative effect on refinery operational profit (in fact, some refineries run with negative margins). It appears that even though the issue of

a labour shortage has been mostly handled (80% resolved), most planters still had to deal with freshly hired workers or harvesters which took anywhere from 6 to 12 months to become competent in harvesting activities.

We reduced our sector profits forecasts for FY23E/FY24F/FY25F by -17%yoy/-19%yoy/-20%yoy to RM7.2b/RM5.8b and RM5.3b, respectively, due to the disappointing performance that was reported. Weaker predictions were pulled down by lower earnings revisions for PPB and Sime Plant, which carried considerable weightage in our sector universe.

The sector's downside risks are remains (i) consolidation of CPO prices on loosening Indonesian export regulations for palm oil starting in May; (ii) reduction of domestic sales obligations (DMO) for palm oil producers; (iii) reduced the spread between CPO and soybeans, which has since fallen to an average of $126.0/Mt (-55.2%yoy) from $281.3 in 1QCY22; (iv) the weakening of the ringgit (which reduced the price of CPO's competitiveness to compete with other vegetable oils); (v) high cost of production (RM2,500-2,900Mt; 4QCY22: RM2,200-2,700/Mt); and (vi) slower consumption on palm oil products (Oleochemical and biodiesel) on tight spending during high interest rates environments.

Looking ahead, we maintain NEUTRAL call on the sector with average CPO price of RM3,500/Mt. Our top picks are IOICorp (BUY, TP: RM4.89). With the consolidation of CPO prices, we expect its RBM business will continue to operate as a safety net against any possible downside risk from plantation segment, hence minimizing earnings instability.

Property: In the recently concluded 1QCY23 earnings reporting season, most of the property companies reported earnings that were in line with expectations except for S P Setia which reported earnings that missed expectations. The earnings miss could be attributed to the higher-than-expected tax rate in 1QCY23. Generally, most of the property companies reported higher revenue due to pick up in progress billing which more than enough to cushion the impact of rising interest rate as BNM hiked OPR by 100bps in 2022. On new property sales front, it was largely within management expectations of slightly higher sales as new sales momentum remains healthy. Project launches are expected to pick up as buyer sentiment is expected to recover from several OPR hikes in 2022. Looking ahead, we expect marginally better new property sales outlook for property developer which should underpin earnings outlook in the near-term. In a nutshell, we maintain Neutral with positive bias on property sector.

REITs: All of the REITs under our coverage reported earnings that met expectation in 1QCY23. Earnings of retail REITs particularly IGB REIT and Pavilion REIT were higher due to recovery in shopper footfall and tenant sales. Earnings were also underpinned by positive rental reversion as tenants' sales improved following reopening of economy and country's border. That has more than enough to offset the impact of higher borrowing cost and higher utilities expenses following increase of electricity tariff surcharge by government. Meanwhile, earnings of Axis REIT which is an industrial REIT was weaker in 1QCY23 due to higher property expenses and higher Islamic financing cost. On the other hand, Al-'Aqar Healthcare REIT reported earnings growth in 1QCY23 mainly due to stable earnings contribution from healthcare assets and contribution from newly acquired assets. Looking forward, we expect earnings of REITs particularly retail REIT to remain on positive trajectory growth as higher tourist arrival and recovery in shopper footfall should continue to underpin rental growth. In a nutshell, we maintain Positive on REITs.

Transportation & Logistics: The aviation sector has reported a strong performance, with both companies under our coverage turning profitable in the recent quarter. This positive outcome can be attributed to the increased demand from international passengers, particularly in major Northeast Asia markets, as their borders reopened in 4Q22. As airlines restore their capacities and rebuild their fleet, we anticipate further recovery in passenger traffic, which should benefit these players in the upcoming quarters. However, it is worth noting that airlines may face challenges in the short term if the Ringgit continues to depreciate against the USD, as a significant portion of their expenses, including jet fuel purchases, are denominated in USD.

Conversely, logistics players generally experienced weaker-than-expected results, primarily due to inflationary pressures on operating expenses and higher-than-anticipated costs associated with capacity expansion. Looking ahead, we anticipate resilient earnings supported by increased occupancy rates for their newly constructed and extended warehouses. Additionally, sustained growth in goods volume, driven by existing multinational corporations (MNC) across various sectors, is expected to contribute to their performance.

Meanwhile, the performance of port players aligns with our expectations. We anticipate continued growth in gateway container throughput, fueled by competitive local exports and foreign direct investments (FDIs) in the state. However, there may be a decline in transhipment container throughput as the consumption of goods in the Western region softens. Furthermore, we remain cautious about the potential impact of the El Nino phenomenon on palm oil production, as it serves as a major driver for port throughput in the Eastern part of Malaysia.

Utilities (Power): The recent results season was a very strong one for the utilities sector, with the exception of Tenaga Nasional which performed in-line with expectations. YTL Power and YTL Corp outperformed on strong earnings recovery

in the Singapore power market – as a liberalised market, Singapore power sector players are benefitting from tight demand-supply, which has led to much higher electricity prices and margins. This underpins our sector thesis for 2022/23, which favors players in liberalised markets over those in regulated markets given that the latter entails revenue caps which limits upside potential in a recovering economy. YTL Corp in particular, also benefited from improving cement demand and margins, while its hotel division benefited from relaxation of pandemic restrictions and border reopening. Ranhill Utilities (which is mainly a water utilities player) also saw earnings outperformance as it benefited from the January 2023 tariff hike for the non-domestic sector in Johor, whereas its Sabah IPPs saw a doubling in earnings driven by higher demand volume.

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 1QCY23 from 4 to 1. Nonetheless, the number of underperformers likewise declined from 9 to 5.

FBM KLCI: Outperformer versus Underperformer

Financial Quarter	No. of Outperformer	No. of Underperformer
1QCY23	1	5
4QCY22	4	9
3QCY22	5	9
2QCY22	7	10
1QCY22	10	10

Source: MIDFR

In 1QCY23, the sole outperformer among FBM KLCI constituents under our coverage was Petronas Dagangan. Meanwhile, the underperformers comprised of two consumer companies namely PPB Group and QL Resources, as well as Petronas Chemicals, Sime Darby Plantation and IHH Healthcare.

Earnings revision

The aggregate FY2023 earnings forecast of the FBM KLCI constituents under our coverage was cut by RM4.6b (-6.7%) to RM64.7b.

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

SECTOR	Stocks	FY2023 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB, QL Res	-732
ENERGY	Dialog	0
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG, AMMB	-626
HEALTHCARE	IHH Health	-104
INDUSTRIAL P&S	Petronas Chemicals	-2,143
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	-783
TECHNOLOGY	Inari Amertron	0
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	0
TRANSPORT & LOGISTICS	MISC	-276
UTILITIES	TNB, Petronas Gas	11
TOTAL		**-4,653**

Source: MIDFR; (F) – Forecast

The lower aggregate figure for FY2023 were mainly contributed by downward revisions to forward earnings of Industrial P&S (namely Petronas Chemicals), Plantation (namely Sime Darby Plantation), Consumer P&S (mainly PPB Group) and Financial Services (mainly Maybank and CIMB) and Transport (namely MISC) constituents.

Similarly, the aggregate FY2023 earnings forecast of the stocks under MIDFR Universe was cut by RM4.1b (-4.8%) to RM82.5b.

Refer to Appendix for further details.

Moreover, it is also notable that the quantum of aggregate FY2023 earnings cut under MIDFR Universe (-RM4.1b) was lower than that of the FBM KLCI constituents under our coverage (-RM4.6b). Thus, it implies an upward revision in the aggregate FY2023 earnings of non-FBM KLCI constituents under our coverage totalling RM516m (+3.0%) to RM17.8b.

Outlook

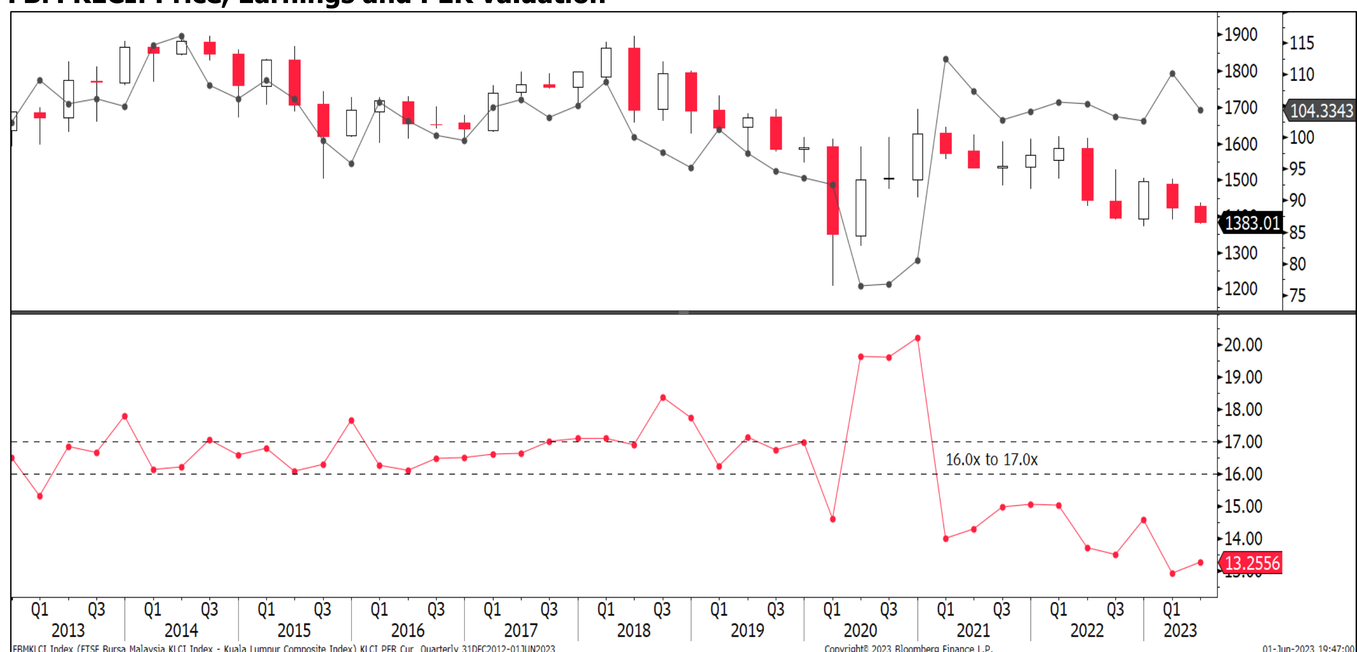
The divergence in the net change to aggregate forward earnings favouring non-heavyweight stocks was also duly reflected in their relative price performance thus far this year. As of end-May 2023, the year-to-date price return of FBM KLCI stood at -7.2%. In contrast, the midcap FBM70 index registered year-to-date return of +4.9%.

The heavyweights were bogged down mainly by price underperformance of Financial Services as well as commodity-related Industrial P&S (namely Petronas Chemicals and Press Metal) and Plantation stocks. The former sector was impacted by banking turmoil in the US and Europe while the latter by lower commodity product prices. Nonetheless, going forward, we do not expect the underperformance of these heavyweight stocks to persist.

Firstly, the banking turmoil in the US and Europe is arguably a consequence of the rapid rise in interest rates during the past year. As the US Fed is anticipated to pause either in the upcoming June or later July meeting, we can thenceforth expect to see some recovery in both the valuation and earnings expectation of banking stocks.

Secondly, we reckon the softening commodity price trend is presaging a slowdown in economic activities which is also arguably a consequence of the rapid rise in interest rates during the past year. Likewise, we can expect to see some improvement in both the valuation and earnings expectation of commodity-related stocks post-Fed pause.

FBM KLCI: Price, Earnings and PER valuation

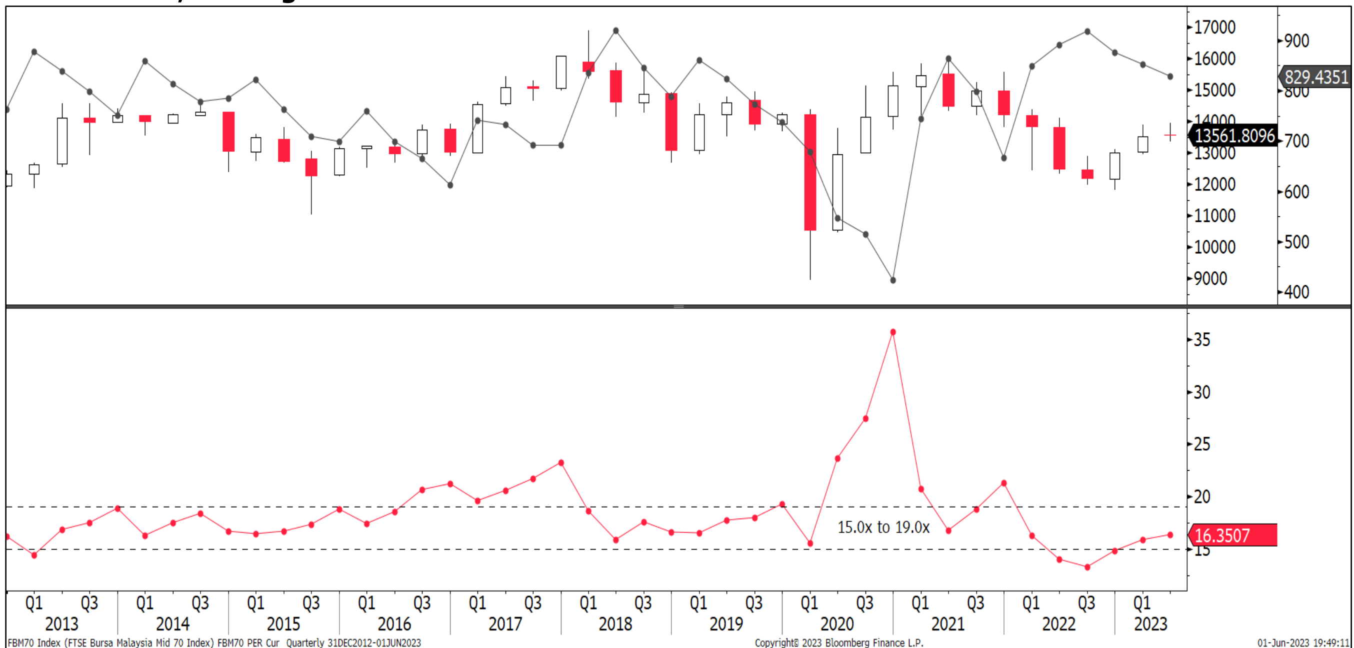


Source: MIDFR, Bloomberg (G658)

At PER23 of 13.3x, the FBM KLCI is currently trading at depressed valuation (vis-à-vis its historical range of 16.0x to 17.0x). However, we expect its valuation to revert higher during the latter part of this year supported by the reasons stated above and buttressed by the continuing general macro growth.

Hence, we maintain our **FBM KLCI end-2023 target at 1,590** points or PER23 of 15.2x.

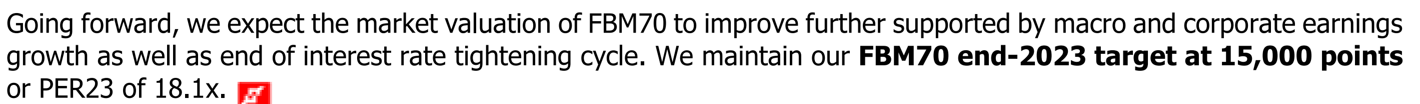
FBM70: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G715)

At PER23 of 16.4x, the FBM70 index (which represents mid-cap stocks) is currently trading within its historical valuation range (of 15.0x to 19.0x) albeit at the lower half. Nonetheless, when compared to the big-caps, the mid-cap stocks performed better thus far this year both in terms of valuation and year-to-date price return.

Going forward, we expect the market valuation of FBM70 to improve further supported by macro and corporate earnings growth as well as end of interest rate tightening cycle. We maintain our **FBM70 end-2023 target at 15,000 points** or PER23 of 18.1x.



APPENDIX

MIDFR: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)		**EARNINGS *(% Chg)***
	FY2023 (F)		**FY2023**
	Old	**New**	
TOTAL (MIDFR Universe)	86,606.3	82,469.2	*(4.8)*
Annual % Change	*12.3*	*8.1*	
TOTAL (FBM KLCI)*	69,330.9	64,677.9	*(6.7)*
Annual % Change	*19.5*	*10.3*	

Source: MIDFR; * Aggregate earnings of 25 FBM KLCI constituents under MIDFR coverage; (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