

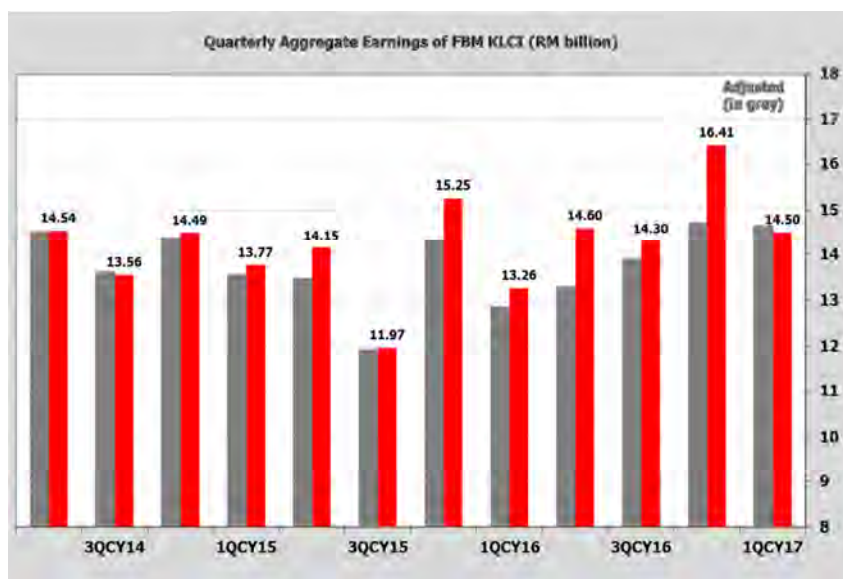
1QCY17: Earnings Preview

Expect further on-year earnings recovery

KLCI: 1,758.67 points

2017 Year-end Target: 1,830 points

FBM KLCI reported earnings may drop -11.6%qoq but increase +9.4%yoy. For the quarter ended March 2017, the aggregate reported earnings of FBM KLCI current constituents is estimated at RM14.50b. Against the combined RM16.41b earnings reported in preceding quarter, it is expected to record a negative sequential growth of -11.6%qoq in 1QCY17. On the other hand, the on-year reported growth figure is estimated to increase by +9.4%yoy.



1QCY17 aggregate adjusted earnings is estimated at RM14.65b

Source: Bloomberg, MIDFR

FBM KLCI adjusted earnings may decline by merely -0.4%qoq and surge +13.9%yoy. Nevertheless, adjusted for extraordinary and non-recurring items, the on-quarter growth may be lower by barely -0.4%qoq in 1QCY17. Moreover, the adjusted on-year growth number may surge +13.9%yoy, substantially higher compared to the +2.6%yoy adjusted growth performance recorded in the prior 4QCY16 quarter.


FBM KLCI: Quarterly adjusted earnings (RM million) and growth estimates

Sector (#)	1QCY17*	4QCY16	QoQ	1QCY16	YoY
Banking (7)	5,691.10	6,256.79	-9.0%	5,095.80	11.7%
Utility (2)	1,778.00	1,936.88	-8.2%	1,566.73	13.5%
Telecommunication (4)	1,485.40	1,267.10	17.2%	1,531.20	-3.0%
Plantation (4)	1,505.00	1,522.19	-1.1%	1,497.59	0.5%
Oil & Gas (3)	1,498.30	1,709.03	-12.3%	1,259.10	19.0%
Gaming (2)	957.75	932.26	2.7%	341.10	180.8%
Transportation (2)	666.89	501.17	33.1%	781.89	-14.7%
Healthcare (1)	294.00	-31.55	-1031.7%	235.10	25.1%
Construction (1)	180.50	138.33	30.5%	36.16	399.1%
Tobacco (1)	120.40	170.58	-29.4%	175.52	-31.4%
REIT (1)	180.90	13.62	1228.4%	68.16	165.4%
Media (1)	166.00	162.48	2.2%	203.80	-18.5%
Diversified (1)	130.00	131.79	-1.4%	72.24	79.9%
Overall	14,654.24	14,710.67	-0.4%	12,864.39	13.9%

Source: Bloomberg, MIDFR; E* - estimate, (#) – No. of constituent

Positive on-year growth performance for Banking, Utility, Plantation and Oil & Gas. Among the FBM KLCI's high-weighted sectors, i.e. Banking, Utility, Telecommunication, Oil & Gas and Plantation, we are anticipating positive on-year adjusted earnings growth performance for Banking, Utility, Plantation and Oil & Gas. On the other hand, the aggregate adjusted earnings of Telecommunication constituents are expected to report a decline in their on-year growth.

- **Banking.** The major contributor for the higher year-on-year earnings for banks in 1QCY17 will be from: (1) lower provisions given that major impairments on loans, especially from oil and gas sector, were done in CY16. There is also a possibility of better recoveries and write backs on performing rescheduled and restructured loans. And, (2) robust loans growth which would drive net interest income growth. We continue to like CIMB (BUY, TP: RM6.40) and Maybank (BUY, TP:9.80) as we expect both these banks to continue its earnings recovery coupled with solid asset growth. Moreover, we are also favourable on their regional exposures. While our BUY call for Affin (TP: RM3.30) is premised on its turnaround program showing results. Our other BUY calls are Public Bank (BUY, TP: RM23.30) and Hong Leong Bank (BUY, TP: RM15.50) due to good asset quality and sustained profitability.
- **Utility.** Tenaga's quarterly earnings were higher year-on-year being driven by a 1% demand growth and a marginal increase in average rates achieved of 39.4sen/kWh. Nevertheless, its earnings were lower quarter-on-quarter, despite only a slight decline in revenue. This is due to higher coal cost, in line with the rise in market price of thermal coal in the period. As imbalance cost pass-through (ICPT) adjustments are only done on a 6 months basis, there is delayed compensation for the increase in fuel cost in the period, hence the impact on margins. There were also provisions for receivables amounting to a total RM470m taken in both the 1QCY17 and 4QCY16 but this was normalized in our quarterly sectoral earnings estimates.
- **Telecommunication.** The expected on-year decline in telecommunication earnings may be attributable to the expected reduction in Axiata Group's bottomline. We view that the group's profit margin will remain under pressure as depreciation and amortization and net finance costs are expected to continue to escalate. In addition, the group also suffers from lower contribution from its joint venture and associate companies.
- **Plantation.** We reiterate our NEUTRAL view on the sector with 2017 average CPO price of RM2725 per MT unchanged. The best earnings quarter in the recent years has been registered in 4QCY2016. In the quarter of 1QCY17, planters' earnings is expected to be lower on-quarter as the 7% rise in CPO price is not enough to offset the 15% decline in production. Our Top Pick for the sector is KLK (BUY with TP of RM29.25) as KLK's 1QCY17 result should fare better against other planters as it has locked in forward sales when the CPO price is high. KLK's earnings are also resilient and matched consensus expectation most of the time.
- **Oil & Gas.** We are expecting the three oil and gas constituent stocks to register a year-on-year growth in 1QCY17. We are expecting Petronas Dagangan's volume sold to increase, in line with festivities such as Chinese New Year and Thaipusam. In addition, we are also expecting low base effect from 1QFY16 due to shutdowns for Petronas Chemicals. Planned shutdowns in FY17 expected to take place in 2QFY17 onwards. As for Petronas Gas, tolling volume and utilisation is expected to increase in tandem with industrial activities in Malaysia.

Reiterate FBM KLCI year-end 2017 target at 1,830 points. We restate our assertion that empirical observations between earnings and price are conclusive with regard to the nature of their secular direct relationship. This is despite the ever present 'noises' from short-term price volatility which is influenced by market sentiment and other situational issues. Basing on the expectation of further earnings recovery this year, we reiterate our 2017 FBM KLCI target at 1,830 points. The baseline target equates to PER17 of 17.1x. 

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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.