

2 September 2014

**MALAYSIA EQUITY**

# **EARNINGS WRAP**

**Review of corporate earnings**

**Quarter Ended June 2014**

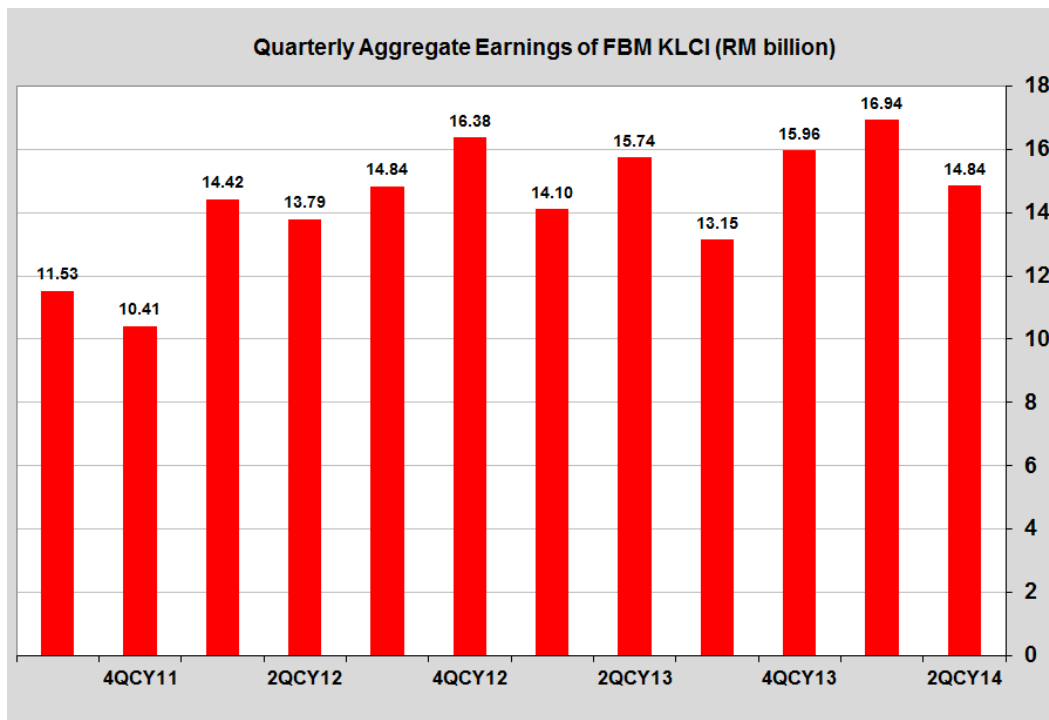
2 September 2014 | Earnings Wrap

## Weaker than expected

- The aggregate earnings of current 30 FBM KLCI companies totalled RM14.84b in 2QCY14, a decline of -12.4%qoq and -5.7%yoy.
- However, the growth figures were impacted by extraordinary items. Stripping off these items, the sequential and on-year adjusted growth figures improved to -1.8%qoq and 2.5%yoy respectively.
- The figures nevertheless came in below expectations. Recall our earnings preview report dated 13 August 2014 which anticipated higher sequential and on-year adjusted growth figures of 4.9%qoq and 9.4%yoy respectively.
- Overall, 27% of stocks under MIDFR Universe coverage reported lower-than-expected earnings. Of the rest, 9% posted earnings that were better than expected versus 64% which came in within expectations.
- We made 8 changes to our stock recommendations with 4 upgrades and 4 downgrades.
- Target price changes involved 15 upward adjustments and 27 downward adjustments.
- We added Favelle Favco to our coverage universe during the review period.

### FBM KLCI

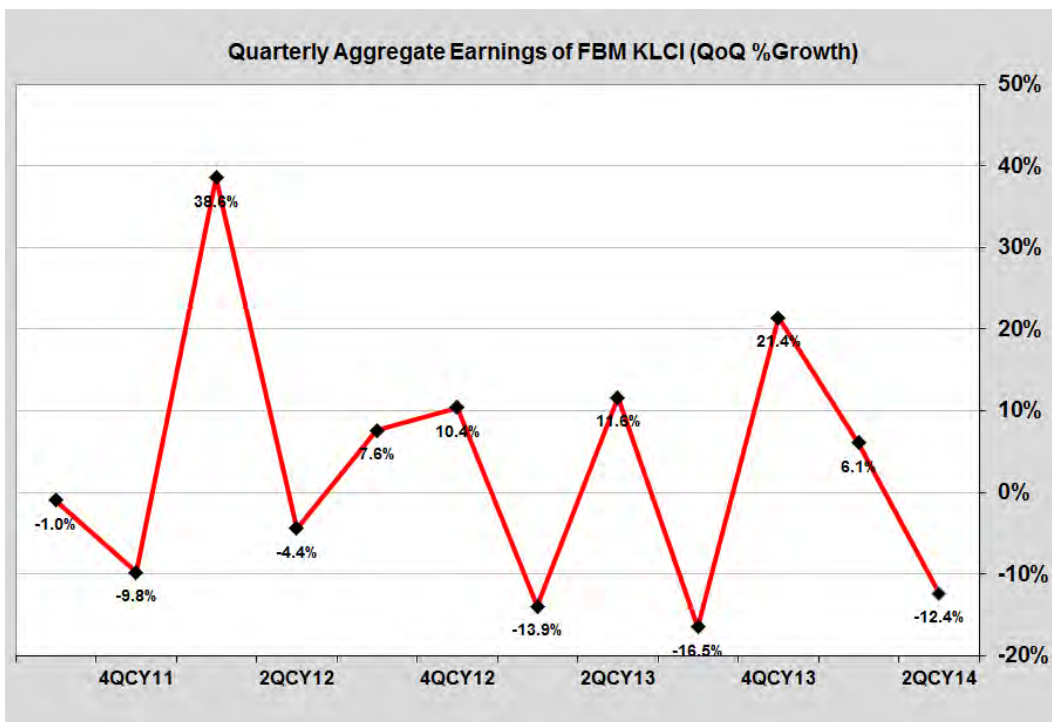
The aggregate (as reported) earnings of current 30 FBM KLCI constituents totalled RM14.84b in 2QCY14, a decline of -12.4%qoq and -5.7%yoy.



Source: Bloomberg, MIDFR

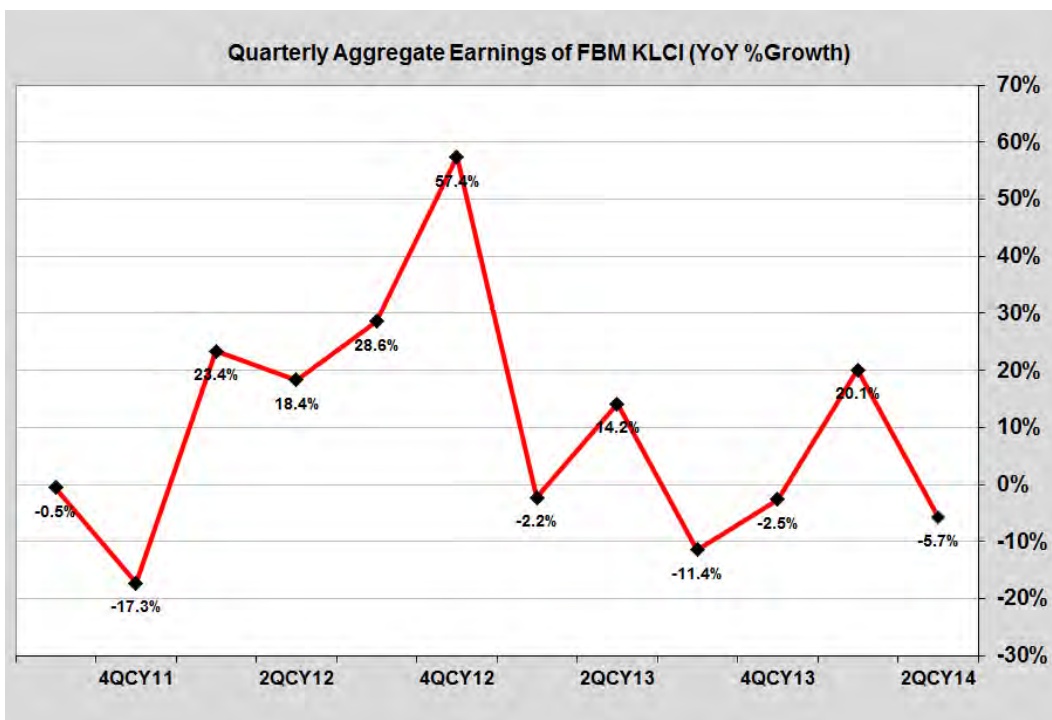
The sequential and on-year (as reported) growth figures were however not quite reflective of the true picture.

The sequential growth number was dampened principally due to the high-base effect from an RM1.83b gain on demerger/disposal of IOI Corp's property business in 1QCY14. Similarly, the on-year growth number was lowered due to the effect of (i) Petronas Gas' RM591.6m deferred tax assets, (ii) Sime Darby's RM340m disposal of healthcare unit, and (iii) Tenagas Nasional's RM324.7m forex translation in 2QCY13.



Source: Bloomberg, MIDFR

After deducting the relevant exceptional items, the adjusted sequential growth figure in 2QFY14 showed a lower decline of -1.8%qoq and the on-year growth figure actually turned positive to 2.5%yoy.

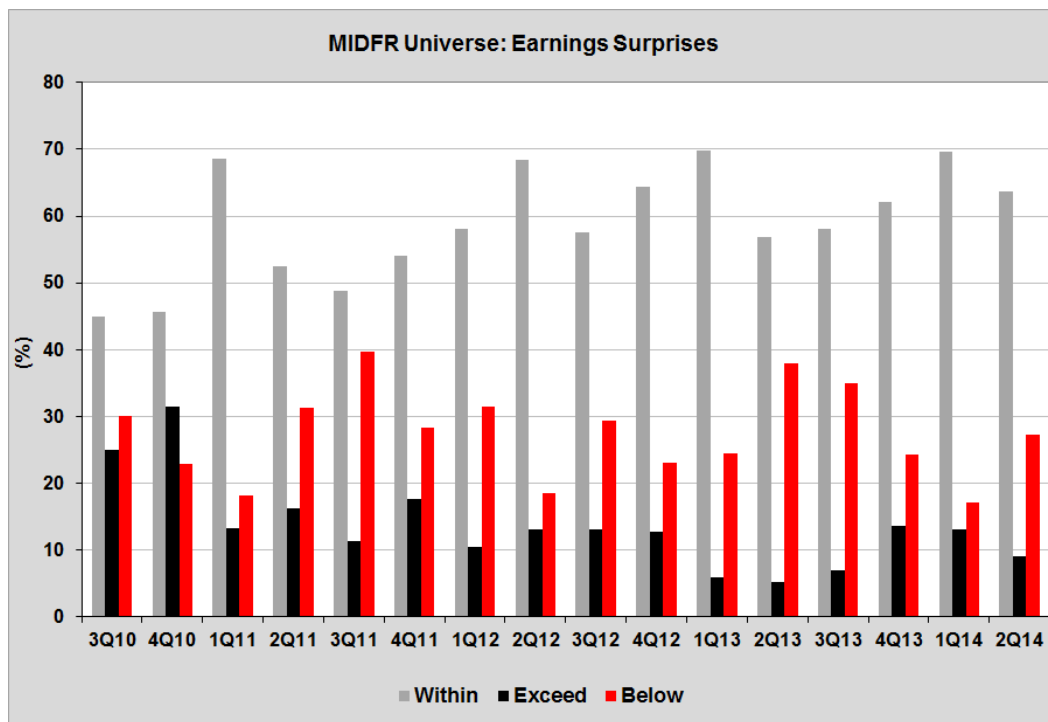


Source: Bloomberg, MIDFR

The aggregate earnings and growth figures for 2QCY14 nevertheless came in below expectations. Recall our earnings preview Strategy report dated 13 August 2014 which anticipated (i) aggregate earnings of RM15.84b, (ii) sequential adjusted growth figures of 4.9%qoq, and (iii) on-year adjusted growth figures of 9.4%yoy.

## MIDFR Universe

Under the MIDFR Universe, we made 8 changes to our stock recommendations with 4 upgrades and 4 downgrades. In addition, target price changes involved 15 upward adjustments against 27 downward adjustments. We added Favelle Favco 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 jumped to 27% (highest since third quarter 2013) in 2QCY14 from 17% in the preceding quarter. Conversely, the proportion of positive surprises declined to 9% (lowest since third quarter 2013) during the quarter under review vis-à-vis 13% recorded in 1QCY14.

## MIDFR Universe: 2QCY14 Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	67%	0%	33%
TELECOMMUNICATIONS	50%	25%	25%
MEDIA	67%	33%	0%
SEMICONDUCTOR	100%	0%	0%
PLANTATION	40%	40%	20%
TOBACCO	100%	0%	0%
GLOVE	67%	0%	33%
HEALTHCARE	75%	0%	25%
CONSUMER (F&B, Retail)	50%	0%	50%
BANKING	67%	0%	33%
FINANCE	100%	0%	0%
OIL & GAS	70%	0%	30%
PROPERTY	75%	25%	0%
REIT	100%	0%	0%
TRANSPORT	50%	10%	40%
UTILITY	100%	0%	0%
AUTOMOTIVE	0%	0%	100%
BUILDING MATERIAL	50%	0%	50%
<b>TOTAL</b>	<b>64%</b>	<b>9%</b>	<b>27%</b>

Source: MIDFR

The remaining 64% of stocks under our coverage performed within expectations in 2QCY14, a 6%-pts drop 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 %	2Q14	1Q14	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11
CONSTRUCTION	49.9	46.8	519	354	921	268	346	354	587	431	356	346	409	310
TELECOM	(9.0)	(13.4)	1,607	1,855	1,758	1,877	1,767	1,631	1,558	1,769	1,803	1,709	2,437	1,721
MEDIA	0.4	31.6	204	155	231	206	203	136	288	93	101	53	125	94
SEMICONDUCTOR	183.0	20.4	28	23	-78	15	10	0	-8	23	2	-7	2	13
PLANTATION	(0.2)	(40.4)	2,245	3,765	2,336	1,259	2,250	2,044	657	2,523	4,060	2,029	2,365	2,240
TOBACCO	17.7	10.1	248	225	189	219	211	204	197	186	221	195	181	176
GLOVE	(1.9)	5.1	134	128	147	146	137	146	148	151	131	125	106	96
HEALTHCARE	32.2	27.2	256	201	274	160	194	168	305	136	461	221	117	8
CONSUMER	(10.3)	(18.1)	368	450	350	428	411	468	401	398	374	503	430	411
BANKING	4.2	1.0	5,456	5,400	5,547	5,704	5,237	5,368	5,136	5,292	5,062	4,815	4,647	4,606
FINANCE	27.2	15.6	280	242	167	179	220	204	219	127	132	120	115	134
OIL & GAS	(20.1)	4.6	1,845	1,763	1,433	1,720	2,309	1,896	1,719	1,523	1,783	1,828	1,493	1,794
PROPERTY	(7.2)	(15.7)	614	728	1,657	657	662	712	778	520	623	414	639	388
REIT	1.2	104.0	476	233	459	237	470	216	781	161	478	151	128	88
TRANSPORT	(21.8)	(37.7)	231	371	960	274	296	335	1,264	545	1,411	-296	-2,663	7
UTILITY	6.9	12.5	2,219	1,972	2,005	510	2,076	1,589	1,684	1,339	1,105	3,146	98	-203
AUTOMOTIVE	(36.1)	(24.4)	227	300	211	168	355	337	287	367	297	293	108	259
BUILD MATERIAL	>-100	>-100	-456	0	50	-56	5	96	17	31	-2	76	23	66
TOTAL	(4.0)	(9.2)	16,501	18,167	18,618	13,972	17,190	15,905	15,899	15,609	18,398	15,281	10,762	12,207

Source: MIDFR

Construction, Semiconductor and Healthcare were among the sectors which recorded higher total earnings (as reported) in 2QCY14 when compared to the corresponding period last year.


On the other hand, sectors such as Telecommunication, Transport and Automotive were among those that showed negative on-year earnings (as reported) growth percentage in 2QCY14.

### Overall results below expectation

Pursuant to the 2QCY14 results season, the overall numbers came in below expectations. This is attested by (i) negative variances between the aggregate earnings of both MIDFR Universe stocks and FBM KLCI constituents against their earlier estimates prior to the just concluded reporting season, and (ii) rise in percentage of earnings underperformers to 27% in our coverage universe.

Among the FBM KLCI constituents under our coverage, Sime Darby was the only company that reported better than expected earnings. On the contrary, there were eight earnings underperformers, namely AMMB, Axiata, CIMB, FGV, IHH Healthcare, KL Kepong, Petronas Chemicals and UMW Holdings.

### Changes to estimates

Consequently, the aggregate earnings estimates for FY2014 and FY2015 of the 23 FBM KLCI stocks under our coverage were lowered by -2.0% and -3.0% to RM53.33b and RM56.33b respectively vis-à-vis their earlier estimates prior to the just concluded reporting season. Concomitantly, the aggregate earnings estimates for FY2014 and FY2015 of stocks under MIDFR Universe were also adjusted lower by -3.3% and -3.4% to RM67.96b and RM73.98b respectively. 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	3.80	3.70
AMMB	Banking	Neutral	Neutral	8.00	7.60
CIMB	Banking	Neutral	Neutral	7.90	8.00
Hong Leong Bank	Banking	Buy	Buy	16.50	16.30
Maybank	Banking	Buy	Buy	11.00	11.50
RHB Cap	Banking	Buy	Buy	10.50	10.70
Eversendai	Construction	Trading Buy	Neutral	1.14	0.99
Hock Seng Lee	Construction	Neutral	Buy	2.01	2.14
IJM Corp	Construction	Buy	Neutral	7.26	6.98
WCT	Construction	Buy	Buy	2.88	2.59
AEON	Consumer	Neutral	Neutral	3.82	3.60
F&N	Consumer	Neutral	Neutral	19.60	17.80
MSM	Consumer	Trading Buy	Neutral	5.69	5.13
Nestle	Consumer	Neutral	Neutral	67.96	70.55
Parkson	Consumer	Sell	Sell	2.63	2.51
Favelle Favco	General Industries	Neutral	Buy	3.81	3.81
KKB Engineering	General Industries	Buy	Buy	2.93	2.84
Ta Ann	General Industries	Buy	Buy	4.75	5.35
Top Glove	Gloves	Trading Buy	Buy	5.70	5.70
IHH Healthcare	Healthcare	Neutral	Neutral	3.77	4.50
Media Prima	Media	Neutral	Neutral	2.65	2.17
Bumi Armada	Oil & Gas	Buy	Buy	4.51	4.18
Dayang Enterprise	Oil & Gas	Buy	Buy	4.09	4.37
MMHE	Oil & Gas	Sell	Sell	3.02	2.78
Petronas Chemicals	Oil & Gas	Neutral	Neutral	6.50	6.10
Wah Seong Corp	Oil & Gas	Neutral	Buy	2.20	2.20
FGV Holdings	Plantation	Neutral	Neutral	4.70	4.24
Genting Plant	Plantation	Buy	Buy	13.00	12.65
IJM Plantations	Plantation	Neutral	Neutral	3.12	3.00
IOI Corporation	Plantation	Neutral	Neutral	4.68	4.20
KL Kepong	Plantation	Neutral	Neutral	26.55	25.00
TH Plantations	Plantation	Buy	Buy	2.76	2.50
TSH Resources	Plantation	Neutral	Neutral	3.84	3.61
MRCB	Property	Buy	Buy	2.16	2.59
Naim	Property	Buy	Buy	4.44	4.80
Lion Industries	Steel	Neutral	Neutral	0.64	0.72
Unisem	Technology	Buy	Neutral	1.60	1.60
Axiata	Telecommunication	Neutral	Neutral	6.79	6.55
Digi	Telecommunication	Buy	Buy	6.33	6.50



Maxis	Telecommunication	Neutral	Neutral	7.51	6.34
BAT	Tobacco	Neutral	Neutral	62.24	63.49
AirAsia	Transport	Buy	Buy	3.14	2.94
MAHB	Transport	Neutral	Neutral	8.40	8.02
Maybulk	Transport	Buy	Buy	2.10	2.02
MISC	Transport	Neutral	Neutral	6.21	6.53
Westport	Transport	Neutral	Neutral	2.88	2.95

Source: MIDFR

## APPENDIX 2

### MIDFR Universe: 2QCY14 Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below %)		COMMENT
Ta Ann	General Ind.	Above		Higher sales volume for FFB, CPO and export logs, and; (ii) higher average selling prices realized for CPO and export logs.
Media Prima	Media	Above		Slower marketing activities and programs
Kulim (M) Bhd	Plantation	Above		Excluding the non-cash items, 1HFY14 results is better than that in 1HFY13 due to higher CPO price and higher FFB and CPO production.
Sime Darby	Plantation	Above		Better results from the Property division.
TSH Resources	Plantation	Above		Higher FFB and CPO productions coupled with better palm products prices.
MRCB	Property	Above		The encouraging 1HFY14 numbers was mainly on account of higher revenue contributed by the improved pace of its on-going property development projects comprising of Q Sentral office and The Sentral Residences.
Naim	Property	Above		Strong numbers due to improvement in progress of construction works for existing projects and higher contribution from associate, Dayang Enterprise.
Digi	Telecom	Above		Better than expected EBIT margin
Westport	Transport	Above		Stronger container throughput growth and higher cost savings from economies of scale.
MBM Resources	Auto		Below	Sequential improvement but poor yoy performance due to start-up cost of new manufacturing plants.
Tan Chong Motor	Auto		Below	Poor earnings performance due to Almera's dismal sales and aggressive rebates.
UMW Holdings	Auto		Below	Dragged by legacy problematic legacy O&G businesses.
Affin Holdings	Banking		Below	Due to: i) higher overhead expenses, ii) higher allowance for loan losses and iii) lower loan recoveries.
AMMB	Banking		Below	Due to: i) lackluster loan growth and ii) significantly lower NOI after stripping out one-off divestment gain.
CIMB	Banking		Below	Weaker profit of Niaga as well as lower capital market volume and volatility impacting its IB earnings.
Eversendai	Construction		Below	The weaker 1HFY14 results were dragged by higher cost of project financing in India, alongside with additional expenses for the development of new projects in the oil & gas industry.
Hock Seng Lee	Construction		Below	Lagging expectation on account of slow property billings and the high base effect due to the strong property sales of the Eden Fields 2 and Bahamas Samariang Aman 2 residential projects in 2QFY13.

WCT	Construction		Below	The decline in PATAMI was on account of lower local and overseas construction billings of about RM79m.
AEON	Consumer		Below	Higher operating cost as a result of higher utilities and promotional expenses as well as due to initial costs related to the opening of new stores.
MSM	Consumer		Below	Lower overall margin due to higher sales volume to industries customers.
Padini	Consumer		Below	Lower margin due to increased numbers of promotional activities as well as higher operating expenses.
Parkson	Consumer		Below	Mainly due to the weak performance by its China retail operations.
Daibochi	General Ind.		Below	1HFY14 earnings were marginally impacted by the higher prices of polyethylene and polypropylene resins, films, electricity tariff hike and rising operating expenses (higher wages).
KKB Engineering	General Ind.		Below	The uninspiring 1HFY14 earnings was attributable to (i) absence of sizeable projects undertaken during the quarter, (ii) lower progress billings from on-going projects and completion of projects by the civil construction division within the Engineering segment, and (iii) higher operating costs particularly distribution costs. The loss at associate Oceanmight also dragged current earnings the company has yet to undertake any fabrication job while it incurs administrative expenses.
Kossan	Gloves		Below	Gloves division's revenue affected by water rationing. One plant in Jeram, Klang had undergone production disruption which has directly affected the group's sales in production output loss of approximately RM18.0m.
IHH Healthcare	Healthcare		Below	Strong results on high bed occupancy and price increase as well as bolstered by the SGD appreciation.
Bumi Armada	Oil & Gas		Below	Weak earnings were mainly due to tail-end projects and OSV fleet restructuring exercise.
MMHE	Oil & Gas		Below	Earnings impacted by tail-end works and intensifying competition. In addition, RM10m was spent on 'Mutual Separation Scheme'.
Petronas Chemicals	Oil & Gas		Below	Earnings hampered by major turnaround activities.
FGV Holdings	Plantation		Below	Fair value losses on Land Lease Agreement liability, higher production costs and negative margin from rubber processing business.
KL Kepong	Plantation		Below	Lower profit margin from manufacturing segment (the downstream segment) and weaker property contributions.
Lion Industries	Steel		Below	Due to impairment losses and write down in inventory value.
Axiata	Telecom		Below	Lower operational contribution from Celcom and XL
AirAsia	Transport		Below	Lower yield achieved and net loss by its Thai associate.
AirAsia X	Transport		Below	Intensifying competitions with lower yields and overcapacity.
MAHB	Transport		Below	Impacted by MH370, lower retail spending, higher KLIA2 depreciation and ISG overseas associate losses.
Maybulk	Transport		Below	Lower-than-expected charter rate and lower contribution from POSH associate.

Source: MIDFR



## APPENDIX 3

### MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2014E		FY2015E		FY2014E	FY2015E
	Old	New	Old	New		
<b>TOTAL (MIDFR Universe)</b>	70,271.6	67,958.1	76,605.0	73,979.2	<b>(3.3)</b>	<b>(3.4)</b>
<i>Annual % Change</i>	8.1	4.6	9.0	8.9		
<b>TOTAL (FBM KLCI) *</b>	54,398.8	53,327.1	58,097.6	56,327.5	<b>(2.0)</b>	<b>(3.0)</b>
<i>Annual % Change</i>	8.7	6.5	6.8	5.6		

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.