

2 June 2017

MALAYSIA EQUITY

EARNINGS WRAP

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Review of corporate earnings

Quarter Ended March 2017

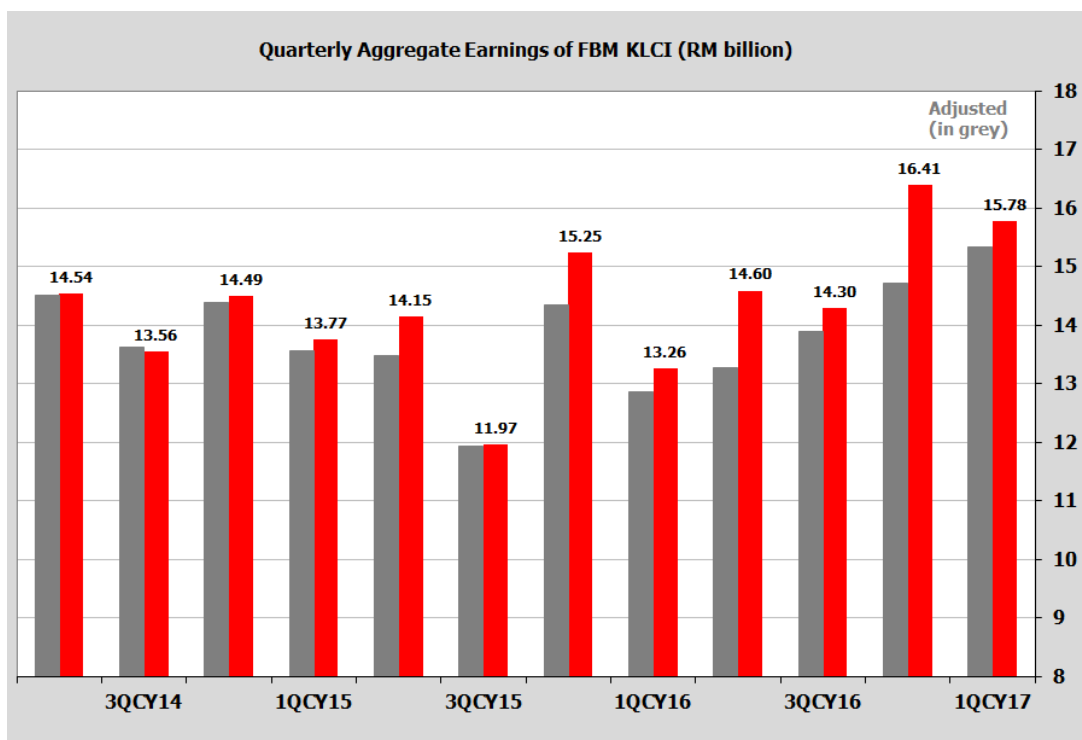
2 June 2017 | Earnings Wrap

Upper end of expectation

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM15.78b in 1QCY17, lower sequentially at -3.81%qoq but higher on-year at 19.0%yoy.
- The aggregate normalized growth figures were higher both sequentially and on-year at 4.3%qoq and 19.2%yoy respectively.
- At 104.7% of estimate, the 1QCY17 aggregate normalized earnings were at the upper end of our expectation.
- Within MIDFR Universe, 11% of stocks under coverage reported higher than expected earnings. Of the rest, 21% posted earnings that were lower than expected versus 68% which came within expectations.
- Target price changes involved 46 upward adjustments and 12 downward adjustments.
- We made 17 changes to our stock recommendations with 7 upgrades and 10 downgrades.
- We recently added QL Resources, AmanahRaya REIT and Tasco into our stock universe.
- We reiterate our year-end 2017 FBM KLCI target at 1,830 points.

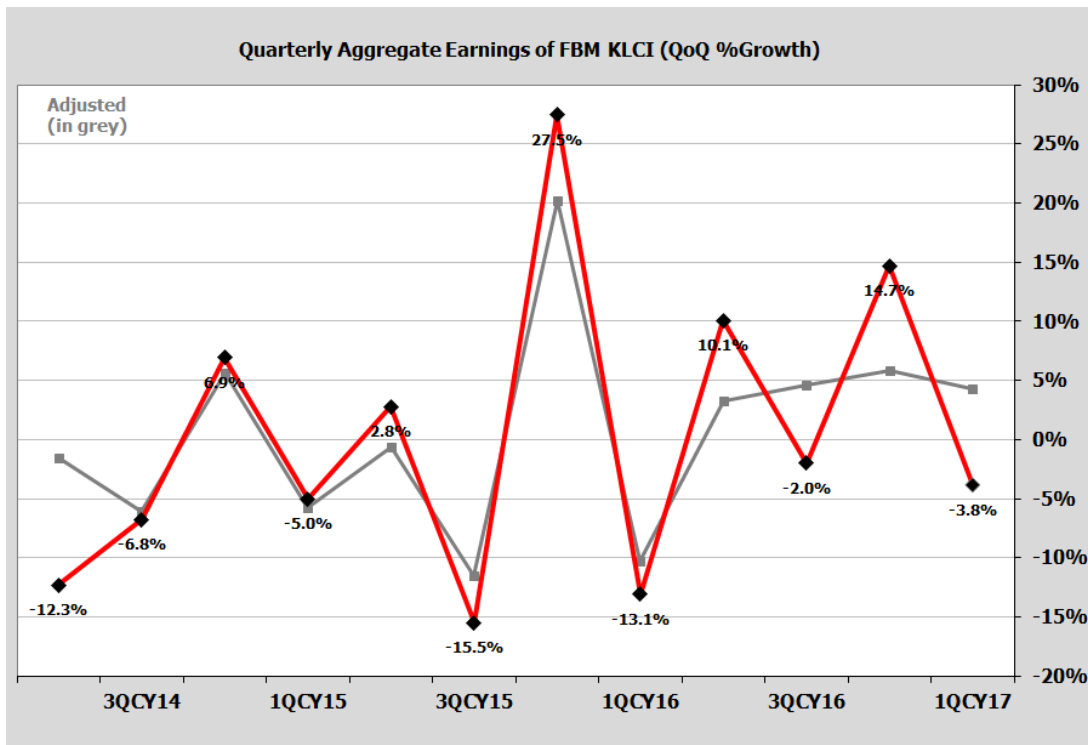
FBM KLCI

The aggregate reported earnings of FBM KLCI 30 constituents totalled RM15.78b in 1QCY17, lower sequentially at -3.81%qoq but higher on-year at 19.0%yoy. 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.



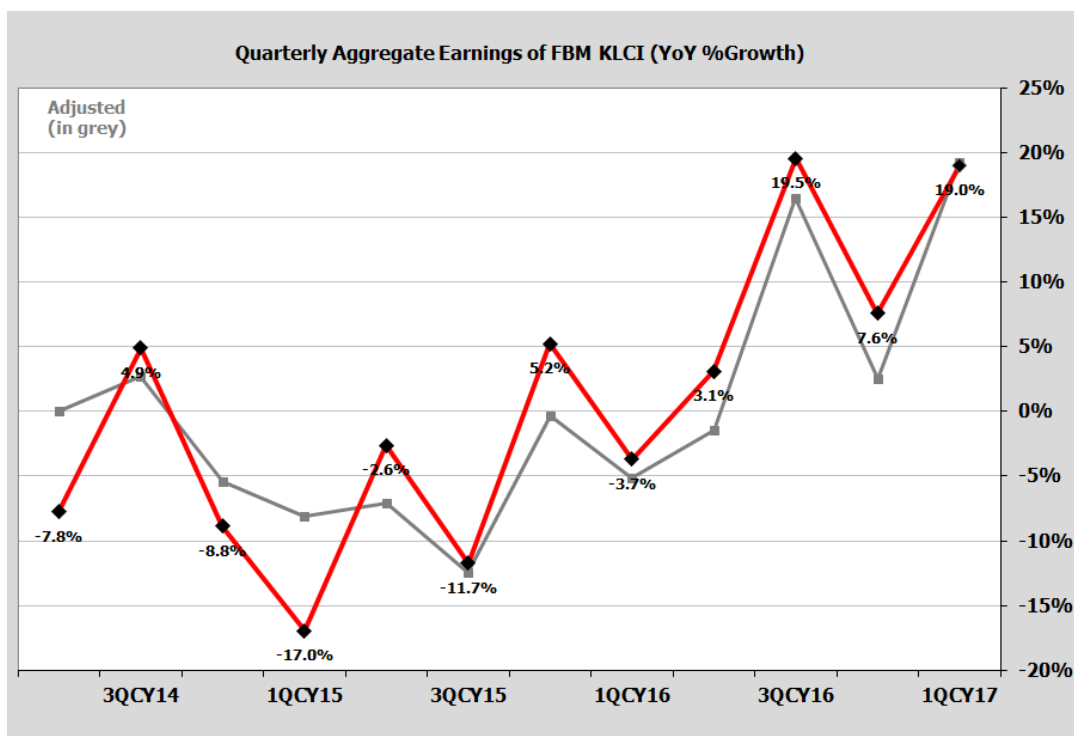
Source: Bloomberg, MIDFR

The aggregate normalized 1QCY17 earnings of FBM KLCI 30 constituents were lower at RM15.34b. Some of the major non-operational items reported during the review quarter were mainly attributable to: (i) gain of RM313.4m from the disposal of 6.07% stake in Apollo Hospitals in India by IHH Healthcare, and (ii) RM21m gain on the disposal of oleochemical assets and business in Dusseldorf by Sime Darby.



Source: Bloomberg, MIDFR

After neutralizing the impact of non-operational items (1QCY17: +RM443m, 4QCY16: +RM1.69b, 1QCY16: +RM396m), the aggregate normalized growth figures were higher both sequentially and on-year at 4.3%qoq and 19.2%yoy respectively. It is noteworthy that the normalized on-year performance in 1QCY17 was substantially higher than the 2.6%yoy adjusted growth of the preceding 4QCY16 quarter.

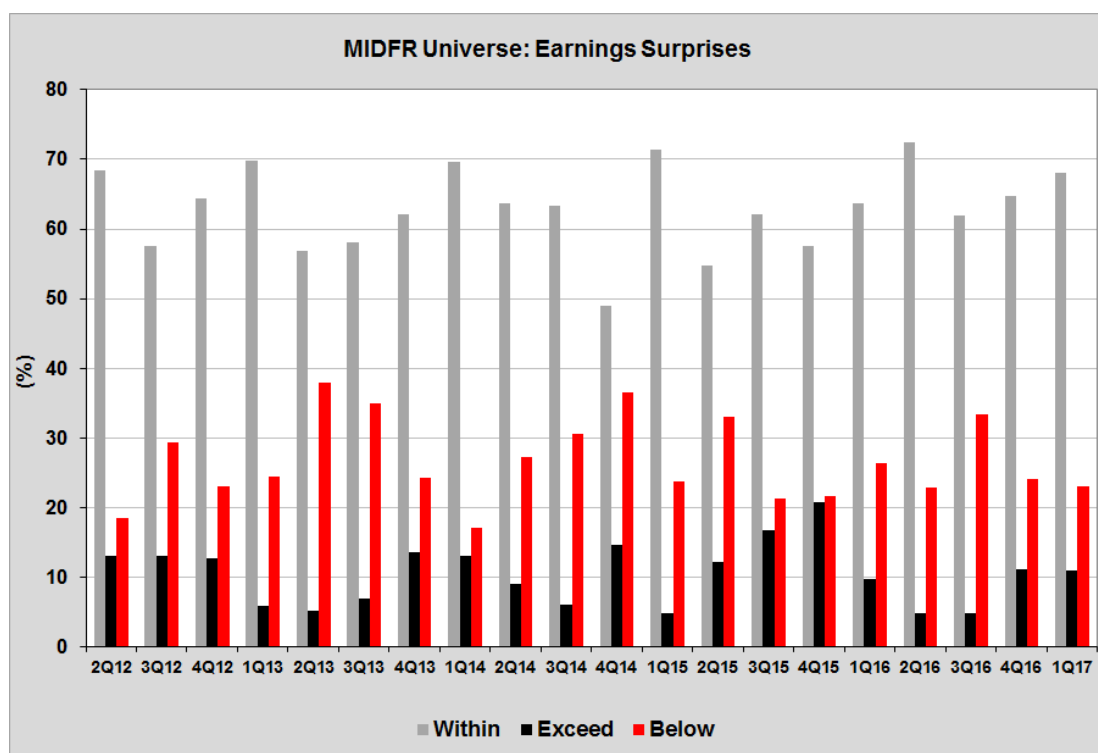


Source: Bloomberg, MIDFR

It is also notable that prior to the latest earnings reporting season, the aggregate normalized earnings of FBM KLCI constituents in 1QCY17 was estimated to come in at RM14.65b. On that score, basing on the actual results, the aggregate normalized figure of RM15.34b was 4.7% higher than our estimate.

MIDFR Universe

Under MIDFR Universe, we made 17 changes to our stock recommendations with 7 upgrades and 10 downgrades. Moreover, target price changes involved 46 upward against 12 downward adjustments. Also, we recently added QL Resources Bhd, AmanahRaya REIT and Tasco Bhd to our coverage universe. Refer to [Appendix 1](#) for company-specific details with regard to revisions in recommendations and target prices.



Source: MIDFR

The percentage of companies within MIDFR Universe which registered earnings that came below our expectations decreased to 21% in 1QCY17 from 24% in the prior quarter. It is noteworthy that the percentage of positive surprises remained unchanged at 11% during the quarter under review vis-à-vis in 4QCY16.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	100%	0%	0%
BANKING	80%	10%	10%
BUILDING MATERIAL	100%	0%	0%
CONSTRUCTION	22%	11%	67%
CONSUMER	71%	14%	14%
FINANCE	33%	67%	0%
GLOVE	50%	0%	50%
HEALTHCARE	75%	0%	25%
INDUSTRIAL	50%	50%	0%
INSURANCE	67%	0%	33%
MEDIA	33%	0%	67%
OIL & GAS	58%	8%	33%
PLANTATION	67%	11%	22%
PROPERTY	80%	20%	0%
REIT	100%	0%	0%
TECHNOLOGY	75%	25%	0%
TELECOMMUNICATION	100%	0%	0%
TOBACCO	0%	0%	100%
TRANSPORTATION	64%	9%	27%
UTILITY	100%	0%	0%
TOTAL	68%	11%	21%

Source: MIDFR

Accordingly, companies with results that were in line with expectations increased to 68% in 1QCY17 from 65% 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 (%)	1Q17	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14	2Q14
AUTOMOTIVE	(24.5)	(101.9)	29	-1,531	-71	44	39	-220	104	167	273	183	280	275
BANKING	15.4	(5.4)	6,344	6,706	6,257	5,328	5,496	5,589	5,728	5,738	5,589	5,753	6,068	6,035
BUILD MATERIAL	(182.9)	(45.5)	74	135	24	-571	-89	20	-28	-60	38	-24	36	-334
CONSTRUCTION	80.7	13.2	555	490	486	406	307	638	513	647	455	439	470	467
CONSUMER	(14.6)	15.2	434	377	349	443	509	486	457	393	476	417	397	382
FINANCE	56.9	44.2	235	163	157	175	150	88	163	193	227	495	293	336
GLOVE	0.6	15.5	239	207	190	166	237	295	257	207	181	156	156	161
HEALTHCARE	79.7	2,089.0	555	25	270	283	309	482	247	339	274	396	200	270
INDUSTRIAL	11.2	9.6	12	11	12	10	11	11	11	10	9	8	6	7
INSURANCE	3.4	1.5	139	137	137	285	135	162	123	141	120	170	114	108
MEDIA	(52.1)	(42.0)	113	195	27	274	237	187	205	245	185	105	214	204
OIL & GAS	107.4	1,357.1	1,969	135	1,713	792	949	1,318	1,825	1,803	1,712	1,574	2,058	2,046
PLANTATION	(0.5)	(1.5)	1,830	1,857	1,415	1,424	1,839	2,312	108	1,727	753	1,172	1,328	2,293
PROPERTY	(0.9)	(56.6)	711	1,636	869	1,052	718	1,006	862	1,234	951	1,190	679	1,071
REIT	31.5	(8.9)	451	495	344	401	343	704	310	678	320	879	424	546
TECHNOLOGY	66.5	(8.1)	155	168	136	135	93	147	135	113	98	91	91	74
TELECOM	(16.2)	86.3	1,348	723	1,358	1,237	1,608	1,510	1,875	1,728	1,603	1,712	1,756	1,607
TOBACCO	(32.3)	(58.9)	119	289	209	48	175	195	257	215	243	187	241	248
TRANSPORT	(16.6)	40.2	1,615	1,152	810	2,009	1,937	647	38	2,330	804	1,401	571	848
UTILITY	11.7	(6.2)	1,928	2,055	2,059	2,948	1,727	2,514	1,210	1,278	2,612	2,919	1,816	2,498
TOTAL	12.7	22.2	18,854	15,426	16,751	16,888	16,727	18,091	14,399	19,127	16,891	19,221	17,200	19,142

Source: MIDFR

Construction, Finance, Glove, Healthcare, Industrial, Insurance and Oil and Gas were the sectors which recorded higher total earnings (as reported) in 1QCY17 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Automotive, Building Material, Media, Plantation, Property and Tobacco sectors were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 1QCY17.

Overall results met upper-end of expectation

Prior to the just concluded earnings reporting season, the aggregate normalized 1QCY17 earnings of FBM KLCI constituents were estimated to come in at RM14.65b. Hence, basing on the actual results, we thereby conclude that the 1QCY17 normalized earnings of FBM KLCI constituents met (i.e. within ± 5 ppts) our expectation, albeit at the upper-end, as the aggregate normalized figure of RM15.34b came in 4.71% higher than our estimate.

FBM KLCI: Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
1QCY17	1	3
4QCY16	2	3
3QCY16	2	5
2QCY16	1	4
1QCY16	0	8
4QCY15	7	7

Source: MIDFR

It is also notable that the ratio of outperformer against underperformer among the FBM KLCI constituents remains skewed toward the latter at 1:3 in 1QCY17. The outperformer was Hong Leong Financial Group while the underperformers were British American Tobacco, Westports and IOI Corp.

While the 1QCY17 ratio slightly lagged the preceding 4QCY16 performance, nonetheless it was a clear improvement over the zero outperformer against 8 underperformers in the corresponding quarter last year, i.e. 1QCY16.

Changes to estimates

The aggregate FY2017 earnings of the FBM KLCI constituents under our coverage was adjusted lower by -0.4% to RM55.88b vis-à-vis our earlier estimate prior to the latest reporting season. Likewise, the aggregate FY2017 earnings of the stocks under MIDFR coverage universe was also trimmed by -0.5% to RM75.74b vis-à-vis our earlier estimate prior to the latest reporting season. On this score, risk aversion remains prevalent despite the recent improvements at both corporate and macro levels. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

Reiterate FBM KLCI year-end 2017 target at 1,830 points

As the overall 1QCY17 results met our estimate and coupled with (1) healthy macro environment (i.e. sustained domestic and improving external demands), as well as (2) expectation of continued recovery in corporate earnings performance this year, we thereby reiterate our FBM KLCI year-end 2017 target at 1,830 points.

APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
AirAsia	Aviation	Buy	Buy	3.34	3.45
Airasia	Aviation	Buy	Buy	4.06	3.94
MAHB	Aviation	Buy	Neutral	7.75	8.05
AAX	Aviation	Buy	Neutral	0.56	0.50
Maybank	Banking	Buy	Buy	9.80	10.30
Public Bank	Banking	Buy	Buy	22.60	23.30
CIMB	Banking	Buy	Buy	6.40	7.10
RHB	Banking	Neutral	Neutral	5.15	5.65
Hong Leong	Banking	Buy	Buy	15.50	15.70
AMMB	Banking	Neutral	Neutral	4.55	5.55
Alliance	Banking	Neutral	Neutral	4.05	4.60
BIMB	Banking	Neutral	Neutral	4.35	4.90
Muhibbah	Construction	Neutral	Buy	3.05	3.24
Gamuda	Construction	Buy	Neutral	5.50	5.50
HSL	Construction	Buy	Buy	2.19	2.00
Fraser & Neave	Consumer	Neutral	Neutral	22.53	26.23
Aeon	Consumer	Sell	Neutral	2.00	2.21
Nestle	Consumer	Neutral	Neutral	81.56	82.76
Padini	Consumer	Buy	Neutral	2.98	2.98
MSM	Consumer	Sell	Sell	3.22	3.46
Panasonic	Consumer	Neutral	Neutral	35.32	32.40
MBSB	Finance	Neutral	Buy	1.08	1.50
Bursa	Finance	Neutral	Neutral	8.95	11.00
Aeon Credit Service	Finance	Neutral	Buy	15.82	18.20
Hong Leong FG	Financial	Buy	Neutral	17.59	17.64
Hartalega	Gloves	Neutral	Neutral	4.48	5.07
Kossan Rubber Industries	Gloves	Buy	Buy	7.52	7.57
Supermax	Gloves	Neutral	Neutral	2.20	2.11
Top Glove	Gloves	Neutral	Neutral	5.31	5.11
KPJ Healthcare	Healthcare	Neutral	Neutral	4.20	4.30
UEM Edgenta	Healthcare	Neutral	Neutral	3.36	3.42
Daibochi	Industrial Products	Neutral	Buy	2.54	3.03
Superlon	Industrial Products	Buy	Buy	3.36	3.64
LPI Capital	Insurance	Buy	Neutral	18.78	18.78

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Tiong Nam	Logistics	Buy	Buy	1.93	2.08
GDEX	Logistics	Buy	Neutral	2.28	3.03
Media Prima	Media	Neutral	Neutral	1.10	0.91
Dayang Enterprise	Oil & Gas	Neutral	Neutral	0.95	0.96
Deleum	Oil & Gas	Buy	Neutral	1.18	1.00
Petronas Dagangan	Oil & Gas	Buy	Buy	24.80	28.00
Dialog Group	Oil & Gas	Neutral	Neutral	1.68	1.88
Petronas Gas	Oil & Gas	Neutral	Neutral	19.63	20.00
Petronas Chemicals	Oil & Gas	Neutral	Neutral	7.18	7.58
Gas Malaysia	Oil & Gas	Buy	Buy	3.33	3.50
KNM Group	Oil & Gas	Neutral	Neutral	0.35	0.27
Bumi Armada	Oil & Gas	Neutral	Neutral	0.63	0.77
IOICORP	Plantation	Neutral	Neutral	5.30	5.00
FGV	Plantation	Neutral	Neutral	1.77	1.59
TAANN	Plantation	Neutral	Buy	4.25	4.30
TSH	Plantation	Neutral	Buy	2.15	2.15
YTL Power	Power	Neutral	Neutral	1.40	1.56
IOI Properties	Property	Neutral	Neutral	2.34	2.35
Sunway Berhad	Property	Neutral	Neutral	3.27	3.46
UEMS	Property	Neutral	Neutral	1.03	1.24
ECOWLD	Property	Buy	Buy	1.68	1.80
Globetronics	Technology	Neutral	Neutral	4.65	5.32
Unisem	Technology	Buy	Buy	3.13	3.91
Inari	Technology	Buy	Neutral	2.23	2.23
MYEG	Technology	Buy	Neutral	1.89	1.89
Telekom Malaysia	Telecommunication	Buy	Buy	7.42	7.77
Digi	Telecommunication	Neutral	Neutral	5.02	5.42
Maxis	Telecommunication	Neutral	Neutral	6.58	6.65
Axiata	Telecommunication	Neutral	Neutral	4.98	5.28
British American Tobacco	Tobacco	Neutral	Neutral	48.90	48.60
YTL Corporation	Utilities	Neutral	Neutral	1.30	1.54

Source: MIDFR

APPENDIX 2

MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
MAHB	Aviation	Above	A better than expected growth in international traffic
Alliance	Banking	Below	Higher than expected provisions
AQRS	Construction	Above	Higher property sales
Vivocom	Construction	Below	Lower progress billings and certification of works' progress
Hock Seng Lee	Construction	Below	Billings gap of Pan Borneo and mobilization of Kuching and Miri Wastewater Plants
MRCB	Construction	Below	Lower revenue from construction segment
WCT	Construction	Below	Stagnating finance and admin costs
CMSB	Construction	Below	Lower sales from quarry, cement and roadworks
Gamuda	Construction	Below	Due to fallow period of project awards
F&N	Consumer	Above	Due to a stabilised margin from internal efficiency strategy and better F&B Malaysia performance in FY18 and better than expected export growth
Panasonic	Consumer	Below	Lower contribution from the home appliance segment in view of lower sales
Hong Leong FG	Financial	Above	higher than expected contribution from its associate and OPEX that came lower than expected
Supermax	Gloves	Below	Earnings came in below expectations due to sharp increase in raw materials price during the quarter and higher pre-operating expenses with regards to its contact lens segment
Top Glove	Gloves	Below	Earnings during the quarter was marred by increase in raw materials price
UEM Edgenta	Healthcare	Below	Earnings was dragged down by lower revenue contribution from PROPEL during the quarter and slow recovery of Opus
Litrak	Highway concession	Below	The earnings miss was mainly due to unexpected losses at associate Sprint, against our forecast of a profit
Superlon	Industrial Products	Above	Better product mix and foreign exchange gains
Tasco	Logistics	Below	The shortfall was largely attributed to Tasco's air freight business which incurred start-up costs in relation to a newly secured E&E export contract that was secured through competitive bidding
Star	Media	Below	Lower contribution from print and digital segment
Media Prima	Media	Below	Lower advertising and newspaper sales as traditional media faced ongoing challenges of subdued adex and the shift to digital media
AEON Credit	Non-bank Financials	Above	Higher interest income and fee income
MBSB	Non-bank Financials	Above	Higher gross loans and lower cost of funds

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Tune Protect	Non-bank Financials	Below	Lower earnings are due to higher expenses in human capital and technology, and lower NEP from Digital Global Travel business
Dialog Group	Oil & Gas	Above	Stronger recognition from Pengerang Deepwater Phase 2
MMHE	Oil & Gas	Below	Struggling Heavy Engineering segment due to low work orders and low margin jobs
Dayang Enterprise	Oil & Gas	Below	Losses from Marine segment due to unexpected low utilisation rate of 24% from Perdana Petroleum
Deleum	Oil & Gas	Below	Lower than expected orders from Power & Machinery segment due to low call-outs
KNM Group	Oil & Gas	Below	Low activities from all key geographic segment
Ta Ann	Plantation	Above	Stellar performance from the plantation division as 1QFY17 FFB production growth came in stronger than expected at 20% yoy to 148,715 MT
IOICORP	Plantation	Below	Lower than expected PBT of RM285m (-57% yoy) in the resource based manufacturing (RBM) division. RBM sub-segments of oleochemical and refining have registered weaker sales volume and lower margin
FGV	Plantation	Below	Unexpected loss in the sugar division
Westports	Ports	Below	The shortfall was to a large extent attributed to a higher than expected effective tax rate of 21% due to the capitalisation of CT8 and CT9 capex which would materialise in the coming quarters
E&O	Property	Above	Better-than-expected contribution from project in UK and better-than-expected margin in 4QFY17
IOI Properties	Property	Above	Higher-than-expected property sales achieved from Singapore project
Unisem	Technology	Above	Higher average selling price premised on robust demand from consumer and industrial segments
BAT	Tobacco	Below	Earnings came in below expectations due to the high level of illicit cigarettes trading in the market and persistent soft consumer sentiment.

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2017		FY2018		FY2017	FY2018
	Old	New	Old	New		
TOTAL (MIDFR Univ.)	76,084.5	75,738.4	79,532.6	79,761.7	<i>(0.5)</i>	<i>0.3</i>
Annual % Change	<i>10.6</i>	<i>10.1</i>	<i>4.5</i>	<i>5.3</i>		
TOTAL (FBM KLCI) *	56,121.6	55,882.9	57,936.4	57,733.4	<i>(0.4)</i>	<i>(0.4)</i>
Annual % Change	<i>11.2</i>	<i>10.7</i>	<i>3.2</i>	<i>3.3</i>		

Source: MIDFR; (A)–actual, (E)–estimate; * Aggregate earnings of 27 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.