

6 September 2017

**MALAYSIA EQUITY**

# **EARNINGS WRAP**

# **EARNINGS WRAP**

**Review of corporate earnings**

**Quarter Ended June 2017**

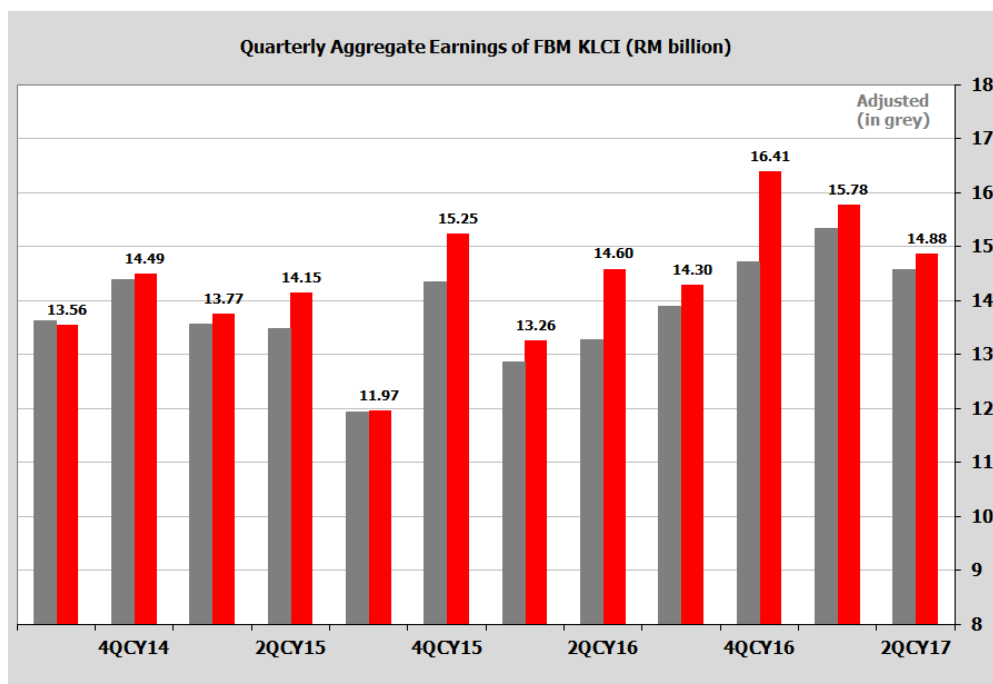
## 6 September 2017 | Earnings Wrap

### Well within expectation

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM14.88b in 2QCY17, lower sequentially at -5.7%qoq but higher on-year at 1.9%yoy.
- The aggregate normalized growth figures were negative sequentially at -5.0%qoq but positive on-year at 9.7%yoy.
- The 2QCY17 aggregate normalized earnings met our expectation at 97.4% of our estimate.
- Within MIDFR Universe, 5% of stocks under coverage reported higher than expected earnings. Of the rest, 22% posted earnings that were lower than expected versus 73% which came within expectations.
- Target price changes involved 14 upward adjustments and 18 downward adjustments.
- We made 10 changes to our stock recommendations with 6 upgrades and 4 downgrades.
- We recently added D&O Green Technologies, Favelle Favco, Fima Corp, Magna Prima, OldTown, P.I.E. Industrial, Spritzer and United U-Li into our stock universe.
- We also ceased coverage on Maybulk Carriers, Glomac, Lion Industries, Ann Joo Resources and MBM Resources.
- We reiterate our year-end 2017 FBM KLCI target at 1,830 points.

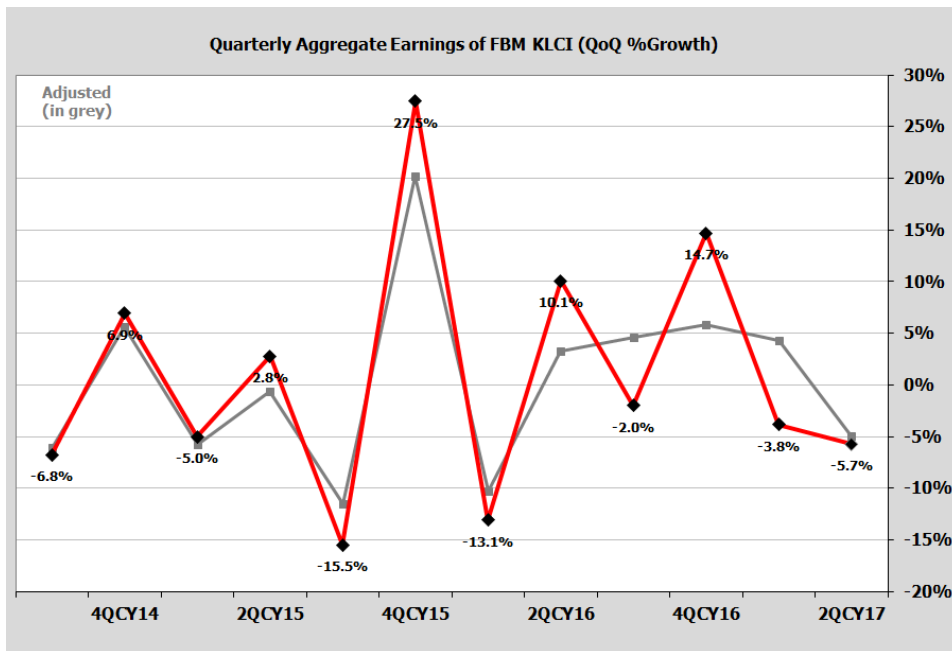
### FBM KLCI

The aggregate reported earnings of FBM KLCI 30 constituents totalled RM14.88b in 2QCY17, lower sequentially at -5.7%qoq but higher on-year at 1.9%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.



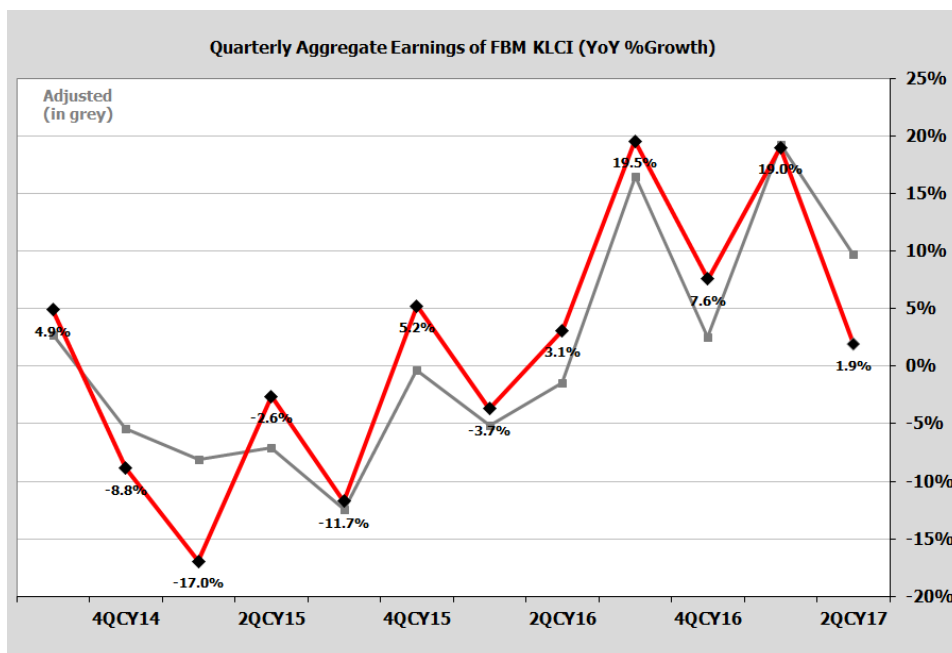
Source: Bloomberg, MIDFR

The aggregate normalized 2QCY17 earnings of FBM KLCI 30 constituents were lower at RM14.57b. Some of the major non-operational items reported during the review quarter were mainly attributable to: (i) gain of RM497m from the disposal of 100% equity stake in Hap Seng Logistics Sdn Bhd by Hap Seng Consolidated Berhad, and (ii) RM131m gain on the disposal of equity interest in Sime Darby Property (Alexandra) Private Limited by Sime Darby Berhad.



Source: Bloomberg, MIDFR

After neutralizing the impact of non-operational items (2QCY17: +RM304m, 1QCY17: +RM443m, 2QCY16: +RM1.31b), the aggregate normalized growth figures were negative sequentially at -5.0%qoq but positive on-year at 9.7%yoy. It is noteworthy that the normalized on-year performance in 2QCY17 was substantially lower than the 19.2%yoy adjusted growth of the preceding 1QCY17 quarter.

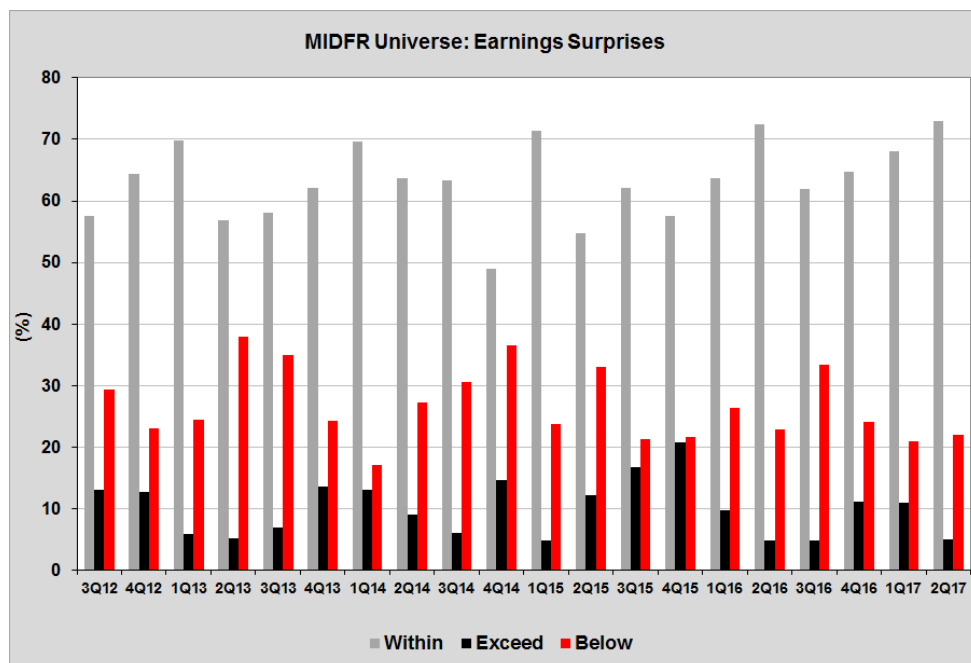


Source: Bloomberg, MIDFR

It is also notable that prior to the latest earnings reporting season, the aggregate normalized earnings of FBM KLCI constituents in 2QCY17 was [estimated to come in at RM14.96b](#). On that score, basing on the actual results, the aggregate normalized figure of RM14.57b made up 97.4% of our estimate.

## MIDFR Universe

Under MIDFR Universe, we made 10 changes to our stock recommendations with 6 upgrades and 4 downgrades. Moreover, target price changes involved 14 upward against 18 downward adjustments. Also, we recently added D&O Green Technologies, Favelle Favo, Fima Corp, Magna Prima, OldTown, P.I.E. Industrial, Spritzer and United U-Li into our stock universe. We also ceased coverage on Maybulk Carriers, Glomac, Lion Industries, Ann Joo Resources and MBM Resources. 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 increased to 22% in 2QCY17 from 21% in the prior quarter. It is noteworthy that the percentage of positive surprises declined to 5% in 2QCY17 from 11% in the prior quarter.

## MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	100%	0%	0%
BANKING	90%	10%	0%
BUILDING MATERIAL	0%	0%	100%
CONSTRUCTION	22%	11%	67%
CONSUMER	89%	0%	11%
FINANCE	67%	33%	0%
GLOVE	75%	0%	25%
HEALTHCARE	100%	0%	0%
INDUSTRIAL	100%	0%	0%
INSURANCE	33%	0%	67%
MEDIA	33%	0%	67%
OIL & GAS	50%	17%	33%
PLANTATION	78%	0%	22%
PROPERTY	80%	10%	10%
REIT	86%	0%	14%
TECHNOLOGY	80%	0%	20%
TELECOMMUNICATION	100%	0%	0%
TOBACCO	0%	0%	100%
TRANSPORTATION	80%	0%	20%
UTILITY	100%	0%	0%
<b>TOTAL</b>	<b>73%</b>	<b>5%</b>	<b>22%</b>

Source: MIDFR

Accordingly, companies with results that were in line with expectations increased to 73% in 2QCY17 from 68% 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 (%)	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14
<b>AUTOMOTIVE</b>	(949.2)	(2,226.0)	-211	10	-1,534	-92	25	21	-228	95	138	238	149	255
<b>BANKING</b>	14.2	(4.1)	6,083	6,344	6,706	6,257	5,328	5,496	5,589	5,728	5,738	5,589	5,753	6,068
<b>BUILD MATERIAL</b>	(340.2)	(9.9)	-44	-49	34	4	18	21	43	71	63	74	50	55
<b>CONSTRUCTION</b>	18.5	(13.3)	481	555	490	486	406	307	638	513	647	455	439	470
<b>CONSUMER</b>	(18.5)	(15.8)	378	449	409	368	464	534	504	476	405	493	438	415
<b>FINANCE</b>	27.2	(5.1)	223	235	163	157	175	150	88	163	193	227	495	293
<b>GLOVE</b>	37.0	(4.5)	228	239	207	190	166	237	295	257	207	181	156	156
<b>HEALTHCARE</b>	36.1	(30.5)	386	555	25	270	283	309	482	247	339	274	396	200
<b>INDUSTRIAL</b>	2.2	99.0	60	30	75	69	59	42	80	76	56	55	73	59
<b>INSURANCE</b>	(55.7)	(9.4)	126	139	137	137	285	135	162	123	141	120	170	114
<b>MEDIA</b>	(73.9)	(36.9)	72	113	195	27	274	237	187	205	245	185	105	214
<b>OIL &amp; GAS</b>	136.6	(4.8)	1,875	1,969	135	1,713	792	949	1,318	1,825	1,803	1,712	1,574	2,058
<b>PLANTATION</b>	(11.1)	(30.9)	1,265	1,830	1,857	1,415	1,424	1,839	2,312	108	1,727	753	1,172	1,328
<b>PROPERTY</b>	(13.3)	56.2	1,105	707	1,609	787	1,275	703	1,224	926	1,228	992	1,162	638
<b>REIT</b>	44.2	28.3	578	451	495	344	401	343	704	310	678	320	879	424
<b>TECHNOLOGY</b>	28.6	11.5	178	160	172	139	138	95	149	138	117	98	91	91
<b>TELECOM</b>	25.3	15.1	1,551	1,348	723	1,358	1,237	1,608	1,510	1,875	1,728	1,603	1,712	1,756
<b>TOBACCO</b>	207.4	24.0	147	119	289	209	48	175	195	257	215	243	187	241
<b>TRANSPORT</b>	(50.1)	(38.0)	1,022	1,648	1,548	840	2,049	1,961	1,766	53	2,351	826	1,423	574
<b>UTILITY</b>	(19.5)	23.1	2,374	1,928	2,055	2,059	2,948	1,727	2,514	1,210	1,278	2,612	2,919	1,816
<b>TOTAL</b>	<b>0.5</b>	<b>(4.8)</b>	17,876	18,780	15,791	16,736	17,795	16,887	19,533	14,656	19,300	17,018	19,342	17,225

Source: MIDFR

Industrial, REIT, Technology, Telecommunication and Tobacco were the sectors which recorded higher total earnings (as reported) in 2QCY17 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Automotive, Building Material, Consumer, Insurance, Media, Plantation and Transportation sectors were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 2QCY17.

## Overall results met our expectation

Prior to the just concluded earnings reporting season, the aggregate normalized 2QCY17 earnings of FBM KLCI constituents were estimated to come in at RM14.96b. Hence, basing on the actual results, we thereby conclude that the 2QCY17 normalized earnings of FBM KLCI constituents met (i.e. within  $\pm 5$ ppts) our expectation as the aggregate normalized figure of RM14.57b came in at 97.4% of our estimate.

## FBM KLCI: Outperformer versus Underperformer

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

Source: MIDFR

It is also notable that the ratio of outperformer against underperformer among the FBM KLCI constituents remains skewed towards the latter at 2:3 in 2QCY17. The outperformers were CIMB Group and Petronas Chemicals while the underperformers were IJM Corp, IOI Corp and Digi.

While the 2QCY17 ratio was only marginally better in comparison to the preceding 1QCY17, nonetheless it was a clear improvement over the single outperformer against 4 underperformers in the corresponding quarter last year, i.e. 2QCY16.

### **Changes to estimates**

The aggregate FY2017 earnings of the FBM KLCI constituents under our coverage was adjusted lower by -2.8% to RM54.30b 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 -2.7% to RM73.54b vis-à-vis our earlier estimate prior to the latest reporting season. It seems that 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 2QCY17 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 X	Aviation	Neutral	Neutral	0.50	0.43
Alliance Financial Group	Banking	Neutral	Buy	4.60	4.60
Hong Leong Bank	Banking	Buy	Neutral	15.70	15.70
CMSB	Construction	Neutral	Buy	4.62	4.62
MRCB	Construction	Buy	Buy	2.08	1.36
Muhibbah	Construction	Buy	Buy	3.26	3.45
Fraser & Neave	Consumer	Neutral	Neutral	26.23	25.47
MSM	Consumer	Sell	Neutral	3.46	3.31
Padini	Consumer	Neutral	Neutral	2.98	3.79
QL Resources	Consumer	Neutral	Neutral	4.62	5.37
Oldtown	Consumer	Neutral	Neutral	2.90	3.10
Panasonic Manufacturing	Consumer	Neutral	Neutral	32.40	35.75
Kossan Rubber Industries	Gloves	Buy	Neutral	7.57	7.57
Supermax	Gloves	Neutral	Neutral	2.11	1.94
Pharmaniaga	Healthcare	Neutral	Neutral	5.19	4.66
Star	Media	Neutral	Sell	2.46	1.80
Astro	Media	Buy	Buy	3.78	3.64
Media Prima	Media	Neutral	Neutral	0.91	0.77
Bumi Armada	Oil and Gas	Neutral	Neutral	0.71	0.85
KNM Group	Oil and Gas	Neutral	Neutral	0.21	0.27
Dayang Enterprise	Oil and Gas	Neutral	Neutral	0.96	0.83
Deleum	Oil and Gas	Neutral	Neutral	1.00	0.77
Dialog Group	Oil and Gas	Neutral	Neutral	1.88	1.99
Petronas Chemicals	Oil and Gas	Neutral	Buy	8.18	7.58
Malaysia Marine & Heavy Engineering	Oil and Gas	Sell	Neutral	0.70	0.70
IJM Plantations	Plantation	Neutral	Neutral	3.50	3.00
Genting Plantations	Plantation	Neutral	Buy	11.55	12.06
SIME	Plantation	Neutral	Neutral	9.00	9.05
IOI Corp	Plantation	Neutral	Neutral	5.00	4.95
UOA Development	Property	Neutral	Neutral	2.75	2.80
E&O	Property	Buy	Buy	2.68	2.37
Axis REIT	REIT	Neutral	Neutral	1.68	1.73
Sunway REIT	REIT	Buy	Buy	1.88	1.93
MISC	Shipping	Neutral	Neutral	7.90	7.43

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Unisem	Technology	Buy	Buy	3.91	4.58
Digi	Telecommunication	Neutral	Neutral	5.42	5.02
MMC	Transportation	Buy	Neutral	2.98	2.63

Source: MIDFR

## APPENDIX 2

### MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
AirAsia X	Aviation	Below	The negative deviation is caused by lower than expected average fare and higher than expected operating expense.
CIMB	Banking	Above	Higher than expected Islamic Banking income
Lafarge	Building Material	Below	OPEX impacted bottom line
Muhibbah	Construction	Above	Supported by airport concession in Cambodia
MRCB	Construction	Below	Dragged by lower progress billings
CMSB	Construction	Below	Lower revenue key segments
WCT	Construction	Below	Lower contribution from property segment and higher expenses
IJM	Construction	Below	Higher finance cost
HSL	Construction	Below	Lower progress billings
Vivo	Construction	Below	Lower progress billings
MSM	Consumer	Below	Due to the higher raw sugar costs and weakening Ringgit.
Supermax	Gloves	Below	Earnings for Supermax was mainly affected by higher tax during the quarter as well as the lag effect in transferring the increase in raw materials price which took place in 1Q17. It was also due to higher A&P expenses incurred for its contact lens products.
LPI Capital	Insurance	Below	Due to lower gain on disposal, stemming from lower realization from its equity investments.
Tune Protect	Insurance	Below	Driven by higher claim cost in motor segment. The lower earnings was also due to the impact from MAVCOM's opt-in ruling.
Tiong Nam	Logistics	Below	The large shortfall was due to operating expenses which doubled compared to a year ago with increases in staff headcount, warehouse footprint and vehicle count. Besides that, start-up costs related to new ventures could have also dampened earnings.
Star	Media	Below	Lower contribution from the print and digital segment in view of poor market sentiment as well as start-up costs incurred for dimsum.



STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Media Prima	Media	Below	Existing cost structure of the group can no longer match the revenue generated from the various business segments.
MBSB	Non-bank financials	Above	Driven by higher income from net financing/loans and lower cost of funds.
KNM Group	Oil and Gas	Below	Lower revenue and earnings resulting from lower project percentage of completion recognised as the projects related to the Pengerang Integrated Petroleum Complex are either delivered or nearing completion
Bumi Armada	Oil and Gas	Above	One-off revenue recognised based on work completed on the LukOil project arising from signing of the supplementary agreement and also higher OSV utilisation rate of 52% for the quarter
Dayang Enterprise	Oil and Gas	Below	Normalised earnings (excluding impairments) below expectations due to lower profit margins attained from high operating costs environment
Malaysia Marine & Heavy Engineering	Oil and Gas	Below	Lower than expected job replenishment and sailaways of major projects
Petronas Chemicals	Oil and Gas	Above	Impressive earnings were a result of: (i) better-than-expected PUR at 90% for the quarter; (ii) higher average selling prices; (iii) higher sales volume of +14%yoy and; (iv) lower operating expenses
Sapura Energy	Oil and Gas	Below	Drilling segment performed badly as utilisation rate is low along with charter rates. Energy segment is also producing less hydrocarbon volume
IJM Plantations	Plantation	Below	Higher-than-expected cost incurred from its Indonesian operations
IOI Corp	Plantation	Below	Weaker than expected margin in the resource based manufacturing (RBM) division
E&O	Properties	Below	Higher-than-expected expenses
IOI Properties	Properties	Above	Higher-than-expected earnings contribution from Singapore project
Pavilion REIT	REIT	Below	Higher-than-expected property operating expenses in 2QFY17
Digi	Telecommunication	Below	Lower prepaid revenue and higher depreciation and amortisation expenses
MMC	Transportation	Below	The earnings miss was due to lower than expected earnings in the energy and construction divisions.

Source: MIDFR

## APPENDIX 3

### MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2017		FY2018		FY2017	FY2018
	Old	New	Old	New		
<b>TOTAL (MIDFR Univ.)</b>	75,610.9	73,541.1	79,671.4	79,595.9	(2.7)	(0.1)
<b>Annual % Change</b>	8.3	5.3	5.4	8.2		
<b>TOTAL (FBM KLCI) *</b>	55,882.9	54,299.1	57,733.4	58,111.3	(2.8)	0.7
<b>Annual % Change</b>	10.7	7.5	3.3	7.0		

Source: MIDFR; (A)—actual, (E)—estimate; \* Aggregate earnings of 27 FBM KLCI constituents under MIDFR coverage

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.