

3 June 2014

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended March 2014

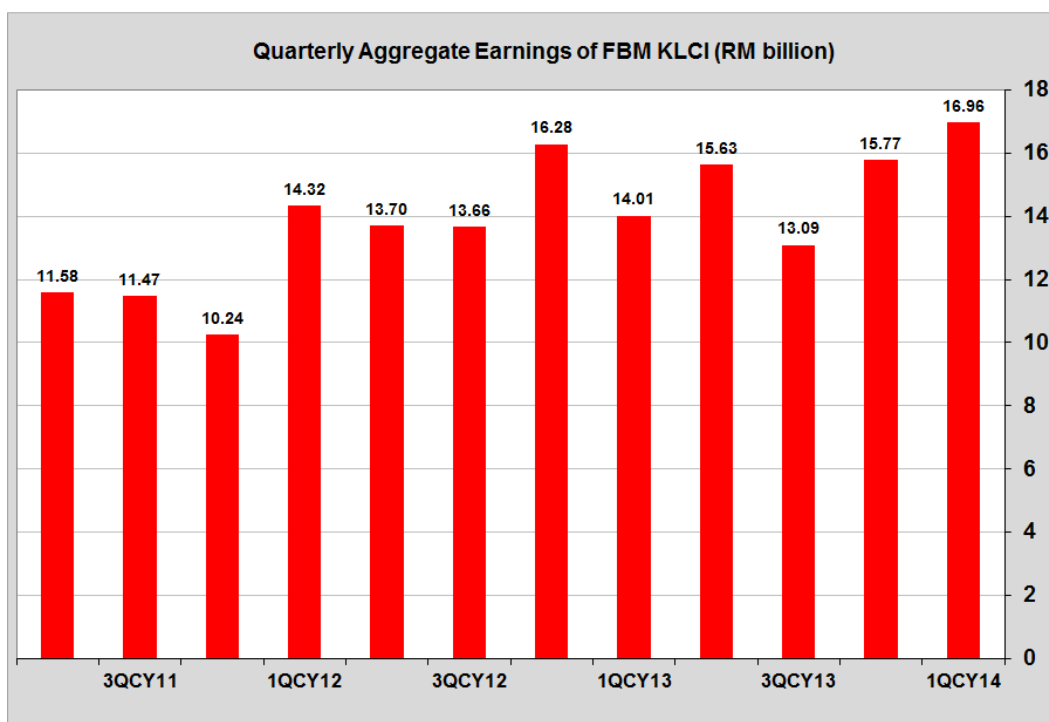
3 June 2014 | Earnings Wrap

FBM KLCI earnings slightly lagged expectation

- The aggregate (as reported) earnings of FBM KLCI constituents totalled RM16.96b in 1QCY14, a respectable on-year rise of 21.1%yoy.
- However, normalized for one-off gains, the aggregate (adjusted) earnings of RM15.13b showed a markedly slower on-year growth of 8.0%yoy.
- The aggregate adjusted FBM KLCI earnings figure came in 5.3% below our estimate of RM15.97b.
- Overall, 17% of stocks under MIDFR Universe coverage reported lower-than-expected earnings. Of the rest, 13% posted earnings that were better than expected versus 70% which came in within expectations.
- We made 15 changes to our stock recommendations with 8 downgrades and 7 upgrades.
- Target price changes involved 15 downward adjustments and 22 upward adjustments.
- We added Protasco to our coverage universe during the review period.

FBM KLCI

The aggregate (as reported) earnings of current 30 FBM KLCI constituents totalled RM16.96b in 1QCY14, an increase of 21.1%yoy and 7.5%qoq. While the headline figures look good, they were before adjusting for (i) RM1.83b one-off gain by IOI Corp on the demerger exercise with IOI Properties in 1QCY14, and (ii) MISC's RM581m non-recurring gain from the realization of finance lease on Gumusut-Kakap FPS in 4QCY13.



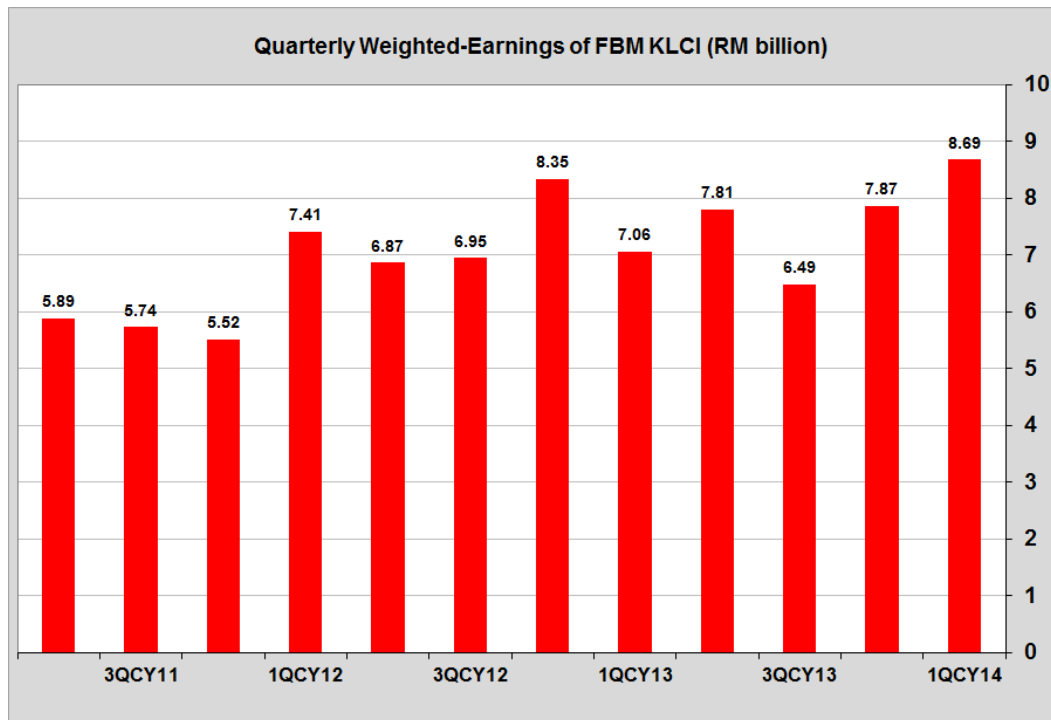
Source: Bloomberg, MIDFR

Post adjustments, the aggregate earnings of current 30 FBM KLCI constituents totalled RM15.13b in 1QCY14, an increase of only 8.0%yoy and a decline of -0.4%qoq. The aggregate adjusted earnings figure came in 5.3% below our 1QCY14 estimate of RM15.97b and therefore lagged our expected on-year quarterly earnings growth of 13.9% (refer to our earnings preview Strategy report dated 12 May 2014).

Among the notable FBM KLCI constituents who failed to meet our earnings expectations were Sime Darby, KL Kepong, FGV and Telekom Malaysia.

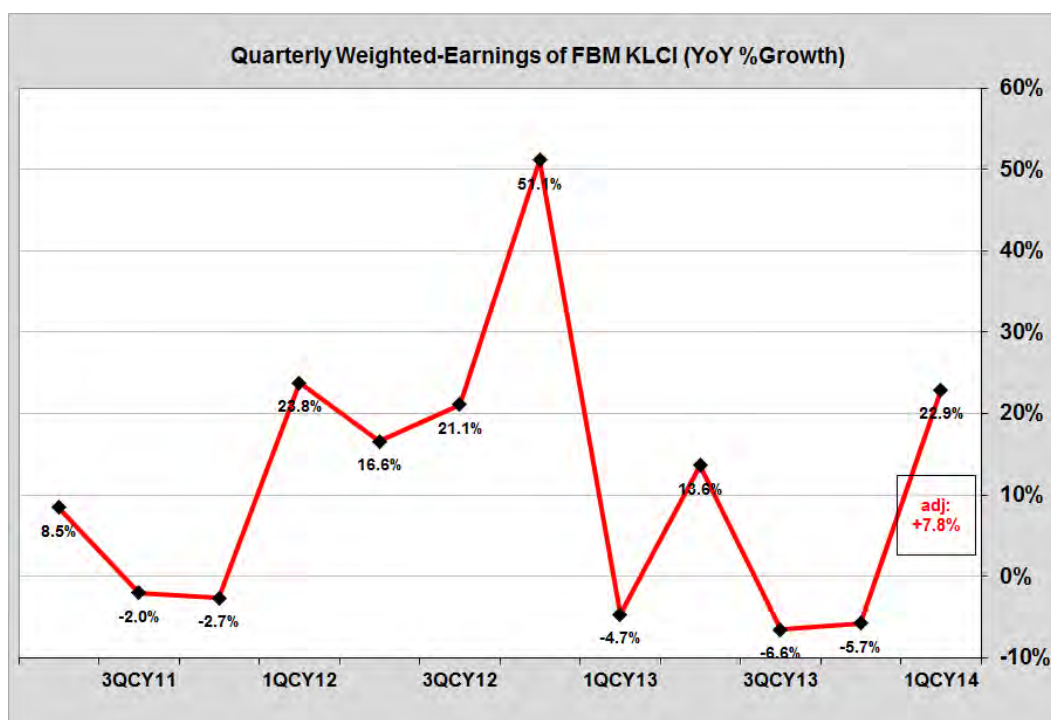
On weighted scale, the reported earnings of current 30 FBM KLCI constituents jumped by 22.9%yoy and risen 10.4%qoq to RM8.69b during the quarter ended March 2014.

After deducting the weighted amount of the exceptional items, the adjusted on-year and sequential growth figures in 1QFY14 were lower at 7.8%yoy and -0.8%qoq respectively.



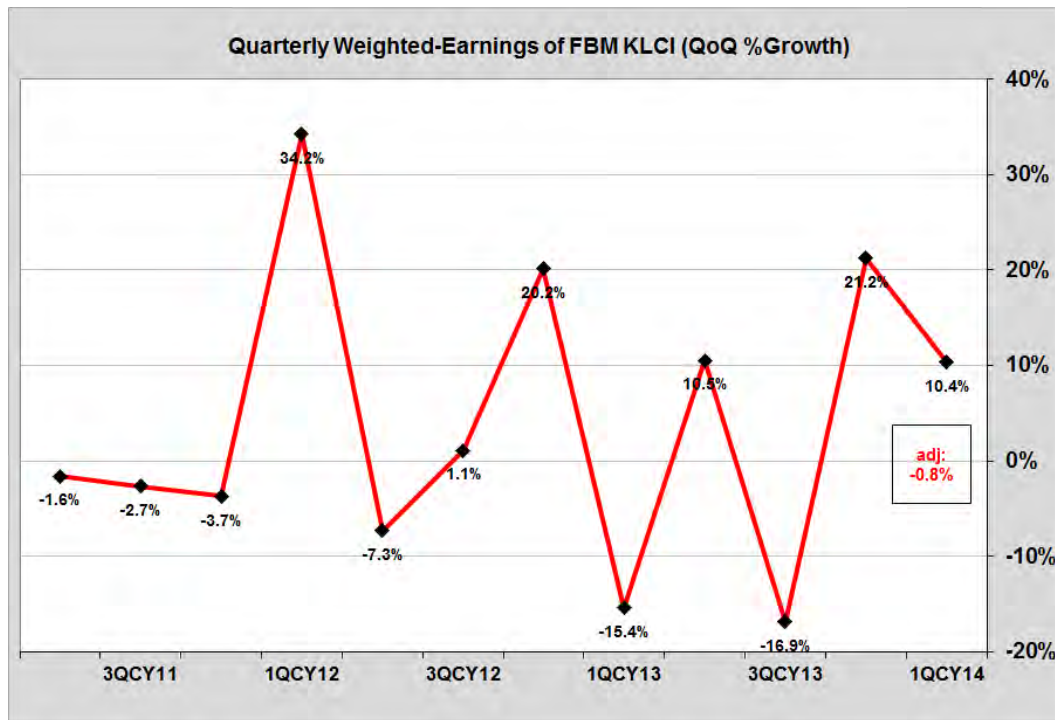
Source: Bloomberg, MIDFR

The on-year weighted-earnings (as reported) of FBM KLCI stocks in 1QCY14 registered a significant rebound of 22.9%yoy as compared to the same period last year. It was a complete turnaround from the reported negative growth figures of -5.7%yoy recorded during the preceding 4QFY13 quarter. On adjusted basis, the on-year growth in 1QCY14 nonetheless dropped markedly to merely 7.8%yoy.



Source: Bloomberg, MIDFR

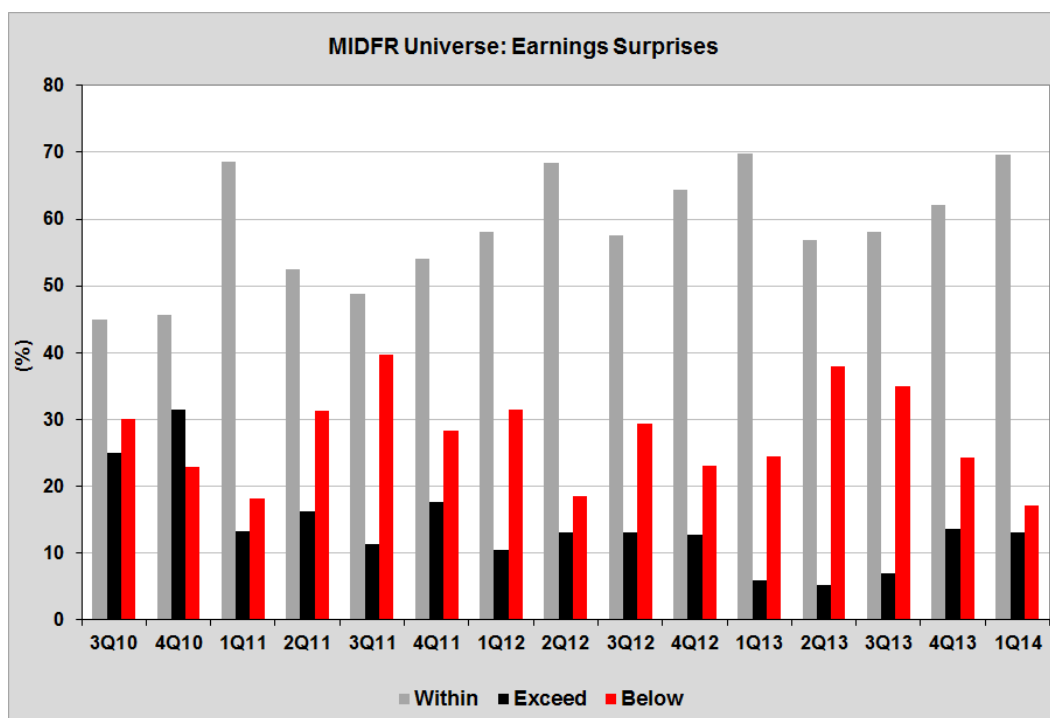
The sequential weighted-earnings (as reported) of FBM KLCI stocks in 1QCY14 increased by 10.4%qoq, but decidedly lower than 21.2%qoq recorded in the preceding quarter. Moreover, adjusted for exceptional items, the weighted earnings actually showed a small sequential contraction of -0.8%qoq in the quarter under review.



Source: Bloomberg, MIDFR

MIDFR Universe

Under the MIDFR Universe, we made 15 changes to our stock recommendations with 7 upgrades and 8 downgrades. In addition, target price changes involved 22 upward adjustments against 15 downward adjustments. We added Protasco to our coverage universe during the review period. Refer to [Appendix 1](#) for company-specific details with regard to changes in stock recommendations and target prices.



Source: MIDFR

The percentage of companies within the MIDFR Universe which reported earnings that were below expectations dropped to 17% in 1QCY14 from 24% in the preceding quarter. Similarly, the proportion of positive surprises declined to 13% during the quarter under review vis-à-vis 14% recorded in 4QCY13.

MIDFR Universe: 1QCY14 Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	33%	22%	44%
TELECOMMUNICATIONS	75%	0%	25%
MEDIA	67%	33%	0%
SEMICONDUCTOR	100%	0%	0%
PLANTATION	20%	50%	30%
TOBACCO	100%	0%	0%
GLOVE	100%	0%	0%
HEALTHCARE	100%	0%	0%
CONSUMER (F&B, Retail)	100%	0%	0%
BANKING	100%	0%	0%
FINANCE	100%	0%	0%
OIL & GAS	80%	0%	20%
PROPERTY	88%	13%	0%
REIT	100%	0%	0%
TRANSPORT	30%	30%	40%
UTILITY	67%	0%	33%
AUTOMOTIVE	100%	0%	0%
BUILDING MATERIAL	25%	25%	50%
TOTAL	70%	13%	17%

Source: MIDFR

The remaining 70% of stocks under our coverage performed within expectations in 1QCY14, an 8%-pts rise as compared to the prior quarter figure. Refer to [Appendix 2](#) for company-specific details with regard to the earnings outperformers and underperformers.

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

	YoY %	QoQ %	1Q14	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11	2Q11
CONSTRUCTION	(0.1)	(61.6)	354	921	268	346	354	587	431	356	346	409	310	363
TELECOM	13.7	5.5	1,855	1,758	1,877	1,767	1,631	1,558	1,769	1,803	1,709	2,437	1,721	1,578
MEDIA	13.4	(33.2)	155	231	206	203	136	288	93	101	53	125	94	100
SEMICONDUCTOR	5,081.4	(130.1)	23	(78)	15	10	0	(8)	23	2	(7)	2	13	20
PLANTATION	84.2	61.2	3,765	2,336	1,259	2,250	2,044	657	2,523	4,060	2,029	2,365	2,240	2,748
TOBACCO	9.2	27.3	266	209	250	242	244	200	217	250	232	199	216	215
GLOVE	(12.5)	(13.1)	128	147	146	137	146	148	151	131	125	106	96	101
HEALTHCARE	19.6	(26.5)	201	274	160	194	168	305	136	461	221	117	8	53
CONSUMER	(3.8)	28.7	450	350	428	411	468	401	398	374	503	430	411	397
BANKING	0.6	(2.7)	5,400	5,547	5,704	5,237	5,368	5,136	5,292	5,062	4,815	4,647	4,606	4,401
FINANCE	18.4	44.5	242	167	179	220	204	219	127	132	120	115	134	114
OIL & GAS	(7.0)	23.0	1,763	1,433	1,720	2,309	1,896	1,719	1,523	1,783	1,828	1,493	1,794	1,498
PROPERTY	2.3	(56.1)	728	1,657	657	662	712	778	520	623	414	639	388	500
REIT	8.3	(49.2)	233	459	237	470	216	781	161	478	151	128	88	246
TRANSPORT	14.4	(61.3)	371	960	274	296	335	1,264	545	1,411	(296)	(2,663)	7	(129)
UTILITY	24.1	(1.6)	1,972	2,005	510	2,076	1,589	1,684	1,339	1,105	3,146	98	(203)	15
AUTOMOTIVE	(10.7)	42.7	300	211	168	355	337	287	367	297	293	108	259	209
BUILD MATERIAL	(99.5)	(99.0)	0	50	(56)	5	96	17	31	(2)	76	23	66	148
TOTAL	14.2	(2.3)	18,208	18,639	14,003	17,221	15,945	15,902	15,640	18,428	15,319	10,780	12,247	12,576

Source: MIDFR

Smaller cap plantation companies in particular recorded good earnings growth performance in 1QCY14 when compared to the corresponding period last year.

- Some of the smaller largely pure plantation companies such as TSH Resources and Genting Plantation fared well from better FFB production growth attributable higher composition of younger trees coupled with better CPO prices. Whereas earnings growth of several bigger plantation conglomerates were dragged by its less favourable tree age profile as well as underperformance of its downstream operations and/or other non-plantation divisions.

Aviation (Transport) and Steel (Building Material) companies were among those that showed less impressive on-year earnings growth in 1QCY14.

- Amid intense competition, passenger yield continued its declining trend but at a stabilizing pace. On sequential basis, AirAsia reported a slight deterioration in RASK of -1.5%qoq mainly due to seasonal factor while AirAsia X recorded improvement of +6.5%qoq driven by higher load factor. Meanwhile, MAS recorded a widening core loss of RM437m against 4Q13's core loss of RM403m, reflecting the negative impacts from the MH370 incident and its unsustainable cost structure.
- Steel companies continue to face daunting challenges of both weak demand and low steel prices. Dumping of cheaper steel products by China mills has caused softening prices of steel products especially steel bars and wire rods. In addition, the global overcapacity situation particularly in China is likely to continue to exert downward pressure on steel product prices as production continues to outpace demand.

Changes to Earnings Estimates


Pursuant to the 1QCY14 results season, aggregate earnings estimates for FY2014 and FY2015 of the 23 FBM KLCI stocks under our coverage were adjusted respectively by +1.9% to RM54.40b and -1.0% to RM58.10b vis-à-vis their earlier estimates. Similarly, the aggregate earnings estimates for FY2014 and FY2015 of stocks under MIDFR Universe were also adjusted respectively by +0.3% to RM70.39b and -1.9% to RM76.73b. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

But it is important to note that the positive adjustments in FY2014 aggregate earnings for both 23 FBM KLCI stocks under our coverage as well as that of under MIDFR Universe were almost singularly due material upward revision in IOI Corp earnings for FY2014 attributable to the RM1.83b extraordinary gain from the demerger exercise.

Without the demerger related revision, the normalized aggregate earnings estimates for FY2014 of the 23 FBM KLCI stocks under our coverage and stocks under MIDFR Universe would have been adjusted respectively by -1.0% to RM52.86b and -1.9% to RM68.85b.

Market Outlook

As stated earlier, the aggregate adjusted earnings of FBM KLCI constituents came in 5.3% below our 1QCY14 estimate. Consequently, the normalized aggregate earnings estimates for both FY2014 and FY2015 were adjusted lower. Hence, the earnings disappointment and coupled with the prevailing above mean market valuation as well as 'expectation' of a hike in the OPR later this year may put a cap to the market near-term upside.

Thus we reaffirm our rather modest FBM KLCI year-end 2014 baseline target of 1,900 points, with the upper and lower bounds at 1,980 points and 1,840 points respectively. 

APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Alliance Financial	Banking	Neutral	Neutral	4.80	4.70
CIMB	Banking	Neutral	Neutral	7.90	7.80
Lafarge	Cement	Neutral	Neutral	9.70	9.82
Eversendai	Construction	Buy	Neutral	1.14	1.14
Gamuda	Construction	Buy	Neutral	5.24	4.88
Hock Seng Lee	Construction	Buy	Neutral	2.01	2.01
IJM Corp	Construction	Buy	Buy	6.35	7.26
KKB Engineering	Construction	Buy	Buy	3.35	2.93
MRCB	Construction	Neutral	Buy	1.45	2.16
Naim	Construction	Buy	Buy	5.02	4.44
WCT	Construction	Buy	Buy	2.88	2.88
Ta Ann Holdings	Industrial/Timber	Neutral	Buy	3.87	4.75
Astro	Media	Neutral	Neutral	2.85	3.25
Star	Media	Neutral	Neutral	2.40	2.50
Dayang Enterprise	Oil and Gas	Buy	Buy	4.06	4.09
Gas Malaysia	Oil and Gas	Neutral	Neutral	3.65	3.84
KNM Group	Oil and Gas	Neutral	Neutral	0.53	0.77
MMHE	Oil and Gas	Sell	Sell	3.02	2.66
Petronas Chemicals	Oil and Gas	Neutral	Neutral	6.37	6.50
Petronas Gas	Oil and Gas	Neutral	Neutral	20.98	21.38
Wah Seong Corp	Oil and Gas	Neutral	Neutral	2.06	2.17
FGV Holdings	Plantation	Buy	Neutral	5.20	4.70
Genting Plant	Plantation	Neutral	Buy	9.50	13.00
IOI Corporation	Plantation	Neutral	Neutral	4.45	4.68
KL Kepong	Plantation	Neutral	Neutral	21.40	26.55
Sime Darby	Plantation	Buy	Neutral	10.26	9.70
TH Plant	Plantation	Buy	Buy	2.10	2.76
TSH Resources	Plantation	Neutral	Neutral	3.06	3.84
E&O	Property	Neutral	Buy	2.67	2.67
Sunway REIT	REIT	Buy	Neutral	1.44	1.44
Lion Industries	Steel	Sell	Neutral	0.43	0.64
Unisem	Technology	Neutral	Buy	1.01	1.60
Axiata	Telecommunication	Neutral	Neutral	6.53	6.79
Maxis	Telecommunication	Neutral	Neutral	7.19	7.51
TM	Telecommunication	Buy	Neutral	6.82	5.95
AirAsia	Transportation	Buy	Buy	3.47	3.14
AirAsia X	Transportation	Buy	Buy	1.18	0.96
MAHB	Transportation	Neutral	Neutral	7.63	8.40
MAS	Transportation	Sell	Sell	0.27	0.18
Maybulk	Transportation	Neutral	Buy	2.30	2.10
NCB	Transportation	Neutral	Neutral	3.70	2.60

Puncak Niaga	Water	Buy	Neutral	4.04	3.41
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Source: MIDFR

APPENDIX 2

MIDFR Universe: 1QCY14 Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below %)		COMMENT
IJM Corp	Construction	Above	19%	Bumped-up by one-off net gains from Kuantan and Kemaman ports, re-measurement gain on India Highways and some impairment losses.
Naim	Construction	Above	7%	Higher construction works recognition, property progress and some cost savings.
Ta Ann Holdings	Ind./Timber	Above	19%	Higher sales volume and better average products selling prices.
Astro	Media	Above	108%	Better than expected topline growth.
Genting Plant	Plantation	Above	3%	Higher FFB production and better palm product prices.
IJM Plantations	Plantation	Above	>100	Higher sales volume combined with unrealized FX gain of RM33.2m.
IOI Corporation	Plantation	Above	>100%	Boosted by one-off gain of RM1.8b from demerger of property business.
TSH Resources	Plantation	Above	4%	Higher FFB production and better CPO price.
IJM Land	Property	Above	30%	Work progress was faster than anticipated.
Ann Joo	Steel	Above	37%	On year on year basis, the improvement was mainly due to higher sales tonnage for its manufacturing division, higher operating efficiency with an improved cost structure and a net gain in FX.
MAHB	Transportation	Above	6%	Strong passenger movement growth and recognition of delayed portion of hike in PSC.
Maybulk	Transportation	Above	5%	Buoyed by POSH associate's 5 vessels of disposal gain.
MISC	Transportation	Above	3%	Breakeven in Petroleum tanker segment as well as stronger performance in LNG tanker and offshore division.
Lafarge	Cement	Below	-7%	Lower sales revenue from aggregate.
Eversendai	Construction	Below	-13%	Lower revenue contribution from the Middle East due to higher complexity and additional costs on new oil & gas development.
Hock Seng Lee	Construction	Below	-8%	Lower construction works recognition following the festive season.
KKB Engineering	Construction	Below	-17%	Lower progress claims from civil construction and steel fabrication divisions within the Engineering segment, and higher operating costs.
Protasco	Construction	Below	-12%	Lower maintenance segment contribution due to additional periodic maintenance works performed in 2013. It was also as a result higher operating cost incurred on international students in education segment.
MMHE	Oil and Gas	Below	-15%	Lag in earnings recognition, i.e. TLP Malikai, and most ongoing projects are tail-end.
Wah Seong Corp	Oil and Gas	Below	-18%	Earnings picking up but still lagging as we're expecting better project executions in the subsequent quarters.
FGV Holdings	Plantation	Below	10%	FHB's lower contribution to Group profit against our expectation of more optimistic earnings accretion post-acquisition of FHB.
KL Kepong	Plantation	Below	-3%	Lower profit from property segment.
Sime Darby	Plantation	Below	-7%	Weaker earnings from all core businesses.

Lion Industries	Steel	Below	>-100%	Cumulative 9MFY14 results were still below expectations despite of an improved net profit of RM8.7m in 3QFY14. This was largely due to the high losses incurred in the 1st two quarters of FY14. We expect its cumulative losses to further narrow with the turnaround in its Steel Division performance and have upgraded the stock to NEUTRAL from SELL.
TM	Telecommunication	Below	17%	Higher effective tax rate due to expiry of HSBB related tax incentives.
AirAsia	Transportation	Below	-6%	Weaker contribution from overseas associates and weakening in yield.
AirAsia X	Transportation	Below	-85%	Continued decline in yield amid the intensified competitions and overcapacity on Australian routes.
MAS	Transportation	Below	-8%	Intensified industry competitions and imbalance of cost-to-revenue structure.
NCB	Transportation	Below	-15%	Profit decline in port operation amid negative growth in container throughput and higher depreciation charges on the completion of CT4.
Puncak Niaga	Water	Below	-17%	Delay in O&G project execution by Petronas and possible cost overruns in construction segment due to non-performing subcontractors.

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2014E		FY2015E		FY2014E	FY2015E
	Old	New	Old	New		
TOTAL (MIDFR Universe)	70,181.6	70,393.0	78,187.0	76,732.1	0.3	(1.9)
<i>Annual % Change</i>	7.8	8.1	11.4	9.0		
TOTAL (FBM KLCI) *	53,399.7	54,398.8	58,659.5	58,097.6	1.9	(1.0)
<i>Annual % Change</i>	6.7	8.7	9.8	6.8		

Source: MIDFR; (E) - estimate; * Aggregate non-weighted earnings of 23 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 >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.