4 March 2024

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended December 2023

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Strategy Team
research@midf.com.my

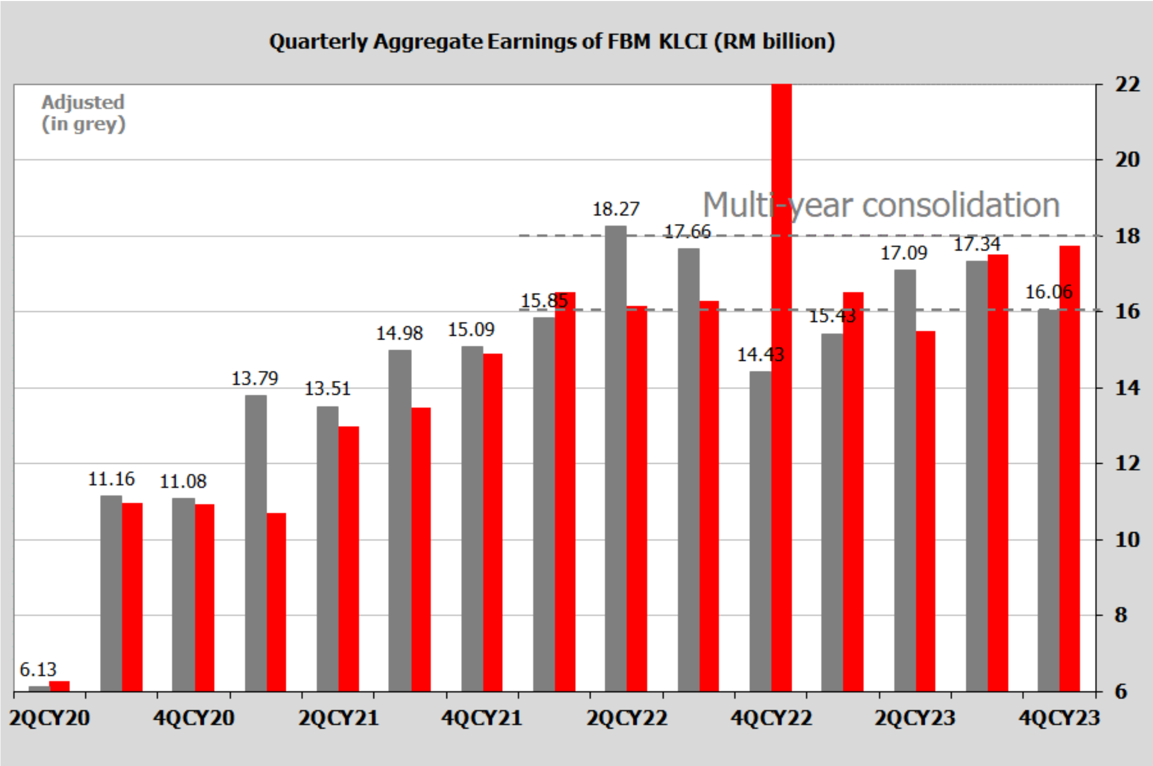
4 March 2024 | Earnings Wrap

Still in consolidation

- *In 4QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM17.7b. It increased sequentially at +1.2%qoq but dropped against the corresponding quarter last year at -26.8%yoy.*
- *On adjusted basis, the aggregate 4QCY23 normalized earnings of FBM KLCI 30 current constituents dropped sequentially at -7.4%qoq but increased on-year at +11.2%yoy to RM16.1b.*
- *Within MIDFR Universe, 21% of stocks under coverage reported higher than expected earnings. Moreover, 30% posted earnings that were lower than expected versus 49% which came within expectations. Target price changes involved 40 upward adjustments and 15 downward adjustments. Furthermore, we made 12 changes to our stock recommendations with 3 upgrades and 9 downgrades.*
- *The aggregate FY2024 earnings forecast of the FBM KLCI constituents under our coverage was cut by -2.0% to RM65.8b. Likewise, the aggregate FY2024 earnings forecast of the stocks under MIDFR Universe was cut by -1.8% to RM83.5b. It is notable that the cuts were due to lumpy downward revisions to forward earnings of a few stocks.*
- *Hence, we maintain all our end-2024 FBM KLCI, FBM Hijrah and FBM70 targets at 1,665 points, 13,450 points and 16,890 points respectively due to (i) increasingly positive equity market sentiment engendered by the likelihood of US Fed rate cuts this year, and supported by (ii) undemanding equity valuations.*

FBM KLCI

In 4QCY23, the aggregate reported earnings of FBM KLCI 30 current constituents came in at RM17.7b. It registered positive sequential growth at +1.2%qoq but dropped on-year at -26.8%yoy.



Source: Bloomberg, MIDFR

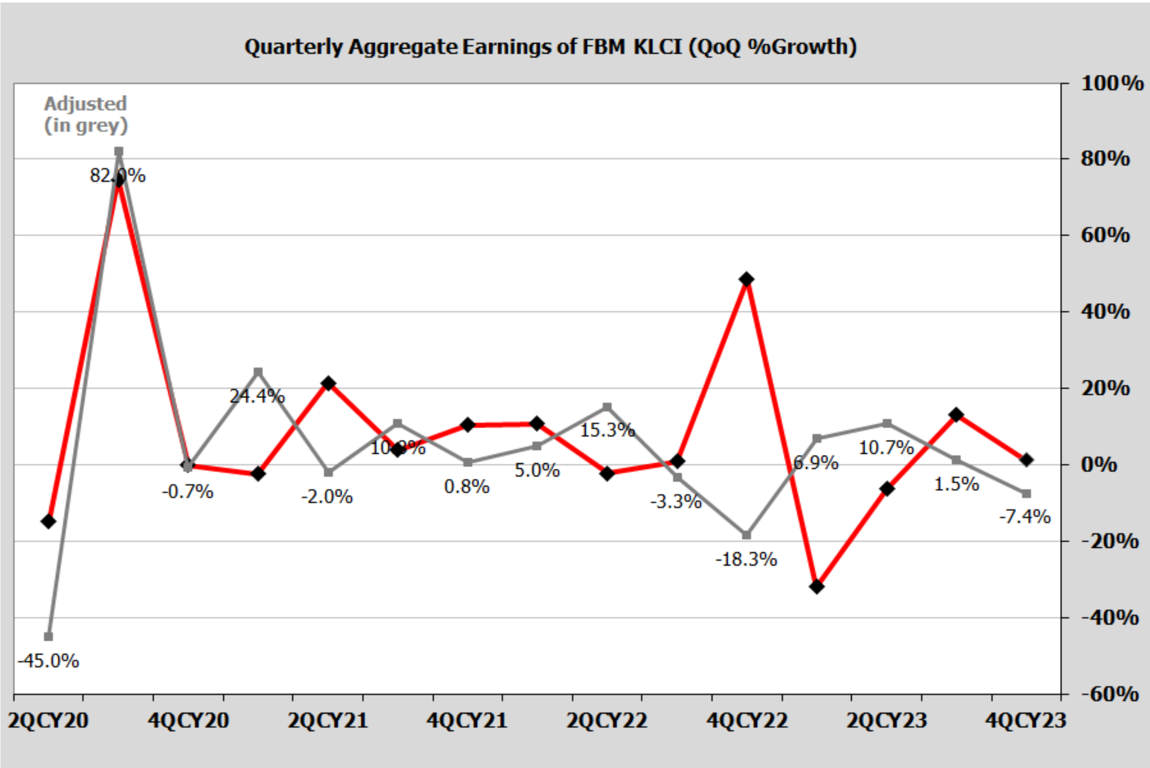
After adjusting for non-operational/recurrence items incurred during the review quarter (primarily non-ordinary gains of RM2.0b by Sime Darby), the aggregate normalized quarterly earnings of FBM KLCI 30 current constituents came in at RM16.1b in 4QCY23. Moreover, after neutralizing the extraordinary items during relevant quarters (4QCY23: 1.68b, 3QCY23: 188m, 4QCY22: RM9.80b), the aggregate normalized growth in 4QCY23 registered negative sequential growth at -7.4%qoq but jumped on-year at +11.2%yoy.

FBM KLCI: Normalized Earnings (RM Million)

SECTOR	4QCY23	3QCY23	QoQ	4QCY22	YoY
CONSUMER P&S	1,734.37	1,966.89	-11.8%	1,067.17	62.5%
FINANCIAL SERVICES	8,187.00	8,799.00	-7.0%	8,254.00	-0.8%
HEALTHCARE	265.50	369.00	-28.0%	42.20	529.1%
INDUSTRIAL P&S	438.46	731.46	-40.1%	753.21	-41.8%
PLANTATION	834.50	810.70	2.9%	1,324.20	-37.0%
TELCO & MEDIA	1,510.50	1,590.20	-5.0%	1,195.60	26.3%
TRANSPORT & LOGISTICS	575.80	430.40	33.8%	645.00	-10.7%
UTILITIES	2,511.50	2,638.65	-4.8%	1,153.44	117.7%
TOTAL	**16,057.63**	**17,336.30**	**-7.4%**	**14,434.82**	**11.2%**

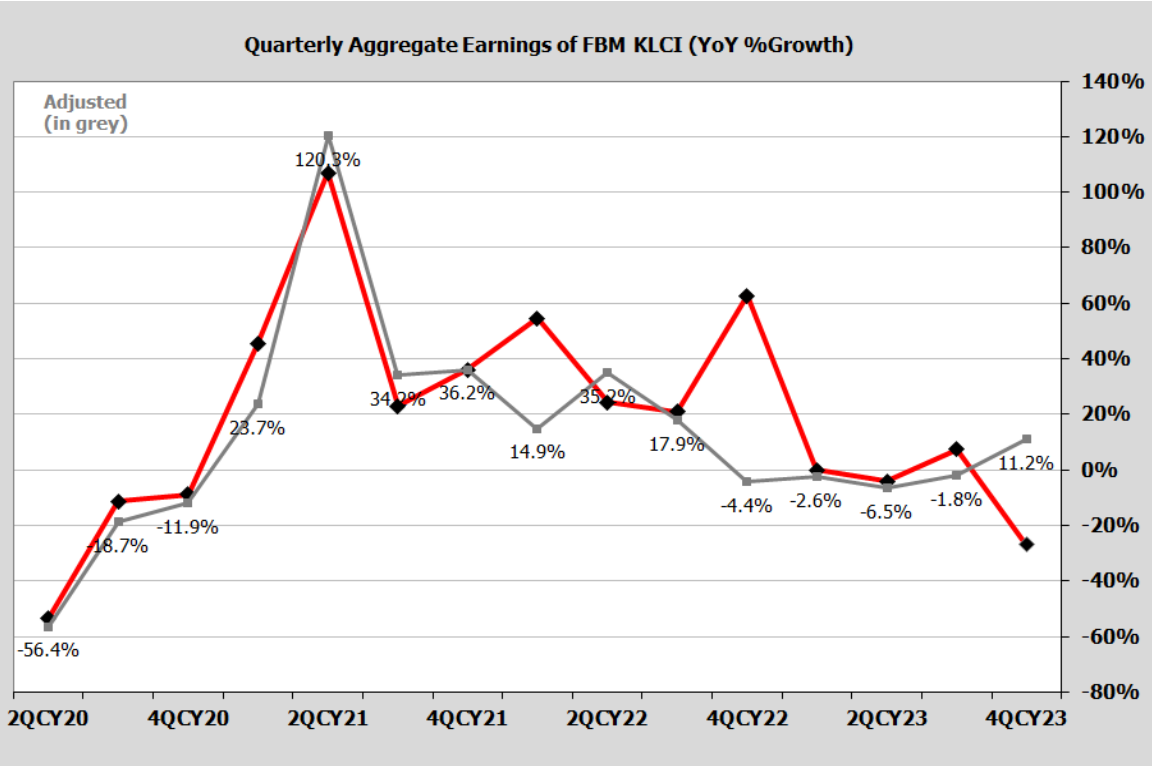
Source: Bloomberg, MIDFR

The negative on-quarter normalized growth performance in 4QCY23 was mainly due to earnings diminution among its Financial Services (CIMB, Public Bank, and RHB Bank), Industrial P&S (Petronas Chemicals), and Consumer P&S (Genting and Sime Darby) but moderated by the rise in Transport & Logistics (MISC) constituents.



Source: Bloomberg, MIDFR

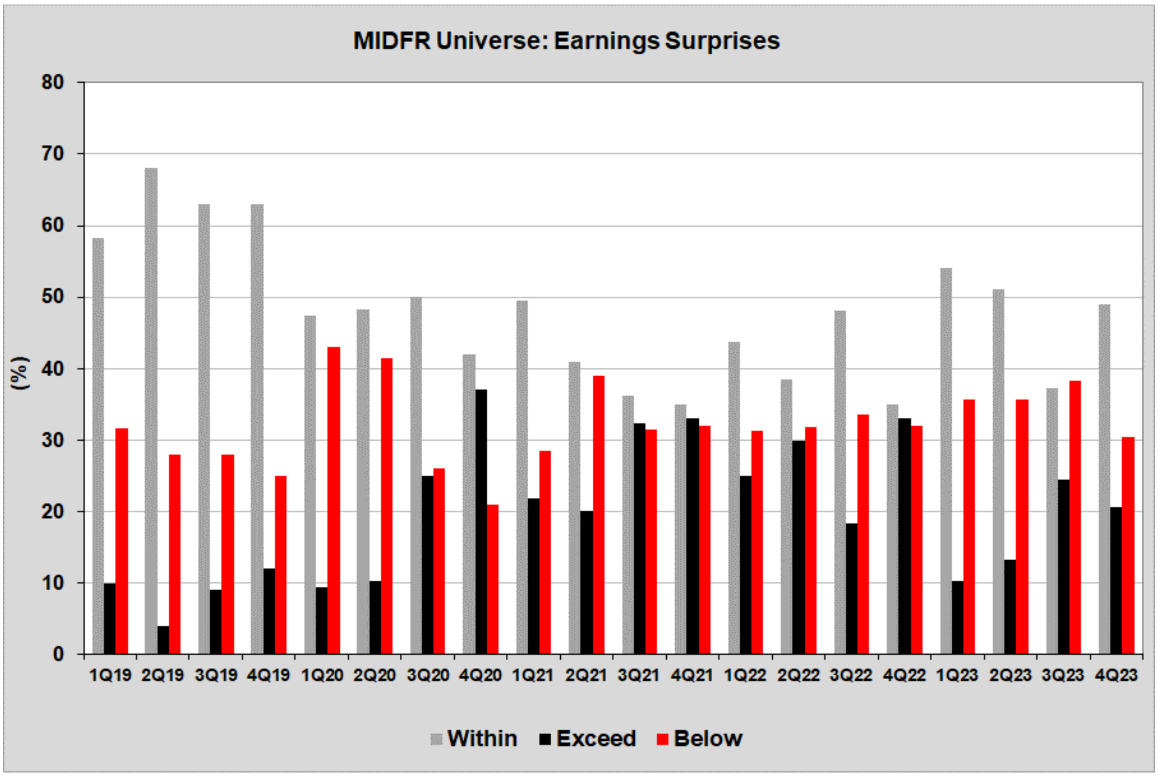
On the other hand, the positive on-year normalized growth performance in 4QCY23 was mainly contributed by earnings expansion among its Utilities (YTL Power, YTL Corp, and Tenaga Nasional), Consumer P&S (Genting Malaysia and Genting), and Telco & Media (Telekom Malaysia and CelcomDigi) constituents. However, the rise was moderated by on-year diminution particularly among Plantation (Sime Darby Plant) as well as Industrial P&S (Petronas Chemicals) constituents.



Source: Bloomberg, MIDFR

MIDFR Universe

The percentage of companies in MIDFR Universe that registered earnings above our expectations declined to 21% in 4QCY23 as compared to 24% in the prior quarter. Similarly, the percentage of negative surprises also fell to 30% from 38% in 3QCY23.



Source: MIDFR

Accordingly, the percentage of companies with results which met expectation increased to 49% in 4QCY23 from 37% in the prior quarter. Moreover, Utilities, Telco & Media, and Energy sectors recorded the highest percentage of positive surprises at 50% of stocks under our coverage. Meanwhile, Construction and Industrial P&S sectors registered the biggest percentage of underperformers at 60% of companies under our coverage.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	20%	20%	60%
CONSUMER PRODUCTS & SERVICES	41%	29%	29%
ENERGY	25%	50%	25%
FINANCIAL SERVICES	73%	9%	18%
HEALTH CARE	50%	0%	50%
INDUSTRIAL PRODUCTS & SERVICES	20%	20%	60%
PLANTATION	75%	13%	13%
PROPERTY	57%	14%	29%
REITS	100%	0%	0%
TECHNOLOGY	50%	17%	33%
TELECOMMUNICATIONS & MEDIA	50%	50%	0%
TRANSPORTATION & LOGISTICS	43%	14%	43%
UTILITIES	0%	50%	50%
TOTAL	**49%**	**21%**	**30%**

Source: MIDFR

In total, we made 12 changes to our stock recommendations with 3 upgrades and 9 downgrades. Furthermore, target price changes involved 40 upward against 15 downward adjustments.

In 4QCY23, the aggregate reported earnings of companies under MIDFR Universe came in at RM18.3b. It recorded negative growth both on-year and on-quarter at -37.2%yoy (mainly due to high-base effect from reported disposal gains by Axiata) and -4.2%qoq respectively.

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

	YoY (%)	***QoQ (%)***	**4Q23**	**3Q23**	**2Q23**	**1Q23**	**4Q22**	**3Q22**	**2Q22**	**1Q22**	**4Q21**	**3Q21**	**2Q21**	**1Q21**
CONSTRUCTION	*(93.0)*	*(74.9)*	92	368	366	241	1,316	314	364	244	379	861	248	409
CONSUMER P&S	*(14.2)*	*17.3*	1,295	1,104	2,276	1,355	1,509	681	676	85	384	-118	112	527
ENERGY	*(99.0)*	*(98.3)*	4	217	-133	344	379	303	335	330	149	258	246	200
FINANCIAL SERV	*5.4*	*(0.9)*	9,202	9,285	8,884	8,910	8,734	9,186	7,727	7,644	7,127	5,888	7,319	4,128
HEALTH CARE	*(225.7)*	*307.6*	734	180	164	953	-584	296	766	501	1,199	2,640	5,843	5,420
INDUSTRIAL P&S	*(27.0)*	*(25.2)*	539	720	894	783	738	2,216	2,113	2,309	4,599	2,085	1,984	1,605
PLANTATION	*(56.8)*	*(49.6)*	941	1,866	629	589	2,178	1,721	2,689	2,406	2,381	2,206	2,347	1,568
PROPERTY	*(13.2)*	*34.6*	537	399	480	333	619	863	536	215	475	183	251	206
REITS	*19.7*	*6.8*	704	659	335	377	588	474	331	365	287	179	182	198
TECHNOLOGY	*12.6*	*16.3*	313	269	229	200	278	372	419	279	303	262	251	237
TELCO & MEDIA	*(97.8)*	*(52.5)*	230	484	666	1,042	10,410	792	821	831	789	1,259	1,136	1,000
TRANSP & LOGIS	*(12.4)*	*47.9*	1,135	767	776	887	1,296	1,008	123	472	563	452	501	412
UTILITIES	*53.6*	*(7.2)*	2,589	2,791	2,534	2,466	1,686	1,630	1,585	2,827	1,426	1,796	433	1,673
TOTAL	***(37.2)***	***(4.2)***	18,313	19,108	18,100	18,480	29,147	19,858	18,485	18,508	20,062	17,950	20,853	17,585

Source: MIDFR

Healthcare, REITs, and Technology were the sectors which recorded improved total earnings (as reported) in 4QCY23 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Construction, Energy, Industrial P&S, Plantation, and Telco & Media were the sectors which registered both negative sequential and on-year earnings (as reported) growth percentages in 4QCY23.

Sectoral commentary

Construction: The cumulative 4QFY23 performance of the construction sector was quite average, with two out of the eight companies (excluding Gamuda which has a July financial year end) under our coverage coming in above expectations and one coming in within. The other five were below expectations. The larger sized and more renowned players performed well while some of the smaller names seemed to be struggling. Those that recorded results above expectations were IJM Corp (BUY, TP: RM2.57) and Malayan Cement (BUY, TP: RM5.33) while Sunway Construction (BUY, TP: RM2.86) came in within expectations. Most recorded stronger revenue for the quarter but only four saw improved earnings. Cahya Mata Sarawak (BUY, TP: RM1.32) saw a +14.6% improvement in its revenue from cement and an operating profit of RM55.5m from an operating loss of -RM3.5m in the 4QFY22 but its core earnings were ultimately dragged down by its phosphate division, due to commissioning and financing costs. Meanwhile, other contractors attributed the weaker bottom lines to higher materials and labour costs and the ongoing progress of current projects that are still in initial stages. We can expect progress billings to improve in upcoming quarters as the construction progress pick up pace. Meanwhile, data from the Department of Statistics Malaysia (DOSM) showed that the value of construction work done continued to increase, which was recorded at RM34.1b (+2.1%qoq) in 4QCY23. This was driven by civil engineering (41.9%), non-residential buildings (27.7%) residential buildings (20.9%), followed by special trade activities (9.6%). In terms of year-on-year comparison, it was a +6.8%yoy growth, the slowest since 2QCY22 at +6.1%yoy. The first to the third quarters of 2023 saw the value of work done growing +9.4%yoy, +8.1%yoy and +9.6%yoy respectively. We expect the momentum of the construction sector to continue being driven by industrial projects such as data centres, warehouses and semiconductor factories and also infrastructure jobs such as roads. Two mega projects that will provide a huge catalyst to the sector is the MRT3 and Penang LRT but we do not discount the possibility of further delays on the implementation. We remain POSITIVE on the construction sector, with our top picks being Gamuda (BUY, TP: RM5.55), IJM Corp (BUY, TP: RM2.57), Sunway Construction (BUY, TP: RM2.86) and Malayan Cement (BUY, TP: RM5.33).

Consumer (Retail, F&B): Earnings of consumer companies were mostly in line. We saw 6 out of the 10 companies under our coverage met our earnings projections, 2 came in above expectations (QL Resources and Hup Seng Industries), while the remaining 2 (Leong Hup International and Spritzer) came in below expectations. Overall, QL outperformed mainly due to higher project progress in the clean energy segment, along with lower-than-expected feed costs, more-than-expected egg subsidies received, and additional contributions from newly acquired farms. Meanwhile, Hup Seng's results above expectations were mainly driven by lower-than-expected input costs for certain major ingredients, which improved the profit margin. The greater-than-expected operating costs have dragged Leong Hup's earnings below our projection, despite revenue in line with our forecast. Spritzer underperformed in earnings owing to lower-than-expected sales volume and greater-than-expected operating expenses. Overall, we turned cautious on the potential inflationary pressures on operations ahead, driven by the expected higher services tax along with the potential rollout of targeted fuel subsidies, all of which are likely to raise operating expenditures via either direct impact or cost pass-through from suppliers/vendors. However, we remain optimistic about consumer staples demand, considering the inelastic demand for essential items. Hence, we maintain our NEUTRAL stance on consumer sector.

Financial Services: Earnings in 4QCY23 were surprisingly resilient. Pressure on NII was largely offset by strong NOII performance and more moderate provisioning. There were a few surprises – Public Bank and Affin Bank closed the year below our expectations, while BIMB exceeded. Management outlook for CY24 was cautiously optimistic, with the brunt of fears centred on competitive loan yields as business loans pickup in 2HCY24. Loan growth guidance was thankfully a lot stronger, with several banks citing no shortage of demand at the moment.

As expected, NIM saw contraction across the board, though the compression was largely manageable and within expectations. While confident that deposit competition is trending downward, most banks maintain their cautious stance on NIMs – citing competition loan yields as being an issue. NOII was probably the most significant driver of earnings this quarter, with improved loan-related fees, strong forex gains and (in some cases) resilient trading incomes. We do not believe that the current level of NOII contributions is sustainable heading into CY24. Though some banks are guiding for a heavy OPEX year in CY24 (most notably, Affin and HL Bank), expect more muted cost growth across the board, given the high base effects in CY23.

By far the highlight was loan growth, with most banks reporting solid to excellent sequential quarter growth – while retail loans remained resilient, there were a lot of business loan drawdowns. Deposit growth was a bit more mixed across the board – generally, banks which posted lower growth figures were continuing with their NIM optimisation plans. CASA growth, on the other hand, picked up significantly. GIL ratio similarly saw great improvement, with heavy writeoffs and recoveries leading several banks to drastically reduce their GIL ratio. Provisioning was skewed towards the lower end, though this was well-guided. CET 1 ratios remain well elevated, with the industry average at a high ~14.5%.

Healthcare (Gloves): Mostly Below Projections. Two out of three glovemakers under our coverage reported 4QCY23 earnings that fell below our expectations, specifically Hartalega (NEUTRAL, TP: RM2.45) and Kossan Rubber (SELL, TP: RM1.35). Hartalega's disappointed earnings was mainly due to the lower-than-expected sales volume thanks to shipment delays resulting from the ongoing Red Sea crisis. Meanwhile, higher-than-anticipated operating costs at Kossan Rubber led to the earnings shortfall. Conversely, Top Glove's (NEUTRAL, TP: RM0.84) 1QFY24 results met expectations, with the anticipation that the 2HFY24 will turn profitable. Looking ahead, while we anticipate glove replenishment activity to begin, we expect this to occur at a slower pace than previously forecasted. This is attributed to oversupply conditions that reduce the urgency for buyers to place orders, along with the logistical disruptions from the ongoing Red Sea crisis. Nonetheless, we foresee a flat ASP trend ahead, driven by intense competition from Chinese glovemakers. On a positive note, the strong net cash position of the glovemakers will continue to protect against any downside risks in the near term. We maintain NEUTRAL on the Glove sector. Our top pick in the sector remains Hartalega (NEUTRAL, TP: RM2.45), supported by effective cost management and a robust net cash position. However, we downgrade Kossan to SELL due to overvaluation.

Healthcare (Hospitals): In 4QCY23, the healthcare services and hospitals subsector had seen a surge in inpatient visits for non-Covid related treatments. KPJ Healthcare (BUY, TP: RM2.30) saw such an increase in its recently refurbished hospitals (KPJ Penang, KPJ Puteri) and new hospital (KPJ Damansara 2). Patient visits increased by +4%yoy and surgery cases by +6%yoy cases, and inpatient days up by 29,380 days evidenced by the higher BOR to 67% as compared to 58% in FY22 - making earnings higher by +14%yoy for the quarter. We believe this is partially contributed to KPJ's business model of focusing on Malaysia's healthcare front first and foremost, given its disposal of its Indonesian operations. Meanwhile, IHH Healthcare (BUY, TP: RM7.35) saw a similar increase in inpatient visits. However, given that IHH has a broader footprint on the international front, it is susceptible to unfavourable forex and impairments. Its earnings were down -22%yoy due to impairments from its China assets amounting to nearly RM600m, coupled with the depreciation and amortization on the reindexation of its Turkiye assets in combatting hyperinflation. Barring these impairments, net profit actually soared 3-fold.

Nevertheless, for the subsector, we are expecting both companies to show a robust performance, moving forward, on the basis that: (i) Budget 2024 and state budgets favouring the Healthcare sector, (ii) increased beds, services and medical consultants in line with the expansion of hospitals, (iii) rising aging population in Malaysia by +4.5% 10-year CAGR, and (iv) medical tourism expected to exceed RM2b of revenue in CY24.

Oil & Gas: The signs of a slow earnings season in 4QCY23 were expected for the oil and gas industry, given reported earnings decline in the US Energy market by -30%yoy. Three sub-industries saw contractions – Oil & Gas Refining & Marketing (OGRM)(-63%yoy), Integrated Oil & Gas (IOG)(-34%yoy) and Oil & Gas Exploration & Production (OGEP)(-20%yoy). Meanwhile, Oil & Gas Services & Equipment (OGSE) and Oil & Gas Storage & Transportation (OGST) are seeing positive earnings growth, +23%yoy and +4%yoy respectively. The earnings decline is generally attributed to: (i) lower crude oil (average Brent: USD83pb (-6%yoy), average WTI: USD78pb (-5%yoy)) and natural gas prices (average LNG JKM: USD15.84pmmBtu (-49%yoy), average Henry Hub: USD2.75pmmBtu (-51%yoy)), with a subsequently lower selling price, (ii) unfavourable tax and forex movement, (iii) decommissioning of assets, and (iv) extended maintenance and repair, intended and unintended.

Consequently, Malaysia's Oil and Gas front were similarly affected by the oil and gas price movement, adding to the scenarios of geopolitical tensions in the Middle East and Eastern Europe, ongoing OPEC+ production cuts and lower demand for certain petroleum products. The following is a breakdown by division:

Upstream

Upstream received the brunt of the lower oil and gas prices in 4QCY23. Offshore had been affected by the uncertainty of the global oil market, with lower construction and development gains, but higher maintenance cost. Likewise, given the contractual nature of such ancillary operations, OGSE companies had been the main beneficiary of this situation. Deleum (BUY, TP:RM1.46) saw its earnings jumped +7% due to higher sales and commission income for its offshore services.

Additionally, for the marine subsegment, maintenance and repairs plagued most of its performance, causing impairments for its offshore vessels. Bumi Armada (BUY, TP:RM0.62) saw a decline in earnings by nearly 2-fold into a deficit for the quarter for such, when its Armada Kraken FPSO was shutdown for repairs. However, multiple operations of vessels negated the maintenance shutdown, as such was the case for MISC (BUY, TP:RM8.48). Freight rates had been improving in late 4QCY23, in line with favourable translational impact from a weakening MYR to USD, giving crude oil and petroleum products tankers the leverage of lowering operating cost. However, the drastically lower natural gas prices still dragged LNG carriers. Demand for dry-docking vessels were also reduced due to the cyclical winter season and tight competition for marine services.

Midstream

Gas transportation had seen a tight competition between operating companies. However, sales volume is susceptible to the performance of the industries that they are serving. Gas Malaysia (BUY, TP: RM3.96) saw its earnings down by -3%yoy due to lower volume gas sold, following slower demand from the rubber industry. Rubber production had seen a drop in -12%yoy to 245.7kT, while consumption declined by -32%yoy to 355.3kT. However, industrials had seen improvement towards the end of CY23, stabilising to breakeven levels. Meanwhile, Petronas Gas (BUY, TP:RM19.37) recorded a higher profit by +10%yoy due to the introduction of new compression tariff (RM0.553/GJ), as well as a 100% reliability on its pipeline network over a lower operating cost and its upwards revision of the ICPT surcharge. Similar to Gas Malaysia, Petronas Gas also saw a lower sales volume for certain industrials, causing lower customer offtakes.

Downstream

Fuel and petroleum products saw higher consumer demand in 4QCY23, in line with increased in-land travelling and aviation usage in the quarter. Petronas Dagangan (BUY, TP:RM24.91) earnings gained +25%yoy, contributable to the higher sales in Mogas and Diesel, as well as Jet A1 fuel. However, this is offset by its non-fuel segment which saw maintenance and repair during the quarter. Nonetheless, the same cannot be said for petrochemicals. Petronas Chemicals (NEUTRAL, TP:RM7.18), which had its earnings down by -77%yoy, due to lower product prices and sales volume, following lower production volume and product spreads. Plant utilization rates were also lower at 84-85%, due to higher plant maintenance. Particularly for petrochemicals, we are expecting the headwinds to remain.

Integrated Oil and Gas

Integrated oil and gas players faced both the advantages and disadvantages of every division for 4QCY23. For Dialog Group (BUY, TP: RM2.42), 4QCY23 brought in higher earnings albeit below our yearly estimates. As in the upstream division, Dialog saw more production from its assets, similarly to most upstream and major E&P players. Meanwhile, midstream activities remained a stable revenue stream given the improved occupancy rate in DIALOG Terminals Langsat and DIALOG Terminals Pengerang (5), given the turmoil in the Red Sea encouraging tankers to store its products onshore. Downstream remained eventful with various EPCC and plant maintenance projects, both in Malaysia and overseas, which are often subjected to contractual operations that had had little to no effect from the ongoing market movements.

All in all, we maintain positive for oil and gas coming into CY24, on the basis that we are expecting the oil market to stabilize following the gradually diminishing effect of the Red Sea blockades, deescalating of the Russia-Ukraine war and an increase in global demand for crude and petroleum products. We expect the upstream and the midstream to continue to improve, while downstream, barring fuel, would see a slight headwind in the near term. Additionally, we are also expecting clean energy and renewables to make more significance in the market moving forward, following the higher demand for such sustainable and green solution within the sector.

Plantation: For the 4QCY23, planter performance under our coverage was mixed, with 4 companies performing within expectations, 2 exceeding estimates, and 1 falling short. The total decline in earnings was in line with the consolidation of the average CPO price realized, which hovered around RM3,548-3,845/Mt levels. In 4QCY23, the average selling price (ASP) of CPO weakened to RM3,675.30/Mt (-3.2% qoq, -6.4% yoy). Ta Ann was one of the only companies that produced results falling short of our expectations. The variation was mostly caused by a decreased operating profit in the plantation segment due to lower CPO, plywood products, and FFB prices realized by 27%, 8%, and 8%, respectively.

The softening demand for oleochemical, biodiesel and oil & fats products, on the other hand, continues and has a significant negative effect on biodiesel and oleo and fats refineries' operational profit. In fact, some refineries run with negative to thin margins due to competitive competition against Indonesian refineries for biodiesel subsegment. Other than that, even though it appears that the issue of a labor shortage has been mostly handled, broadly our labor shortage still stood at about 40,000. Nonetheless, most big players have seen newly hired workers starting to become competent in harvesting activities (we anticipate harvesters' productivity to normalize in 1Q24), and this has translated to better

OER and FFB yield. We foresee the impacts of insufficient fertilizer application for the past 2 years in a row on FFB production will still be there; it's just that it will be cushioned by improved harvesting activity.

The sector's downside risks are remains (i) continuation of domestic sales obligations (DMO) in Indonesia, (ii) the appreciation of the ringgit (which reduced the price of CPO's competitiveness to compete with other vegetable oils); (iii) high cost of production (RM2,500-2,800Mt; 3QCY23: RM2,800-3,100Mt); and (vi) slower consumption on palm oil products (Oleochemical, biodiesel and oil and fats) owing tight spending in high interest environments. Looking ahead, we maintain NEUTRAL call on the sector with average CPO price of RM3,600/Mt for CY24. Our new top pick is Ta Ann (BUY, TP: RM4.10). Note that Ta Ann is purely an upstream player, and the share price is highly connected with CPO movement c. 0.82 correlation, hence any upward trajectory in CPO prices (due to upcoming EL-Nino in 2Q24) would provide trading opportunity in the stock.

Property: Most of the property companies reported earnings that came in within expectations except for IOI Properties Group and S P Setia. Note that earnings of IOI Properties Group came in below expectations as earnings were mainly dragged by the weaker contributions from China projects as sentiment on China property market was weak. On the other hand, S P Setia earnings came in stronger than expected due to land sales gain. Meanwhile, new property sales of property companies in CY23 were largely within expectation with marginal growth as buying sentiment improved. Looking ahead, property companies have set higher new sales target for CY24 in view of the improving market outlook for property. Notably, Mah Sing set higher new sales target of RM2.5b for CY24 after hitting new sales of RM2.26b in CY23. Similarly, Sunway Berhad set higher new sales target of RM2.6b for CY24 after recording new sales of RM2.44b in CY23. Overall, we maintain our POSITIVE stance on property sector as we see earnings and sales of property companies to continue recover in CY24. Besides, the pause in OPR hike by Bank Negara Malaysia will continue to support recovery of property buying interest.

REITs: All the REITs that under our coverage reported earnings that were within expectations. Notably, retail REIT continues to report earnings recover in CY23 as shopper footfall returned to pre-pandemic level which supported recovery in tenant sales. Consequently, most of the malls recorded encouraging positive rental reversion which drove earnings growth. Meanwhile, industrial REIT namely Axis REIT recorded marginal earnings growth on the back of healthy demand for industrial space. On the other hand, REIT returned to active acquisition strategy post pandemic. Notably, Sunway REIT announced retail asset acquisition in Mont Kiara for RM215m in January 2024. Similarly, KLCCP Stapled Group proposed to acquire remaining 40% equity interest in Suria KLCC for RM1.95b. Likewise, Axis REIT recently announced industrial asset acquisition in Bukit Raja for RM49m. Overall, we think that the active asset acquisition of REIT was driven by the improving outlook for real estate market in Malaysia. In a nutshell, we maintain our POSITIVE stance on REIT.

Technology: We continue to observe earnings improvement on a sequential basis across semiconductor companies under our coverage. The pace of recovery, however, range from +8.1%qoq to +21.4%qoq. Benchmarking against our expectation, half of the companies which include D&O and Globetronics failed to keep pace with our earnings expectation. While D&O recorded commendable topline performance, the group suffered from higher expenses which mainly comprises of higher depreciation and amortisation, electricity, wages and finance cost. This has led us to downgrade the stock to NEUTRAL from BUY previously. Meanwhile, Globetronics underperformance mainly stemmed from weak utilisation rate of below 70% given the poor loading volume from its customer. Moreover, we are of the view that the group is less aggressive to diversify its product and customer portfolio.

On the contrary, Inari and Unisem managed to live up to our expectation. Inari's earnings was mainly supported by healthy demand from its main customer as well as new product offerings, although the latter carries lower profit margin. We also view that Inari's financial performance was comparatively more resilient as compared to its peers given the subdued outlook at this juncture. Meanwhile, Unisem's bottomline was supported by a more favourable product mix which carry better profit margin. We note that there has been a shift in revenue towards automotive, industrial and communications market segments.

On another note, there is no surprises in Myeg and Datasonic 4QCY23 financial performance. Between the two, preference resides with Myeg given their active effort to expand revenue base. The upcoming trade facilitation service using Zetrix would serve as a strong catalyst.

Telecommunications: In 4QCY23, none of the telecommunication companies (telcos) underperform our expectation. The earnings performance of both Telekom Malaysia (TM) and Axiata surpass our expectation while both Celcomdigi and Maxis were in-line with our expectations. For TM, the outperformance was mainly driven by the utilisation of tax credit which significantly boost the profitability. Notwithstanding this, the lower depreciation and amortisation expenses also help to lift the operating profit. Meanwhile, Axiata's various opcos performed relatively better than expected apart from Boost and LinkNet who were loss-making.

On another note, we have observed some synergies stemming from the merger Celcom and Digi. This was primarily in the form of a more favourable cost structure despite marginal increase in service revenue. Last but not least, Maxis continue to show steady earnings improvement on a year-over-year basis in with the growth in service revenue, in particular fiber and postpaid segment.

In terms of capex, generally, the telcos are being thriftier with their capital spending with the exception of Celcomdigi. The increase in Celcomdigi's capex mainly came from network capacity upgrades and IT initiatives in-tandem with the integration effort. On the contrary, the remainder telcos reduced their capex by between -20% to 30%.

Transport & Logistics (Aviation): It was a mixed quarter for the aviation sector, with MAHB (NEUTRAL, TP: RM7.80) meeting expectations but Capital A (NEUTRAL, TP: RM0.74) failing to meet estimates. Capital A's underperformance was mainly attributed to the elevated maintenance and overhaul expenses as it worked on reinstating its grounded fleet. We foresee a turnaround in profitability this year as they aim to completely reintegrate their fleet by year-end. MAHB's results release did not bring any surprises. We expect a boost in earnings this year due to the cessation of rental discounts and waivers. Furthermore, a full recovery in passenger traffic is expected to materialise in 2HCY24.

Transport & Logistics (Logistics): Logistics players experienced a disappointing quarter, as 2 out of the 3 companies under our coverage failed to meet estimates. The underwhelming performance was primarily driven by the return to pre-Covid levels of goods consumption, resulting in decreased shipment volumes. This was further exacerbated by a global trade slowdown due to inflationary pressures. Some logistics firms encountered challenges with reduced margins stemming from inefficiencies in scaling operations. Looking ahead, a gradual recovery in shipment volumes is anticipated.

Transport & Logistics (Port): There were no unexpected developments in Westports' (BUY, TP: RM4.30) earnings report. The company enjoyed a boost from container volumes (due to the repositioning of empty containers), by registering an +8.3% growth in FY23, surpassing the originally guided low single-digit increase. We could be seeing an increasing share of gateway containers, fueled by strong local exports and foreign direct investments (FDIs), which yield higher handling rates. Meanwhile, Suria Capital's (SELL, TP: RM1.60) weaker performance was primarily attributed to declines in both conventional and container volumes, compounded by a shortened amortisation period. However, we foresee a potential upturn in their container business following the recent commencement of production at SK Nexilis and Kibing Group's plants in early-4QFY23.

Utilities: The utilities sector saw mixed performance for 4QCY23. Two stocks under our coverage namely YTL Power and YTL Corporation outperformed, the former, mainly due to stronger than expected margins for Power Seraya (Singapore power operations) while the latter was driven by strong performance of its cement division which benefited from moderating coal prices. However, Singapore spot power prices have eased meaningfully, and we expect the recent results to mark peak earnings for Power Seraya. Meanwhile, Tenaga and Ranhill Utilities underperformed. Despite absence of negative fuel margins, Tenaga's 4QCY23 earnings contracted 20%qoq given higher operating cost and forced outage at Manjung 4. Ranhill Utilities's reported net profit for 4QCY23 was boosted by a one-off NRW matching grant but core bottomline fell marginally into the red given higher operating costs and reversal of deferred tax recognised in the period. Going forward however, Ranhill should benefit from the domestic sector tariff hike implemented since February 2024.

Outperformer versus underperformer

In comparison to preceding quarter, there was an increase in the number of outperformers among the FBM KLCI constituents under our coverage in 4QCY23 from 4 to 7. On the other hand, the number of underperformers declined from 8 to 5.

In 4QCY23, the outperformers among FBM KLCI constituents under our coverage comprised of one Financial Services (HLFG), two Telco & Media (Axiata and Telekom Malaysia), two Utilities (YTL Corp and YTL Power), as well as two Consumer P&S (QL Resources and PPB Group) companies. Meanwhile, the underperformers comprised of two O&G-related companies (Petronas Chemicals and Petronas Gas) as well as IHH, Public Bank, and Tenaga Nasional.

FBM KLCI: Outperformer versus Underperformer

Financial Quarter	No. of Outperformer	No. of Underperformer
4QCY23	7	5
3QCY23	4	8
2QCY23	3	6
1QCY23	1	5
4QCY22	4	9

Source: MIDFR

Earnings revision/ variation

The aggregate FY2024(F) earnings of the FBM KLCI constituents under our coverage was cut by -RM1.3b (-2.0%) to RM65.8b. It is notable that the cut was mainly due to lumpy downward revisions to forward earnings of a few stocks hence not pervasive.

The lower aggregate figure for FY2024(F) was mainly contributed by downward revisions to forward earnings of Petronas Chemicals, Tenaga Nasional and Public Bank but moderated by upward revisions to earnings of CIMB, YTL Corp and YTL Power.

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

SECTOR	Stocks	FY2024 (F)
CONSUMER P&S	Nestle, Petronas Dagangan, PPB, QL Res	25
FINANCIAL SERVICES	Maybank, Public, CIMB, RHB, HLB, HLFG, AMMB	-317
HEALTHCARE	IHH Health	58
INDUSTRIAL P&S	Petronas Chemicals	-1,063
PLANTATION	Sime Darby Plantations, IOI Corp, KLK	38
TELCO & MEDIA	Axiata, Maxis, Digi, Telekom Malaysia	-45
TRANSPORT & LOGISTICS	MISC	-6
UTILITIES	TNB, Petronas Gas, YTL Corp, YTL Power	-33
TOTAL		**-1,344**

Source: MIDFR

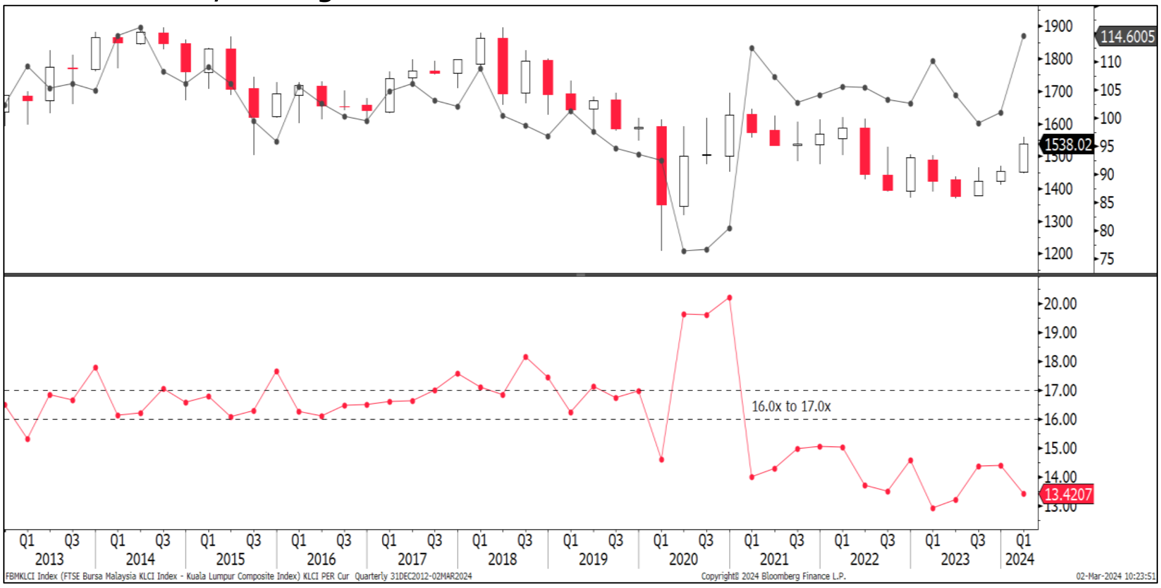
Meanwhile, the aggregate FY2024(F) earnings of the stocks under MIDFR Universe was cut by -RM1.6b (-1.8%) to RM83.5b.

Refer to Appendix for further details.

Outlook

FBM KLCI: Post-4QCY23 earnings season, the consensus EPS24 forecast for FBM KLCI stands at 114.6 points. At 1,538.02 points, the prevailing valuation of FBM KLCI (which represents large-cap stocks) is low at 13.4x vis-à-vis its historical range of 16.0x to 17.0x.

FBM KLCI: Price, Earnings and PER valuation

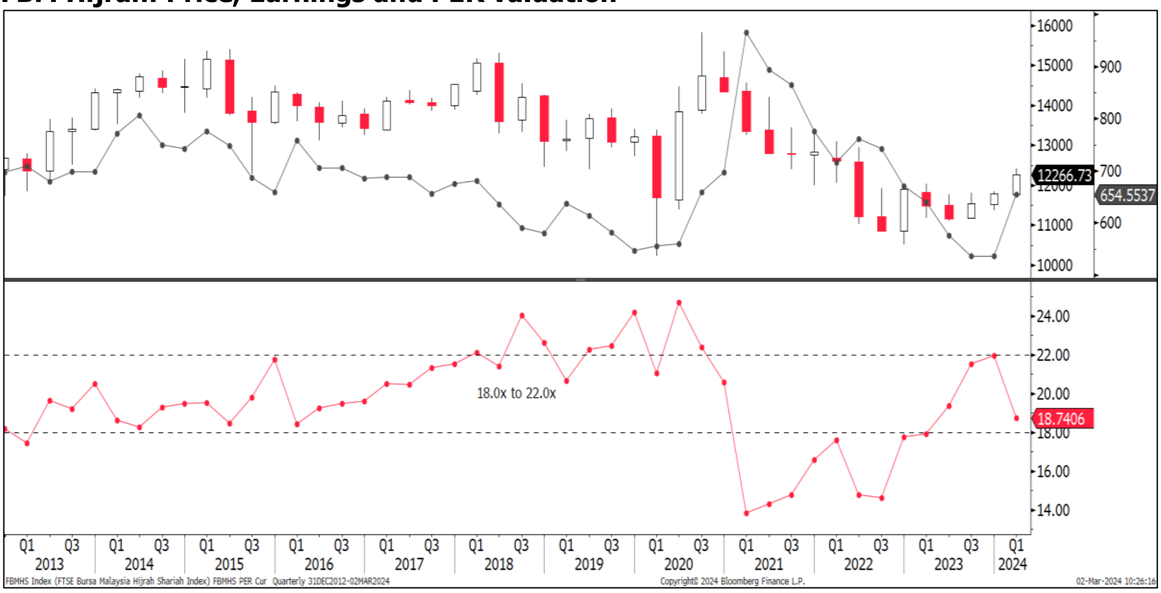


Source: MIDFR, Bloomberg (G658)

Going forward, we expect FBM KLCI to tread higher due to (i) increasingly positive equity market sentiment engendered by the likelihood of US Fed rate cuts in the second half of this year, and supported by (ii) empirically low FBM KLCI valuation. Hence, we maintain our FBM KLCI end-2024 target at 1,665 points or PER24 of 14.5x.

FBM Hijrah: Post-4QCY23 earnings season, the consensus EPS24 forecast for FBM Hijrah stands at 654.6 points. At 12,266.73 points, the prevailing valuation of FBM Hijrah (which represents large-cap shariah stocks) remains attractive at 18.7x vis-à-vis its historical range of 18.0x to 22.0x.

FBM Hijrah: Price, Earnings and PER valuation

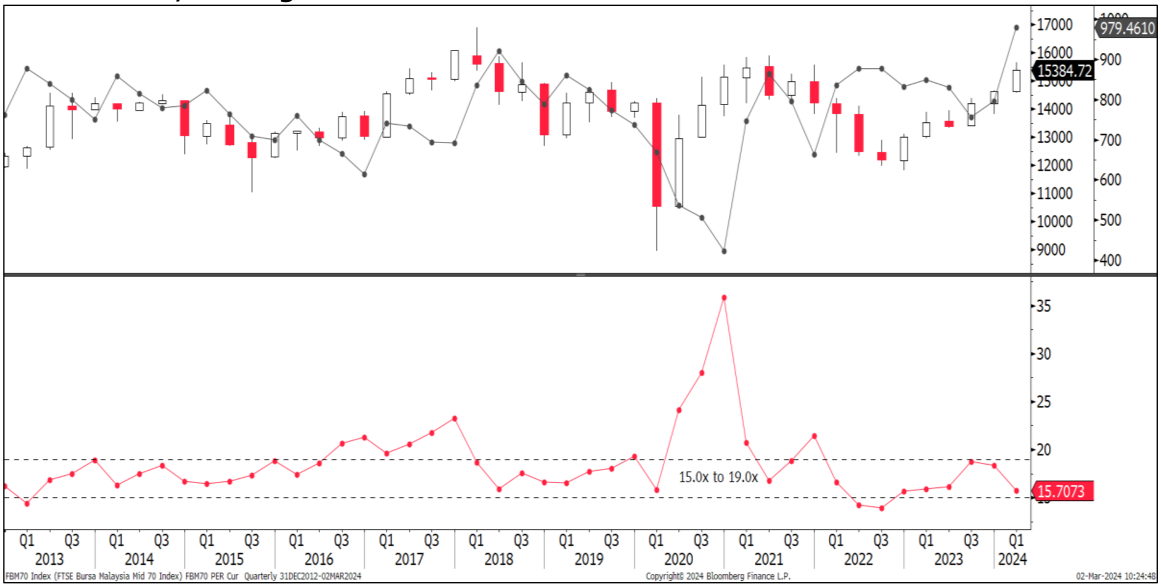


Source: MIDFR, Bloomberg (G725)

Going forward, we expect FBM Hijrah to tread higher due to (i) increasingly positive equity market sentiment engendered by the likelihood of US Fed rate cuts in the second half of this year, and supported by (ii) relatively undemanding FBM Hijrah valuation. Hence, we maintain our FBM Hijrah end-2024 target at 13,450 points or PER24 of 20.5x.

FBM70: Post-4QCY23 earnings season, the consensus EPS24 forecast for FBM70 stands at 979.5 points. At 15,384.72 points, the prevailing valuation of FBM70 (which represents mid-cap stocks) remains attractive at 15.7x vis-à-vis its historical range of 15.0x to 19.0x.

FBM70: Price, Earnings and PER valuation



Source: MIDFR, Bloomberg (G715)

Going forward, we expect FBM70 to tread higher due to (i) increasingly positive equity market sentiment engendered by the likelihood of US Fed rate cuts in the second half of this year, and supported by (ii) relatively undemanding FBM70 valuation. Hence, we maintain our FBM70 end-2024 target at 16,890 points or PER24 of 17.2x.

APPENDIX

MIDFR: Changes in Aggregate Earnings Forecasts

	EARNINGS (RM mn)				EARNINGS *(% Chg)*	
	FY2023		FY2024		FY2023	FY2024
	Old (E)	New (A)	Old (F)	New (F)		
TOTAL (MIDFR Universe)	73,941.6	76,194.8	85,114.9	83,544.7	*3.0*	*(1.8)*
Annual % Change	*(1.3)*	*1.7*	*15.1*	*9.6*		
TOTAL (FBM KLCI)*	60,238.5	61,753.1	67,126.2	65,782.6	*2.5*	*(2.0)*
Annual % Change	*0.4*	*3.0*	*11.4*	*6.5*		

Source: MIDFR; * 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 *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