

2 June 2016

**MALAYSIA EQUITY**

# **EARNINGS WRAP**

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**Review of corporate earnings**

**Quarter Ended March 2016**

**KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT  
DISCLOSURES**

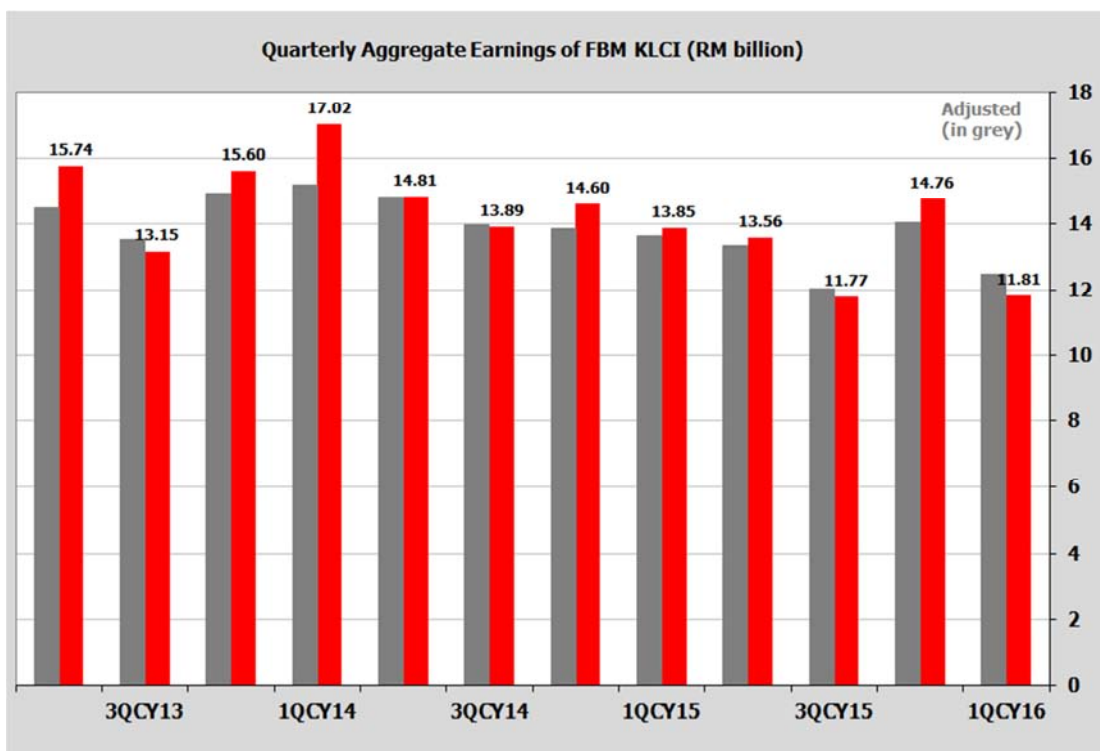
## 2 June 2016 | Earnings Wrap

### Slow start to the year

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM11.81b in 1QCY16, lower both sequentially and on-year at -20.0%qoq and -14.8%yoy respectively.
- However, the aggregate normalized growth figures were slightly better at -11.2%qoq and -8.4%yoy.
- The 1QCY16 aggregate adjusted earnings of RM12.46b came below expectation at 93% of our estimate.
- Within MIDFR Universe, only 10% of stocks under coverage reported higher than expected earnings. Of the rest, 26% posted earnings that were lower than expected versus 64% which came within expectations.
- Target price changes involved 23 upward adjustments and 27 downward adjustments.
- We made 13 changes to our stock recommendations with 6 upgrades and 7 downgrades.
- We added Vivocom International Holdings Berhad to our universe in April 2016 and ceased coverage of Puncak Niaga Holdings Berhad.
- Adjust year-end 2016 FBM KLCI target to 1,750 points (from 1,800 points).

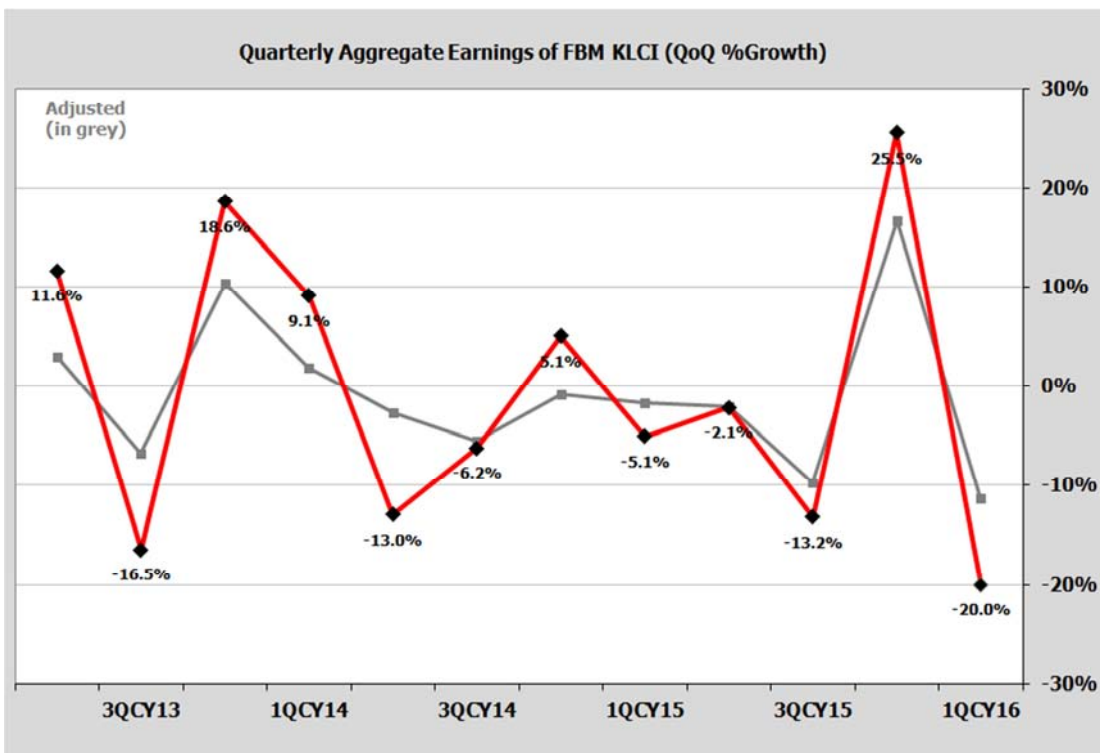
### FBM KLCI

The aggregate reported earnings of FBM KLCI 30 constituents totalled RM11.81b in 1QCY16. The figure was lower both sequentially and on-year at -20.0%qoq and -14.8%yoy respectively. However, the aggregate reported earnings figure requires some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance.



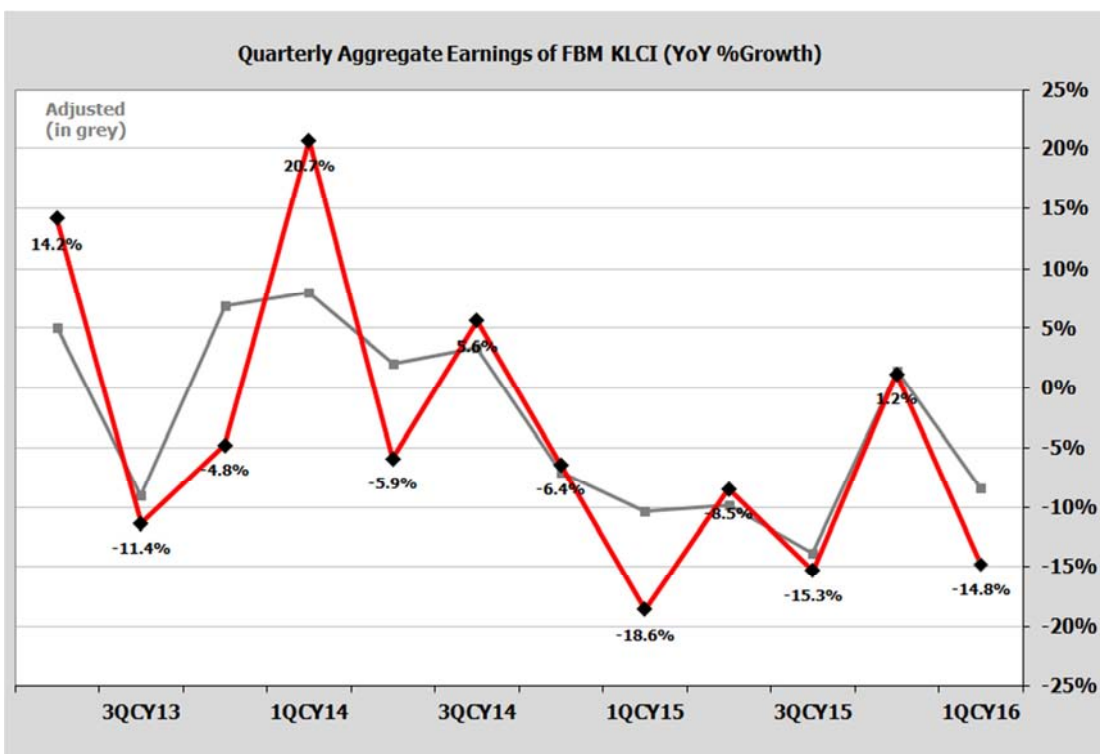
Source: Bloomberg, MIDFR

The aggregate adjusted 1QCY16 earnings of FBM KLCI 30 constituents was slightly better at RM12.46b. Some of the major non-ordinary items reported during the review quarter include (i) RM858m net provision for impairment for plant, property & equipment and oil & gas properties by SapuraKencana, and (ii) RM73m net impairment provisions by MISC.



Source: Bloomberg, MIDFR

After normalizing the impact of non-ordinary items (1QCY16: +RM656m, 4QCY15: -RM722m, 1QCY15: -RM242m), the adjusted sequential growth in 1QCY16 is less negative at -11.2%qoq. Likewise, the adjusted on-year growth number also improved to -8.4%yoy, but nonetheless it is still inferior to the +1.2%yoy adjusted growth performance of the preceding 4QCY15 quarter.

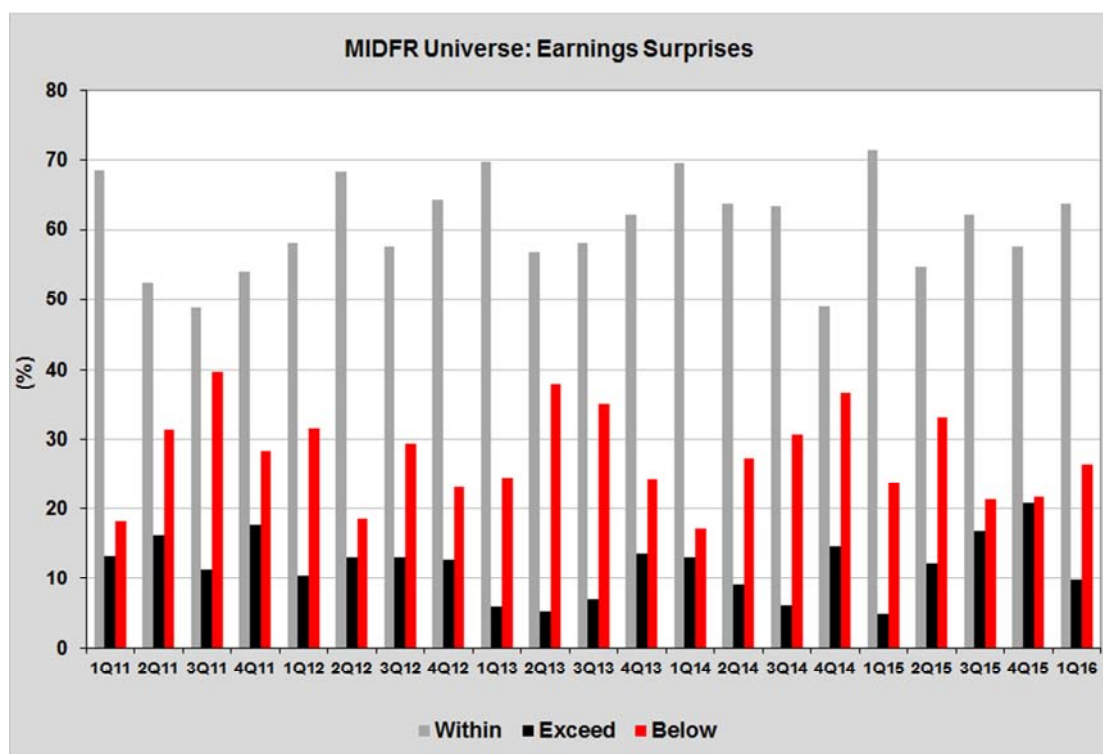


Source: Bloomberg, MIDFR

It is notable that prior to the 1QCY16 earnings reporting season, the adjusted aggregate earnings of FBM KLCI constituents was estimated to come in at RM13.41b. However, basing on the actual results, the adjusted aggregate figure of RM12.46b accounted for only 93% of our estimate.

## MIDFR Universe

Under the MIDFR Universe, we made 13 changes to our stock recommendations with 6 upgrades and 7 downgrades. Moreover, target price changes involved 23 upward against 27 downward adjustments. Also, we added Vivocom International Holdings Berhad to our universe in April 2016 and ceased coverage of Puncak Niaga Holdings Berhad. 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 registered earnings that came below our expectations recorded an increase to 26% in 1QCY16 from 22% in the prior quarter. Moreover, it is noteworthy that the proportion of positive surprises slumped to merely 10% during the quarter under review vis-à-vis 21% recorded in 4QCY15.

## MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	75%	0%	25%
BANKING	100%	0%	0%
BUILDING MATERIAL	33%	33%	33%
CONSTRUCTION	14%	43%	43%
CONSUMER	38%	38%	25%
FINANCE	50%	0%	50%
GLOVE	75%	0%	25%
HEALTHCARE	67%	0%	33%
INSURANCE	100%	0%	0%
MEDIA	67%	0%	33%
OIL & GAS	62%	0%	38%
PLANTATION	33%	0%	67%
PROPERTY	78%	0%	22%
REIT	100%	0%	0%
TECHNOLOGY	50%	0%	50%
TELECOMMUNICATIONS	75%	0%	25%
TOBACCO	0%	0%	100%
TRANSPORT	63%	38%	0%
UTILITY	100%	0%	0%
<b>TOTAL</b>	<b>64%</b>	<b>10%</b>	<b>26%</b>

Source: MIDFR

Accordingly, companies with results that were in line with expectations climbed to 64% in 1QCY16 from 58% 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 %	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13
<b>AUTOMOTIVE</b>	(85.8)	(117.6)	39	-220	104	167	273	183	280	275	331	211	168	355
<b>BANKING</b>	(1.7)	(1.7)	5,496	5,589	5,728	5,738	5,589	5,753	6,068	6,035	5,938	6,019	6,210	5,696
<b>BUILD MATERIAL</b>	(334.0)	(540.0)	-89	20	-28	-60	38	-24	36	-334	95	99	56	40
<b>CONSTRUCTION</b>	(26.8)	(48.8)	296	577	478	620	404	379	316	402	266	801	403	351
<b>CONSUMER</b>	3.0	12.0	452	403	472	268	438	478	374	375	457	357	435	417
<b>FINANCE</b>	(50.5)	143.6	85	35	115	135	171	446	245	280	242	167	179	220
<b>GLOVE</b>	30.8	(19.6)	237	295	257	207	181	156	156	161	154	172	182	172
<b>HEALTHCARE</b>	19.6	(37.7)	290	466	227	323	243	359	185	254	197	292	151	189
<b>INSURANCE</b>	12.3	(16.9)	135	162	123	141	120	170	114	108	105	115	109	97
<b>MEDIA</b>	27.6	26.4	237	187	205	245	185	105	214	204	155	231	206	203
<b>OIL &amp; GAS</b>	(45.7)	(24.9)	943	1,254	1,812	1,790	1,735	1,598	2,092	2,081	1,952	1,630	1,984	2,530
<b>PLANTATION</b>	144.1	(20.4)	1,839	2,312	108	1,727	753	1,172	1,328	2,293	3,866	2,576	1,513	2,356
<b>PROPERTY</b>	(46.7)	(35.6)	450	699	746	833	843	910	578	658	477	1,564	454	593
<b>REIT</b>	6.8	(50.3)	333	671	301	668	312	806	405	539	304	653	301	583
<b>TECHNOLOGY</b>	(5.7)	(49.2)	38	76	61	49	41	37	45	28	23	-78	15	10
<b>TELECOM</b>	0.3	6.5	1,608	1,510	1,875	1,728	1,603	1,712	1,756	1,607	1,855	1,758	1,877	1,767
<b>TOBACCO</b>	(27.9)	(9.8)	175	195	257	215	243	187	241	248	225	189	219	211
<b>TRANSPORT</b>	149.8	209.8	1,884	608	18	2,301	754	1,378	544	819	936	1,463	857	519
<b>UTILITY</b>	(33.9)	(31.3)	1,727	2,514	1,210	1,278	2,612	2,919	1,816	2,498	2,315	2,365	882	2,345
<b>TOTAL</b>	(2.0)	(6.8)	16,174	17,352	14,068	18,375	16,507	18,721	16,794	18,529	19,864	20,587	16,096	18,685

Source: MIDFR

Consumer, Media, Telecommunication and Transportation were the sectors which recorded higher total earnings (as reported) in 1QCY16 when compared to both the preceding quarter and corresponding period last year.

On the other hand, sectors such as Auto, Banking, Building Material, Construction, Oil & Gas, Property, Technology, Tobacco and Utility were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 1QCY16.

## Overall results lagged expectation

The adjusted aggregate 1QCY16 earnings of FBM KLCI constituents was estimated to come in at RM13.41b prior to the just concluded earnings reporting season. Hence, basing on the actual results, we thereby conclude that the 1QCY16 earnings of FBM KLCI constituents came below ( $\pm 5$ ppts) our expectation as the adjusted aggregate figure of RM12.46b accounted for only 93% of our estimate.

## FBM KLCI: Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
1QCY16	0	8
4QCY15	7	7
3QCY15	5	8
2QCY15	4	9
1QCY15	0	10

Source: MIDFR


It is also notable that the ratio of outperformer against underperformer among the FBM KLCI constituents worsened to 0:8 in 1QCY16. The underperformers were Axiata, BAT, Hong Leong Financial, Petronas Chemicals, SapuraKencana, Sime Darby, UMW Holdings and YTL Corp.

Recall that in 4QCY15 there were 7 outperformers against 7 underperformers. Earlier on, the ratio stood at 5:8 in 3QCY15, 4:9 in 2QCY15 and 0:10 at its recent nadir in 1QCY15 period.

## **Changes to estimates**

The aggregate FY2016 earnings of the FBM KLCI constituents under our coverage was adjusted lower by -2.7% to RM55.18b vis-à-vis our earlier estimate pursuant to the prior reporting season. Likewise, the aggregate FY2016 earnings of the stocks under MIDFR coverage universe was also trimmed by -2.4% to RM71.74b vis-à-vis our earlier estimate pursuant to the prior reporting season. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

## **Adjust FBM KLCI year-end target to 1,750 points**

Similarly, we adjust our year-end 2016 FBM KLCI target lower by -2.7% to 1,750 points (from 1,800 points) hence maintaining our year-end target PER16 multiple at ~16.5x which equates to +0.75SD of its long-term (2006 to present) mean. 

## APPENDIX 1

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

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
UMW Hldgs	Auto	Neutral	Neutral	6.00	5.60
Airasia	Aviation	Neutral	Buy	2.19	2.56
AirAsiaX	Aviation	Buy	Neutral	0.29	0.40
Affin Holdings	Banking	Neutral	Neutral	2.20	2.30
AFG	Banking	Neutral	Neutral	3.85	4.00
AMMB	Banking	Neutral	Buy	4.80	5.10
HLeong Bank	Banking	Neutral	Neutral	12.95	14.10
Maybank	Banking	Buy	Neutral	9.80	8.70
Public Bank	Banking	Neutral	Neutral	19.30	20.40
RHB Cap	Banking	Neutral	Neutral	5.85	6.30
Lafarge	Building Material	Sell	Sell	9.15	7.75
MRCB	Construction	Buy	Buy	2.21	2.08
Sunway Cons	Construction	Buy	Buy	1.32	1.74
WCT	Construction	Buy	Buy	1.90	1.79
F&N	Consumer	Neutral	Buy	2.85	2.85
MSM	Consumer	Buy	Neutral	5.36	5.20
Nestle	Consumer	Neutral	Neutral	73.04	82.82
Padini	Consumer	Neutral	Buy	2.19	2.75
HLFG	Finance	Buy	Buy	16.10	17.20
Hartalega	Glove	Neutral	Neutral	5.58	4.56
KPJ	Healthcare	Neutral	Neutral	4.34	4.39
Astro	Media	Buy	Buy	3.67	3.78
Media Prima	Media	Buy	Buy	1.75	1.69
Star	Media	Neutral	Sell	2.43	1.69
Bumi Armada	Oil & Gas	Trading Sell	Neutral	0.81	0.71
Dayang Ent	Oil & Gas	Neutral	Neutral	1.34	0.95
Gas Malaysia	Oil & Gas	Buy	Buy	2.87	2.92
KNM Group	Oil & Gas	Buy	Buy	0.62	0.59
MMHE	Oil & Gas	Neutral	Sell	1.01	0.81
Petronas Chem	Oil & Gas	Neutral	Neutral	6.86	6.46
Petronas Dagang	Oil & Gas	Neutral	Neutral	22.04	23.57
Petronas Gas	Oil & Gas	Neutral	Neutral	19.27	19.63
Wah Seong	Oil & Gas	Neutral	Neutral	0.80	0.68

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Genting Plant	Plantation	Neutral	Neutral	10.66	9.85
IJM Plant	Plantation	Neutral	Neutral	3.57	3.13
Sime Darby	Plantation	Neutral	Neutral	8.05	7.85
Ta Ann	Plantation	BUY	Neutral	6.80	4.20
TSH Res	Plantation	Neutral	Neutral	2.28	2.10
Tenaga	Power	Neutral	Neutral	15.60	16.80
Mah Sing	Property	Neutral	Neutral	1.43	1.57
UEM Sunrise	Property	Neutral	Neutral	1.11	1.05
UOA Dev	Property	Neutral	Neutral	2.02	2.09
MISC	Shipping	Buy	Buy	10.27	9.53
Ann Joo	Steel	Sell	Sell	0.60	0.85
Globetronics	Technology	Buy	Neutral	6.74	4.07
Axiata	Telecom	Neutral	Neutral	6.26	5.13
Digi	Telecom	Neutral	Neutral	5.34	5.02
Maxis	Telecom	Neutral	Neutral	6.57	6.55
TM	Telecom	Buy	Buy	8.14	8.18
BAT	Tobacco	Neutral	Neutral	60.75	55.12
Litrak	Toll	Neutral	Neutral	5.11	5.56

Source: MIDFR

## APPENDIX 2

### MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Airasia	Aviation	Above	Better than expected yields (RASK) and contribution from associate Thai AirAsia
AirAsiaX	Aviation	Above	Yield (RASK) growth was above our expectations
Gamuda	Construction	Above	Higher PATAMI from improved profit margin
IJM Corp	Construction	Above	Higher PATAMI from higher revenue recognition
Sunway Cons	Construction	Above	Strong contribution from pre cast segments and higher orderbook
F&N	Consumer	Above	Achieved higher revenue from the sell-in of core products attributable to the Chinese New Year festive season. Margins also expanded due to the higher revenue, lower cost of sales and lower effective tax rate
Nestle	Consumer	Above	Achieved higher revenue attributable to the effective marketing and promotional activities. Margins expanded as well due to the lower operating expenses and lower effective tax rate



STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Padini	Consumer	Above	Achieved higher revenue during the quarter attributable to the strong sales growth from existing stores and new stores opened
Ann Joo	Steel	Above	Due to recovery steel prices from temporary shortage in steel which resulted in the reversal of inventory written down earlier to the tune of RM18.5m
Litrak	Toll	Above	Better than expected contributions from LDP following its 45-48% scheduled rate hike effective 1/1/16 per its concession agreement
UMW Hldgs	Auto	Below	The cut in earnings was done following the recent cut in our TIV forecast
Lafarge	Building Material	Below	Weak numbers due to oversupply of OPC and disruption in pre-mix sales channel through precast materials substitute
HSL	Construction	Below	Transient earnings blips from lower billings
Muhibbah	Construction	Below	Dragged by Favelle Favco's weak results
WCT	Construction	Below	Lower results due to billings gap between projects
Aeon	Consumer	Below	Lower revenue due to weak consumer sentiments and lower earnings due to declining margins (PBT and PAT margins fell by -2.2ppts and -1.8ppts respectively)
Parkson	Consumer	Below	Lower revenue contribution from the Malaysia, Vietnam and Myanmar retail markets. Reported loss during the quarter due to its Vietnam and Myanmar retail segment as well as its property segment
HLFG	Finance	Below	Lower earnings from commercial banking and insurance division
Hartalega	Glove	Below	Lower ASP arising from competitive sales pricing and the increase in raw material prices especially in the nitrile segment
UEM Edgenta	Healthcare	Below	East Malaysia operations becoming an associate from subsidiary and absence of subcontracting contribution from the associate
Star	Media	Below	Lower contribution from the 'print and digital' segment
Bumi Armada	Oil & Gas	Below	Tail end billings from conversion activities coupled with weak OSV utilisation rates
Dayang Ent	Oil & Gas	Below	Losses from Perdana Petroleum and low vessel utilisation rates coupled with seasonally weaker 1Q
KNM Group	Oil & Gas	Below	Tail-end recognition of revenue & earnings as the bulk of RAPID works were secured in 4Q15 and 1Q16
Petronas Chem	Oil & Gas	Below	Increase in product volume sold unable to offset lower average prices from lower crude oil prices
Wah Seong	Oil & Gas	Below	Poor activity levels from O&G pipe coating segment due to deferment of contracts
FGV	Plantation	Below	Weaker than expected Fresh Fruit Bunch (FFB) volume produced at 781,000 MT (-16%yoy) leading to Loss Before Tax of RM101m in the plantation division
Genting Plant	Plantation	Below	Negative deviation in earnings is mainly attributed to the sharper-than-expected fall in FFB production
IJM Plant	Plantation	Below	Earnings below expectation due to lower than expected FFB production in 4QFY16 as a result of El-Nino induced drought

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Sime Darby	Plantation	Below	The impact of El Nino has been greater than expected on plantation division causing the division's EBIT to decline 30%yoy to RM553m in 9MFY16
Ta Ann	Plantation	Below	Earnings below expectations due to weaker-than-expected earnings from timber division following decline in sales volume and selling prices
TSH Res	Plantation	Below	The impact of El Nino on the FFB production has been worse than expected
E&O	Property	Below	Lower-than-expected progress billing of projects and higher than expected expenses
UEM Sunrise	Property	Below	Project billings are lower due to slower than expected work progress for Arcoris and Aurora Melbourne Central. PBT margin has also been affected as interest cost increased by 68%yoy to RM21.3m due to higher debts
Globetronics	Technology	Below	Lower volume loading especially form the sensor division
Axiata	Telecom	Below	Lower contribution form Celcom, XL Axiata and Robi
BAT	Tobacco	Below	Revenue was dragged due to the lower domestic and contract manufacturing volume. The decline in volumes are attributable to the lagging demand for legal cigarettes attributable to the unprecedented price hike in November 2015

Source: MIDFR

## APPENDIX 3

### MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)		EARNINGS (% Chg)
	FY2016E		
	Previous	Revised	
<b>TOTAL (MIDFR Univ.)</b>	73,482.3	71,742.8	<i>(2.4)</i>
<b>Annual % Change</b>	<i>8.4</i>	<i>5.8</i>	
<b>TOTAL (FBM KLCI) *</b>	56,687.8	55,178.9	<i>(2.7)</i>
<b>Annual % Change</b>	<i>3.5</i>	<i>0.7</i>	

Source: MIDFR; \* Aggregate 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.