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2 September 2016

**MALAYSIA EQUITY**

# **EARNINGS WRAP**

**Review of corporate earnings**

**Quarter Ended June 2016**

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

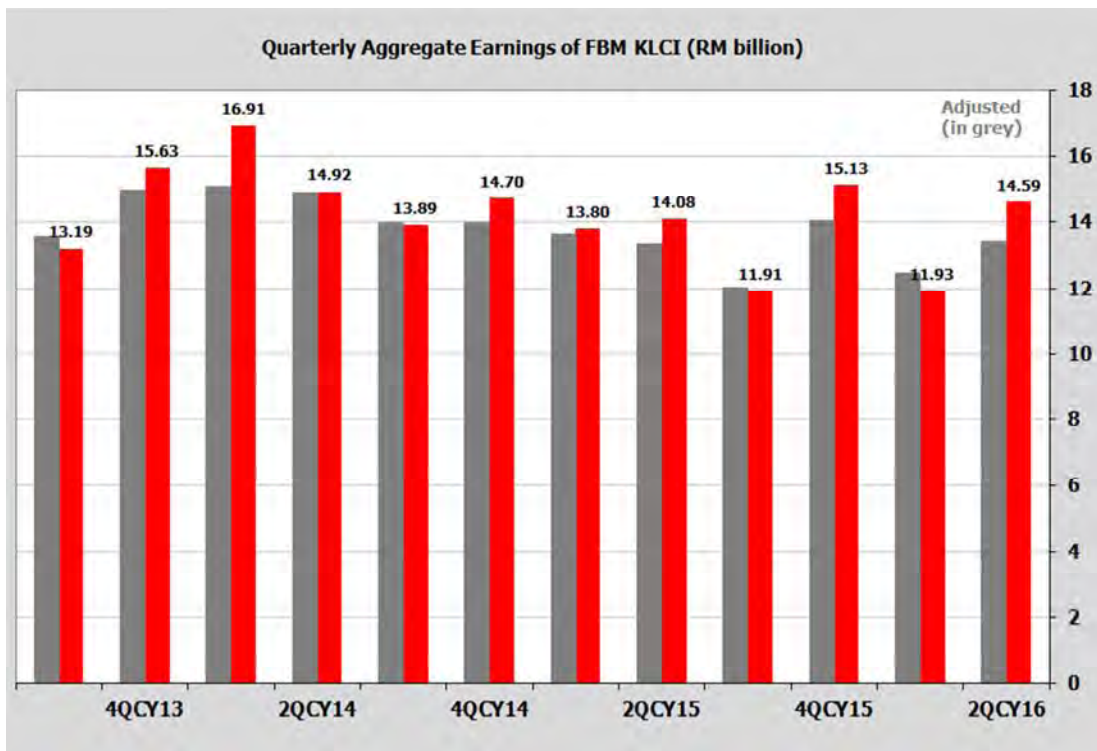
## 2 September 2016 | Earnings Wrap

### Largely muted

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM14.59b in 2QCY16, rising 22.3%qoq and 3.6%yoy respectively.
- However, the aggregate normalized growth figures were more muted at 7.4%qoq and 0.5%yoy.
- The 2QCY16 aggregate reported earnings came within expectations at 96.5% of our estimates. For 1HCY16, it met 98.1% of our forecast.
- Within MIDFR Universe, 5% of stocks under coverage reported higher than expected earnings. Of the rest, 23% posted earnings that were lower than expected versus 72% which came within expectations.
- Target price changes involved 11 upward adjustments and 22 downward adjustments.
- We made 12 changes to our stock recommendations with 3 upgrades and 9 downgrades.
- We recently added Deleum Berhad, IOI Properties Group Berhad and My EG Services Berhad to our universe and ceased coverage of Perdana Petroleum Berhad.
- Maintain year-end 2016 FBM KLCI target at 1,750 points.

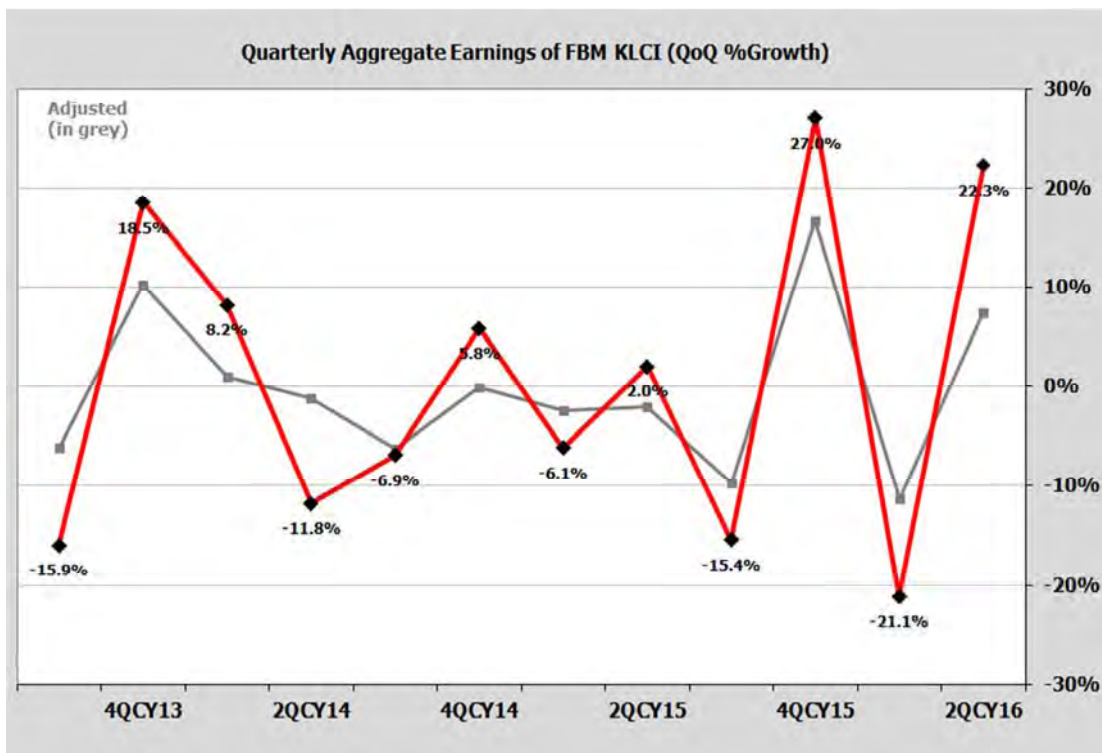
### FBM KLCI

The aggregate reported earnings of FBM KLCI 30 constituents totalled RM14.59b in 2QCY16. The figure was higher both sequentially and on-year at 22.3%qoq and 3.6%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.



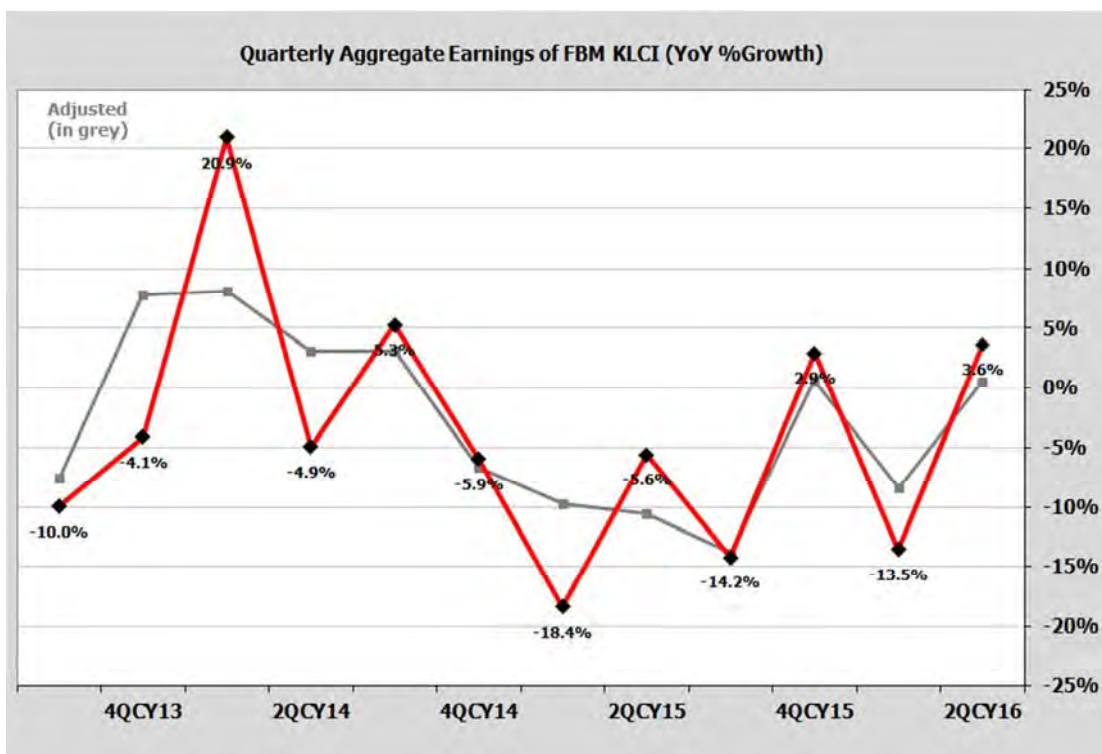
Source: Bloomberg, MIDFR

The aggregate normalized 2QCY16 earnings of FBM KLCI 30 constituents was lower at RM13.39b. Some of the major non-operational items reported during the review quarter include (i) RM847m negative goodwill gain on its Gumusut-Kakap acquisition by MISC, and (ii) RM128m tax credit pursuant to the recognition of a special tax incentive on fixed assets revaluation in Indonesia by Sime Darby.



Source: Bloomberg, MIDFR

After neutralizing the impact of non-operational items (2QCY16: -RM1.20b, 1QCY16: +RM533m, 2QCY15: -RM753m), the normalized sequential growth in 2QCY16 is more tepid at 7.4%qoq. Likewise, the normalized on-year growth number is also lower at 0.5%yoy, but nonetheless it is still superior to the -8.4%yoy normalized growth performance of the preceding 1QCY16 quarter.

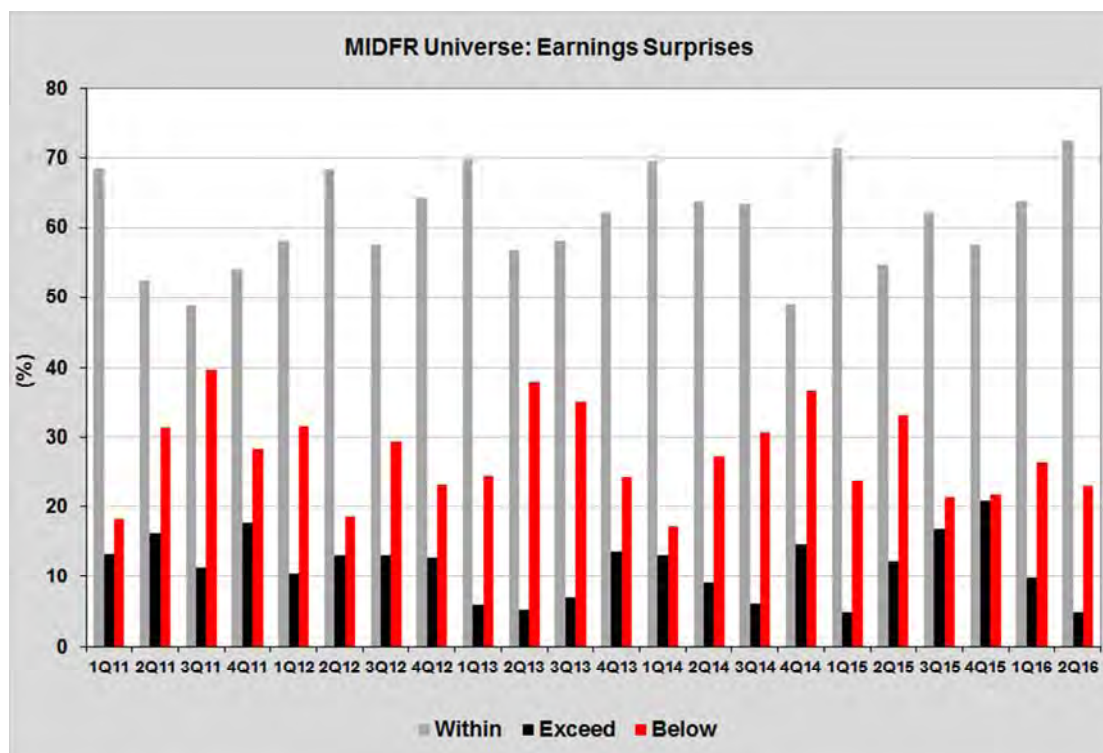


Source: Bloomberg, MIDFR

It is notable that prior to the 2QCY16 earnings reporting season, the aggregate earnings of FBM KLCI constituents was estimated to come in at RM15.12b. On that score, basing on the actual results, the reported aggregate figure of RM14.59b accounted for 96.5% of our estimate.

## MIDFR Universe

Under the MIDFR Universe, we made 12 changes to our stock recommendations with 3 upgrades and 9 downgrades. Moreover, target price changes involved 11 upward against 22 downward adjustments. Also, we recently added Deleum Berhad, IOI Properties Group Berhad and My EG Services Berhad to our universe and ceased coverage of Perdana Petroleum 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 a decline to 23% in 2QCY16 from 26% in the prior quarter. Moreover, it is noteworthy that the proportion of positive surprises also dropped to 5% during the quarter under review vis-à-vis 10% recorded in 1QCY16.

## MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	100%	0%	0%
BANKING	100%	0%	0%
BUILDING MATERIAL	100%	0%	0%
CONSTRUCTION	50%	0%	50%
CONSUMER	88%	0%	13%
FINANCE	50%	50%	0%
GLOVE	50%	0%	50%
HEALTHCARE	33%	0%	67%
INSURANCE	67%	33%	0%
MEDIA	33%	0%	67%
OIL & GAS	62%	8%	31%
PLANTATION	78%	0%	22%
PROPERTY	60%	20%	20%
REIT	83%	0%	17%
TECHNOLOGY	67%	0%	33%
TELECOMMUNICATION	100%	0%	0%
TOBACCO	0%	0%	100%
TRANSPORTATION	88%	0%	13%
UTILITY	67%	0%	33%
<b>TOTAL</b>	<b>72%</b>	<b>5%</b>	<b>23%</b>

Source: MIDFR

Accordingly, companies with results that were in line with expectations climbed to 72% in 2QCY16 from 64% 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 %	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13
<b>AUTOMOTIVE</b>	(73.8)	12.4	44	39	-220	104	167	273	183	280	275	331	211	168
<b>BANKING</b>	(7.2)	(3.1)	5,328	5,496	5,589	5,728	5,738	5,589	5,753	6,068	6,035	5,938	6,019	6,210
<b>BUILD MATERIAL</b>	844.3	540.6	-571	-89	20	-28	-60	38	-24	36	-334	95	99	56
<b>CONSTRUCTION</b>	(34.4)	28.6	406	315	580	485	619	405	378	314	403	270	804	411
<b>CONSUMER</b>	16.1	(31.1)	311	452	403	472	268	438	478	374	375	457	357	435
<b>FINANCE</b>	(16.7)	32.7	112	85	35	115	135	171	446	245	280	242	167	179
<b>GLOVE</b>	(19.7)	(29.9)	166	237	295	257	207	181	156	156	161	154	172	182
<b>HEALTHCARE</b>	(16.9)	(7.5)	268	290	466	227	323	243	359	185	254	197	292	151
<b>INSURANCE</b>	102.1	111.4	285	135	162	123	141	120	170	114	108	105	115	109
<b>MEDIA</b>	11.5	15.7	274	237	187	205	245	185	105	214	204	155	231	206
<b>OIL &amp; GAS</b>	(55.4)	(15.4)	812	960	1,343	1,856	1,819	1,735	1,599	2,082	2,073	1,940	1,623	1,982
<b>PLANTATION</b>	(17.6)	(22.6)	1,424	1,839	2,312	108	1,727	753	1,172	1,328	2,293	3,866	2,576	1,513
<b>PROPERTY</b>	(15.5)	45.3	1,043	718	1,006	862	1,234	951	1,190	679	1,071	566	1,864	567
<b>REIT</b>	(41.3)	17.6	392	333	671	301	668	312	806	405	539	304	653	301
<b>TECHNOLOGY</b>	31.7	33.2	95	71	106	89	72	60	51	57	45	37	-66	23
<b>TELECOM</b>	(28.4)	(23.1)	1,237	1,608	1,510	1,875	1,728	1,603	1,712	1,756	1,607	1,855	1,758	1,877
<b>TOBACCO</b>	(77.7)	(72.7)	48	175	195	257	215	243	187	241	248	225	189	219
<b>TRANSPORT</b>	(14.1)	4.9	1,976	1,884	608	18	2,301	754	1,378	544	819	936	1,463	857
<b>UTILITY</b>	130.7	70.7	2,948	1,727	2,514	1,210	1,278	2,612	2,919	1,816	2,498	2,315	2,365	882
<b>TOTAL</b>	(11.8)	0.5	16,598	16,512	17,779	14,263	18,827	16,634	19,017	16,895	18,952	19,959	20,894	16,112

Source: MIDFR

Insurance, Media, Technology and Utility were the sectors which recorded higher total earnings (as reported) in 2QCY16 when compared to both the preceding quarter and corresponding period last year.

On the other hand, sectors such as Banking, Glove, Healthcare, Oil & Gas, Plantation, Telecommunication and Tobacco were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 2QCY16.

## Overall results met expectations

The aggregate 2QCY16 and 1HCY16 earnings of FBM KLCI constituents were estimated to come in at RM15.12b and RM27.05b respectively prior to the just concluded earnings reporting season. Hence, basing on the actual results, we thereby conclude that the 2QCY16 and 1HCY16 earnings of FBM KLCI constituents came within ( $\pm 5$ ppts) our expectations as the reported aggregate figures of RM14.59b and RM26.52b accounted for 96.5% and 98.1% of our estimates.

## FBM KLCI: Outperformer versus Underperformer

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

Source: MIDFR



It is also notable that the ratio of outperformer against underperformer among the FBM KLCI constituents improved somewhat to 1:4 in 2QCY16. The sole outperformer was SapuraKencana Petroleum while the underperformers were BAT, IHH Healthcare, IOI Corp and MISC.

Recall that there was zero outperformer in 1QCY16 against 8 underperformers. In the preceding year, the ratio stood at 7:7 in 4QCY15, 5:8 in 3QCY15, 4:9 in 2QCY15, and 0:10 at its nadir in 1QCY15 period.

## **Changes to estimates**

The aggregate FY2016 earnings of the FBM KLCI constituents under our coverage was adjusted lower by -1.2% to RM53.48b 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 -3.1% to RM70.25b vis-à-vis our earlier estimate pursuant to the prior reporting season. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

## **Maintain FBM KLCI year-end target at 1,750 points**

As the overall results met our expectation, we thereby maintain our FBM KLCI year-end target at 1,750 points.



## APPENDIX 1

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

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
UMW	Auto	Neutral	Neutral	5.60	5.30
MAHB	Aviation	Neutral	Neutral	6.35	6.00
BIMB	Banking	Neutral	Neutral	4.22	4.35
Maybank	Banking	Neutral	Neutral	8.70	8.10
RHB Bank	Banking	Neutral	Neutral	6.30	5.15
WCT	Construction	Buy	Neutral	1.82	1.61
F&N	Consumer	Buy	Neutral	28.35	28.35
Padini	Consumer	Buy	Neutral	2.75	2.75
Panasonic	Consumer	Buy	Neutral	35.26	36.18
Bursa Malaysia	Finance	Neutral	Neutral	8.88	8.95
MBSB	Finance	Neutral	Buy	1.23	1.14
Hartalega	Glove	Neutral	Neutral	4.56	4.48
Kossan	Glove	Buy	Buy	8.60	8.94
Supermax	Glove	Buy	Buy	3.21	3.02
IHH Health	Healthcare	Neutral	Neutral	7.10	6.95
UEM Edgenta	Healthcare	Neutral	Neutral	3.52	3.23
LPI Capital	Insurance	Neutral	Buy	16.04	17.84
Tune Protect	Insurance	Buy	Buy	2.14	2.28
Astro	Media	Buy	Buy	3.67	3.78
Media Prima	Media	Buy	Trading Sell	1.75	1.17
Star	Media	Sell	Sell	1.69	1.53
KNM	Oil & Gas	Buy	Neutral	0.59	0.43
Genting Plant	Plantation	Neutral	Neutral	9.85	9.72
IOI Corp	Plantation	Buy	Buy	5.15	5.05
YTL Power	Power	Neutral	Neutral	1.45	1.40
Mah Sing	Property	Neutral	Neutral	1.57	1.68
SP Setia	Property	Buy	Neutral	3.65	3.38
Sunway	Property	Neutral	Neutral	3.25	3.05
UOA Dev	Property	Buy	Buy	2.54	2.68
Axis REIT	REIT	Neutral	Neutral	1.75	1.72
Sunway REIT	REIT	Neutral	Buy	1.67	1.86
MISC	Shipping	Buy	Neutral	9.53	8.05
Globetronics	Technology	Neutral	Neutral	4.07	3.07
Unisem	Technology	Buy	Buy	3.22	3.28
BAT	Tobacco	Neutral	Sell	55.12	41.27

Source: MIDFR

**APPENDIX 2**
**MIDFR Universe: Outperformers and Underperformers**

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
MBSB	Finance	Above	The positive variance largely thanks to lower allowance for impairment
Tune Protect	Insurance	Above	Impressive 2QFY16 earnings was largely due to higher net earned premium and share of profits from MMIP
SapuraKencana	Oil & Gas	Above	Aggressive cost reduction exercise
IOI Prop	Property	Above	Faster-than-expected progress billing
UOA Dev	Property	Above	Better margin achieved
HSL	Construction	Below	Completion of projects and lower progress claims
IJM Corp	Construction	Below	Earnings affected by higher cost and lower other operating income
MRCB	Construction	Below	Lower other operating income and lower sales from property division
WCT	Construction	Below	Earnings dragged by foreign exchange losses
AEON Co.	Consumer	Below	Weak current consumer behaviour and rising cost of living
Hartalega	Glove	Below	Extra operating costs incurred upfront for its NGC plant and lower ASP as a result of pricing competition
Supermax	Glove	Below	High tax expenses incurred with respect to previous year's assessments and provision for deferred tax
IHH Healthcare	Healthcare	Below	Higher depreciation costs incurred for newly opened hospitals in 2014-2015 and higher net financing costs due to borrowings made with respect to recent acquisitions in 2015-2016
UEM Edgenta	Healthcare	Below	Lower contribution coming from all its business segments. The poor performance from its main revenue contributor Opus Group is mainly due to weak economic outlook in most of the countries Opus Group has presence in, e.g. New Zealand, Australia and Canada
Media Prima	Media	Below	Lower contribution from the print and TV network segments
Star	Media	Below	Lower contribution from the 'print and digital' and radio broadcasting segments
Dayang Ent	Oil & Gas	Below	Losses from one-off expenses (accelerated amortization) and large losses from Perdana Petroleum
Deleum	Oil & Gas	Below	Slowdown in activities from Power & Machinery segment
KNM	Oil & Gas	Below	Unexpected losses from the American division due to slowdown in Canadian oil sand projects
Wah Seong	Oil & Gas	Below	Slowdown in activity levels
FGV	Plantation	Below	Weaker than expected earnings from the sugar division
IOI Corp	Plantation	Below	Due to a loss of RM58.5m in the downstream division
YTL Power	Power	Below	Broadband losses widened ahead of YES 4G network launch, Power Seraya earnings continue to remain depressed due to overcapacity in Singapore, while domestic PPA extension is delayed
SP Setia	Property	Below	Lower-than-expected margin achieved.



STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Sunway	Property	Below	Weaker than expected earnings from property investment and construction division
Axis REIT	REIT	Below	Higher-than-expected property expenses
MISC	Shipping	Below	Lower charter days and weaker than expected spot LNG and Petroleum tanker rates
Globetronics	Technology	Below	Lower volume loadings from some of the group's customers
BAT	Tobacco	Below	Legal volumes contracting, illicit rising

Source: MIDFR

### APPENDIX 3

#### MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)		EARNINGS (% Chg)
	FY2016E		
	Previous	Revised	
<b>TOTAL (MIDFR Univ.)</b>	72,508.9	70,247.1	<i>(3.1)</i>
<b>Annual % Change</b>	<i>5.2</i>	<i>1.9</i>	
<b>TOTAL (FBM KLCI) *</b>	54,151.5	53,481.7	<i>(1.2)</i>
<b>Annual % Change</b>	<i>1.9</i>	<i>0.6</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.