

2 June 2015

**MALAYSIA EQUITY**

# **EARNINGS WRAP**

**Review of corporate earnings**

**Quarter Ended March 2015**

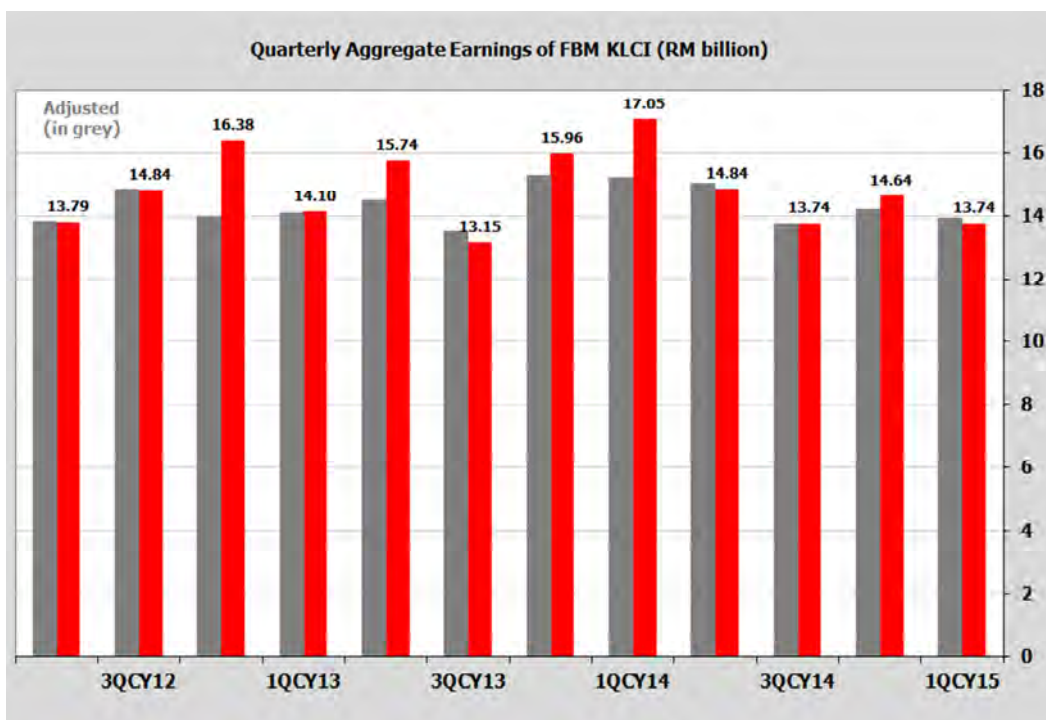
## 2 June 2015 | Earnings Wrap

### Weaker than expected, yet again

- The aggregate reported earnings of current 30 FBM KLCI companies totalled RM13.74b in 1QCY15, lower both sequentially and on-year at -6.2%qoq and -19.4%yoy respectively.
- However, the reported growth figures were depressed by extraordinary items. Stripping off these one-off figures, the sequential and on-year adjusted growth numbers were less glaring at -1.7%qoq and -8.6%yoy respectively.
- The growth figures came in plainly below expectations. Recall our earnings preview report dated 13 May 2015 in which we anticipated higher sequential and on-year adjusted growth figures of +9.6%qoq and +2.0%yoy respectively.
- Overall, 24% of stocks under MIDFR Universe coverage reported lower-than-expected earnings. Of the rest, 5% posted earnings that were better than expected versus 71% which came within expectations.
- Target price changes involved 29 upward adjustments (mainly pursuant to rolling forward of valuation year) and 24 downward adjustments.
- We made 8 changes to our stock recommendations with 6 upgrades and 2 downgrades.
- We added LPI Capital, Berjaya Auto, HLF, Petronas Dagangan, KLCC Stapled, YTL Corp and PBB Group to our coverage universe.

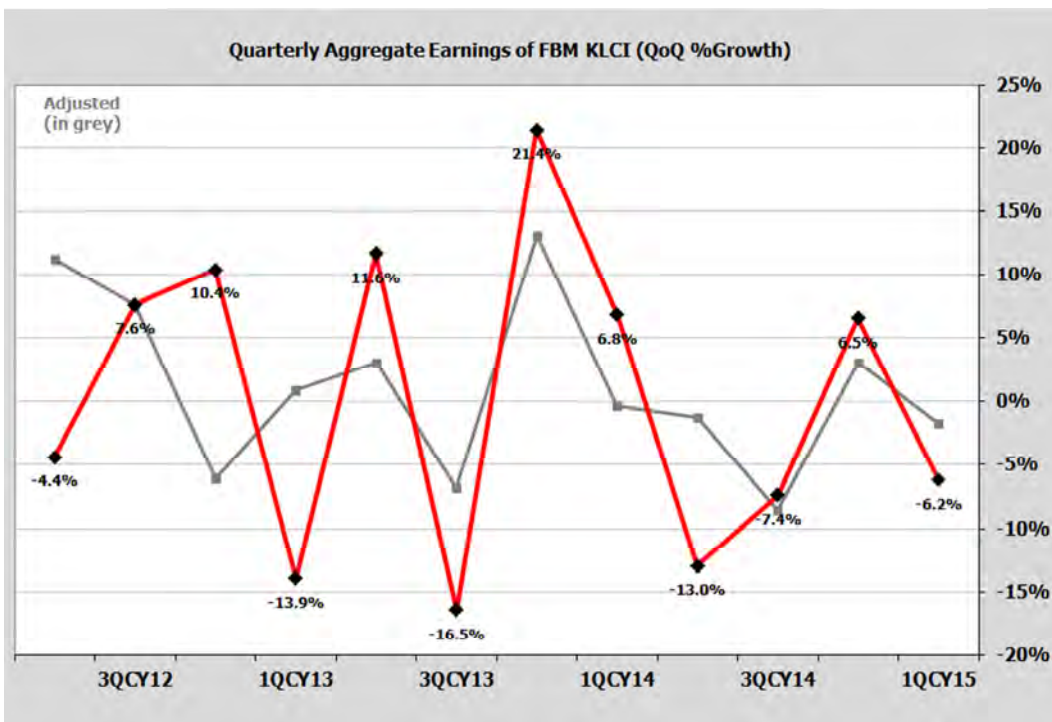
### FBM KLCI

The aggregate reported earnings of current 30 FBM KLCI constituents totalled RM13.74b in 1QCY15. The figure was lower both sequentially and on-year at -6.2%qoq and -19.4%yoy respectively. However, the sequential and on-year reported growth figures require some adjustments as they dampened the fairer earnings picture.



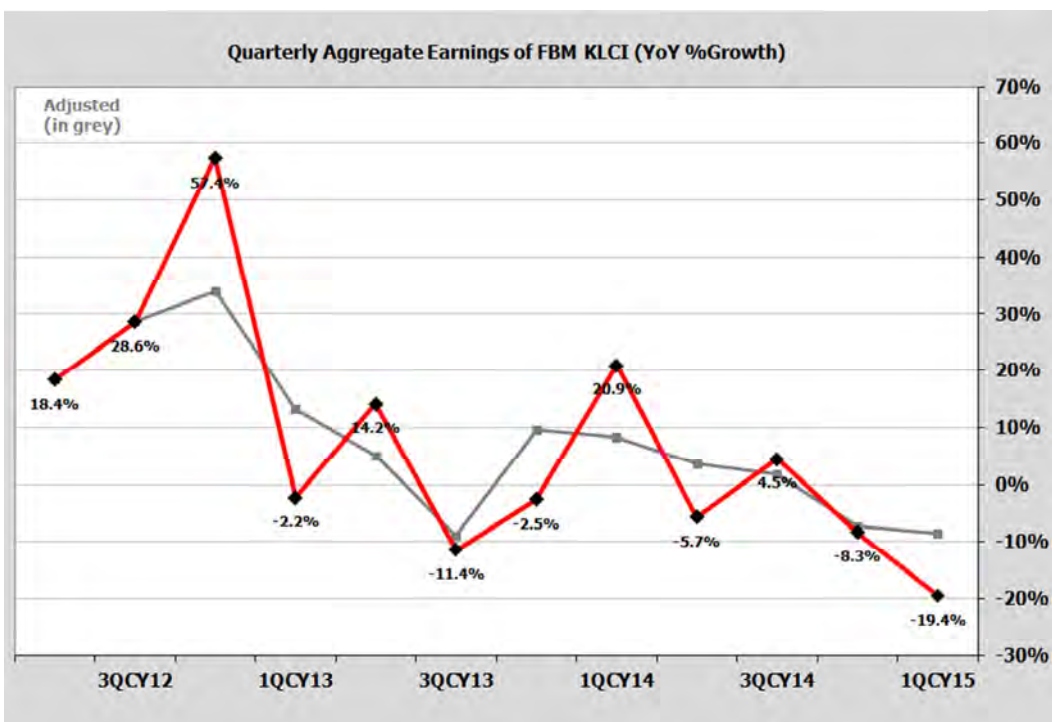
Source: Bloomberg, MIDFR

The reported growth numbers were lowered by, among others, a one-off restructuring expense totalling RM202m recorded by CIMB as well as exceptional items of various companies in 1QCY15. Moreover, the reported sequential growth number was weakened by KLCCP's fair value adjustment of RM180m and MISC's net extraordinary gain (i.e. disposal gains and impairment provisions) of RM296m in 4QCY14. Additionally, the reported on-year growth number was depressed by the effect of IOI Corp's RM1.83b gain on the demerger of its property businesses in 1QCY14.



Source: Bloomberg, MIDFR

After deducting the relevant exceptional items, the adjusted sequential growth figure in 1QCY15 showed a smaller decline of -1.7%qoq and the on-year growth figure was less disappointing at -8.6%yoy.

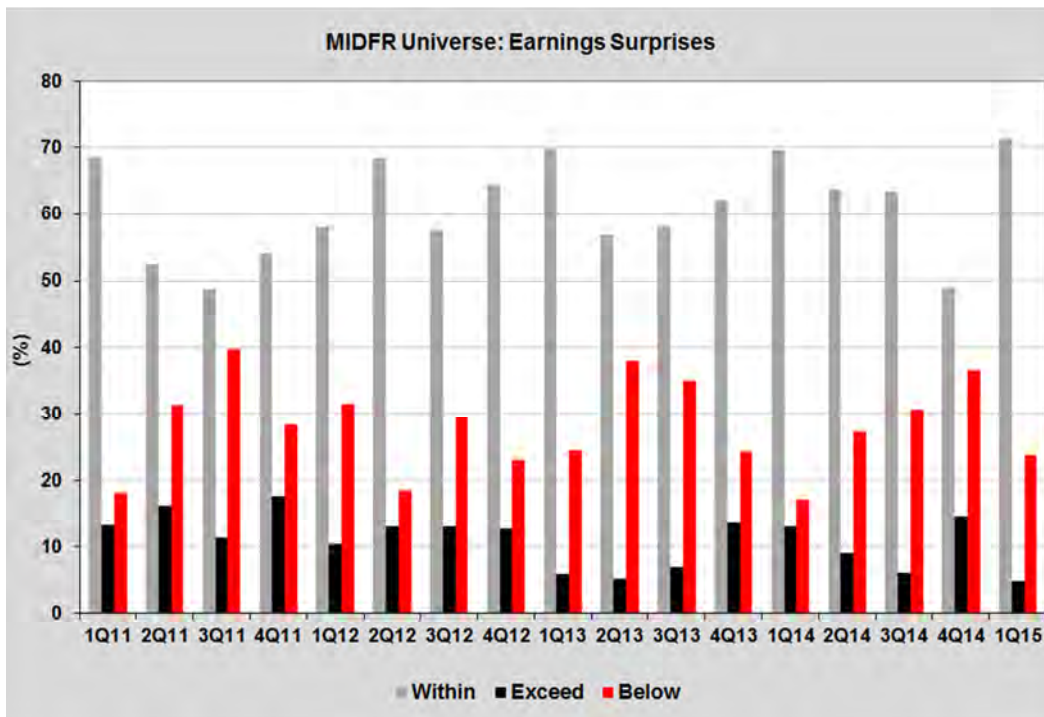


Source: Bloomberg, MIDFR

Nonetheless, the adjusted aggregate earnings and growth figures for 1QCY15 still came in plainly below expectations. Recall our earnings preview Strategy report dated 13 May 2015 which anticipated (i) aggregate earnings of RM15.52b, (ii) sequential adjusted growth figures of +9.6%qoq, and (iii) on-year adjusted growth figures of +2.0%yoy.

## MIDFR Universe

Under the MIDFR Universe, we made 8 changes to our stock recommendations with 6 upgrades and 2 downgrades. In addition, target price changes involved 29 upward adjustments against 24 downward adjustments. We added LPI Capital, Berjaya Auto, HLF, Petronas Dagangan, KLCC Stapled, YTL Corp and PBB Group to our coverage universe. Refer to [Appendix 1](#) for company-specific details with regard to changes in recommendations and target prices.



Source: MIDFR

The percentage of companies within the MIDFR Universe which reported earnings that came below our expectations declined to 24% in 1QCY15 from 36% (highest since second quarter 2013) in the preceding quarter. However, it is noteworthy that the proportion of positive surprises also slumped to only 5% (lowest since second quarter 2013) during the quarter under review vis-à-vis 15% recorded in 4QCY14.

## MIDFR Universe: 1QCY15 Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	71%	14%	14%
TELECOMMUNICATIONS	75%	0%	25%
MEDIA	67%	0%	33%
TECHNOLOGY	100%	0%	0%
PLANTATION	60%	0%	40%
TOBACCO	100%	0%	0%
GLOVE	100%	0%	0%
HEALTHCARE	100%	0%	0%
CONSUMER (F&B, Retail)	89%	11%	0%
BANKING	70%	0%	30%
FINANCE	0%	0%	100%
OIL & GAS	77%	0%	23%
PROPERTY	56%	0%	44%
REIT	100%	0%	0%
TRANSPORT	75%	13%	13%
UTILITY	50%	0%	50%
AUTOMOTIVE	75%	0%	25%
BUILDING MATERIAL	0%	33%	67%
<b>TOTAL</b>	<b>71%</b>	<b>5%</b>	<b>24%</b>

Source: MIDFR

Accordingly, companies with results that were in line with expectations jumped to 71% in 1QCY15 from 49% in the prior quarter. 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 %	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12
CONSTRUCTION	67.7	44.4	645	446	385	556	384	961	301	382	379	441	468	380
TELECOM	(13.6)	(6.4)	1,603	1,712	1,756	1,607	1,855	1,758	1,877	1,767	1,631	1,558	1,769	1,803
MEDIA	19.9	76.1	185	105	214	204	155	231	206	203	136	288	93	101
TECHNOLOGY	74.1	11.5	41	37	45	28	23	-78	15	10	0	-8	23	2
PLANTATION	(49.9)	104.3	1,887	924	1,033	2,245	3,765	2,336	1,259	2,250	2,044	657	2,523	4,060
TOBACCO	8.0	29.8	243	187	241	248	225	189	219	211	204	197	186	221
GLOVE	22.7	14.9	156	136	128	134	128	147	146	137	146	148	151	131
HEALTHCARE	22.8	(32.5)	243	359	185	254	197	292	151	189	164	287	128	458
CONSUMER	11.7	(11.5)	671	759	699	541	601	638	721	596	711	713	654	489
BANKING	(5.9)	(2.8)	5,589	5,753	6,068	6,035	5,938	6,019	6,210	5,696	5,762	5,636	5,700	5,376
FINANCE	(29.2)	(61.6)	171	446	245	280	242	167	179	220	204	219	127	132
OIL & GAS	(11.7)	9.0	1,713	1,572	2,068	2,054	1,940	1,606	1,962	2,519	2,144	1,879	1,781	1,959
PROPERTY	29.8	(34.1)	603	914	549	537	464	1,562	566	580	647	725	475	572
REIT	2.6	(61.2)	312	806	405	539	304	653	301	583	303	881	1,332	570
TRANSPORT	(27.0)	(43.6)	670	1,188	437	656	918	1,425	750	469	609	1,207	504	1,757
UTILITY	24.0	(8.7)	2,445	2,679	1,660	2,219	1,972	2,005	510	2,076	1,589	1,684	1,339	1,105
AUTOMOTIVE	(17.5)	49.4	273	183	280	275	331	211	168	355	337	287	367	297
BUILD MATERIAL	(60.0)	(255.8)	38	-24	36	-334	95	99	56	40	105	109	47	2
TOTAL	(10.6)	(4.4)	17,891	18,707	16,791	18,559	20,018	20,748	16,057	18,765	17,516	17,152	18,137	19,828

Source: MIDFR

Construction, Media, Technology, Tobacco and Glove were the sectors which recorded higher total earnings (as reported) in 1QCY15 when compared to both the preceding quarter and corresponding period last year.

On the other hand, sectors such as Telecommunication, Banking, Finance, Transport and Building Material were those that showed negative sequential as well as on-year earnings (as reported) growth percentage in 1QCY15.

## Results below expectations

As in prior reporting season, the disappointing earnings streak continued yet again into 1QCY15 with the aggregate numbers came in below expectations. This is attested by the apparent negative variance between the overall earnings of FBM KLCI constituents against their earlier estimates prior to the just concluded reporting season.

Furthermore, among the 28 FBM KLCI constituents under our coverage, none (4QCY14: 4 cos.) of the companies reported better than expected earnings. On the contrary, there were ten (4QCY14: 9 cos.) earnings underperformers, namely SapuraKencana, IOI Corp, YTL Corp, KL Kepong, CIMB, Sime Darby, FGV, HLF, TM and UMW Holdings.

## Changes to estimates

Consequently, the aggregate earnings estimate for FY2015 of the 28 FBM KLCI stocks under our coverage was lowered by -1.6% to RM56.72b vis-à-vis their earlier estimates prior to the just concluded reporting season. However, it is interesting to note that the aggregate earnings estimate for FY2015 of all 105 stocks under MIDFR Universe was adjusted higher by +1.4% to RM77.54b. Therefore, we may infer that these contrasting revisions suggest that the lesser capitalized stocks exhibited comparatively better earnings performance in 1QCY15 vis-à-vis the larger companies. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.



## APPENDIX 1

### MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Affin Holdings	Banking	Neutral	Neutral	3.15	2.95
AMMB	Banking	Neutral	Neutral	7.00	7.10
Ann Joo	Building Material	Neutral	Neutral	1.27	1.06
Astro	Media	Neutral	Neutral	3.53	3.60
Axiata	Telecom	Neutral	Neutral	6.15	6.39
BAT	Tobacco	Neutral	Neutral	71.85	72.82
Bumi Armada	Oil & Gas	Neutral	Neutral	1.12	1.20
CIMB	Banking	Neutral	Neutral	6.20	6.10
Daibochi	Consumer	Sell	Neutral	3.71	3.83
Dayang Enterprise	Oil & Gas	Buy	Buy	3.82	3.42
Digi	Telecom	Neutral	Buy	6.50	7.04
E&O	Property	Neutral	Neutral	2.05	2.02
Eversendai	Construction	Neutral	Buy	0.78	1.28
Favelle Favco	General Industry	Buy	Buy	3.28	3.30
Fraser & Neave	Consumer	Neutral	Neutral	16.73	18.98
Gas Malaysia	Oil & Gas	Neutral	Neutral	3.40	2.87
Globetronics	Technology	Neutral	Buy	5.45	7.05
Glomac	Property	Neutral	Neutral	1.17	1.06
HLFG	Banking	Buy	Buy	19.50	19.10
Hong Leong Bank	Banking	Buy	Buy	16.10	15.60
IJM Corp	Construction	Neutral	Neutral	7.35	7.16
IOI Corp	Plantation	Neutral	Neutral	4.38	3.53
KKB Engineering	General Industry	Buy	Buy	1.80	1.96
Kossan	Gloves	Neutral	Neutral	6.02	6.77
Lafarge Malaysia	Building Material	Neutral	Neutral	9.82	9.15
Lion Industries	Building Material	Neutral	Neutral	0.46	0.36
MAHB	Transport	Neutral	Neutral	7.58	7.26
Maxis	Telecom	Neutral	Neutral	6.41	7.12
Maybank	Banking	Buy	Buy	10.80	10.30
Media Prima	Media	Neutral	Neutral	1.69	1.84
MISC	Transport	Neutral	Neutral	6.80	8.75
MMHE	Oil & Gas	Sell	Neutral	1.19	1.27
MRCB	Property	Buy	Buy	2.24	2.12
Naim Holdings	Property	Buy	Neutral	4.42	2.58
NCB Holdings	Transport	Neutral	Neutral	2.60	2.70
Nestle	Consumer	Neutral	Neutral	70.55	73.04
Panasonic	Consumer	Buy	Buy	26.58	27.88
Perdana Petroleum	Oil & Gas	Neutral	Neutral	1.26	1.55
Petronas Chemicals	Oil & Gas	Neutral	Neutral	5.01	5.04
RHB Cap	Banking	Buy	Buy	9.50	8.90
SapuraKencana	Oil & Gas	Buy	Buy	3.70	3.39

Sime Darby	Plantation	Neutral	Trading Buy	10.24	10.15
SP Setia	Property	Neutral	Neutral	3.11	3.33
Star	Media	Neutral	Neutral	2.61	2.46
Telekom Malaysia	Telecom	Neutral	Neutral	7.43	7.80
Top Glove	Gloves	Buy	Buy	5.41	5.95
TSH Resources	Plantation	Neutral	Neutral	2.16	2.30
UEM Sunrise	Property	Neutral	Neutral	1.35	1.20
UMW Holdings	Auto	Neutral	Neutral	12.00	9.73
Unisem	Technology	Buy	Buy	2.37	2.74
Wah Seong Corp	Oil & Gas	Neutral	Neutral	1.88	1.91
WCT Holdings	Construction	Buy	Neutral	1.84	1.84
Westports	Transport	Neutral	Neutral	3.11	4.40
YTL Power	Utility	Neutral	Neutral	1.83	1.66

Source: MIDFR

## APPENDIX 2

### MIDFR Universe: 1QCY15 Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below %)		COMMENT
Ann Joo	Building Mat.	Above		Due to higher margins with the drop in raw material prices and productivity improvement.
Eversendai	Construction	Above		The increase was largely attributable to higher progress billings from on-going construction of: (i) steel fabrication and erection projects in the Middle East region, (ii) Tanjung Bin 4 coal-fired power plant contract and PKT Logistics Warehouse projects in Malaysia and (iii) higher contract value in India.
Panasonic	Consumer	Above		Its 3QFY15 earnings increased mainly due to improved margins from both segments. The home appliances segment's PBT margin expanded by +3.2ppts to 15.9%, meanwhile the fan products and others segment expanded by +1.3ppts to 11.7%.
KKB Eng.	General Ind.	Above		Inspired by its revenue attributable to substantial on-going supply of polyurethane lined mild steel pipes to CMS Infra Trading and other short notice pipe supplies.
NCB Holdings	Transport	Above		Higher throughput, lower operating expenses and lower losses from logistics unit.
UMW Holdings	Auto		Below	Underperformed on lower contributions from Auto, O&G and M&E divisions.
Affin	Banking		Below	Due to one off large impairment for loan losses.
Alliance Fin.	Banking		Below	Mainly due to lower non interest income.
CIMB	Banking		Below	Due to higher impairment for loan losses and lower non interest income.
Lafarge	Building Mat.		Below	Lower-than-expected cement sales.
Lion Industries	Building Mat.		Below	Due to higher losses of its Steel Division as well as losses

				of its petroleum, lubricants, automotive products and transportation business.
IJM Corp	Construction		Below	Lower-than-expected earnings contribution from the construction, property and plantation segments.
YTL Corp	Diversified		Below	Lower units of electricity sold coupled with lower price from its retail contract.
Bursa Malaysia	Financials		Below	Flattish securities trading revenue.
HLFG	Financials		Below	Due to lower earnings from insurance business.
Media Prima	Media		Below	Weaker revenue due to continuous market uncertainties and consumers adopting a more cautious approach prior to the implementation of GST in April 2015.
Gas Malaysia	Oil & Gas		Below	Earnings were hampered by higher LNG costs.
Perdana Petro.	Oil & Gas		Below	Lower vessel utilisation rates.
SapuraKencana	Oil & Gas		Below	Offshore construction and subsea service under pressure due to decline in activities level.
FGV	Plantation		Below	Production affected by flood situation in some plantation areas.
IOI Corp	Plantation		Below	Higher FX loss as well as lower FFB production and average CPO price realised.
KL Kepong	Plantation		Below	Increase in CPO production cost but lower FFB output and average CPO price realised.
Sime Darby	Plantation		Below	Lower FFB production and average CPO price realised.
E&O	Property		Below	Lower than expected margin of its property division.
MRCB	Property		Below	Lower earnings were well reflected to its lower revenue recognition and construction profit margin.
Naim Holdings	Property		Below	The drop was due to lower revenue recognised from slower progress of construction works for on-going construction projects and existing housing as compared to 1QFY14. Adding to this, the Group's profit margin contracted due to the variation orders/provisional items and competitive pricing for high-rise residential development.
UEM Sunrise	Property		Below	Believed due to higher than expected cost for Aurora Melbourne Central project.
Telekom Malaysia	Telecom		Below	Higher operating cost, forex losses and consolidation of P1.
MAHB	Transport		Below	Operating expenses surged (relative to revenue) attributable to KLIA2.
YTL Power	Utility		Below	Lower units of electricity sold coupled with lower price from retail contract. This was due the stiff competition in Singapore's merchant market.

Source: MIDFR



## APPENDIX 3

### MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)		EARNINGS (% Chg)
	FY2015 (E)		FY2015
	Old	New	
<b>TOTAL (MIDFR Universe)</b>	76,498.1	77,540.8	1.4
<i>Annual % Change</i>	2.6	4.1	
<b>TOTAL (FBM KLCI) *</b>	57,662.4	56,724.2	(1.6)
<i>Annual % Change</i>	0.8	(0.8)	

Source: MIDFR; (E) – estimate; \* Aggregate non-weighted earnings of 28 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.