

2 December 2015

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended September 2015

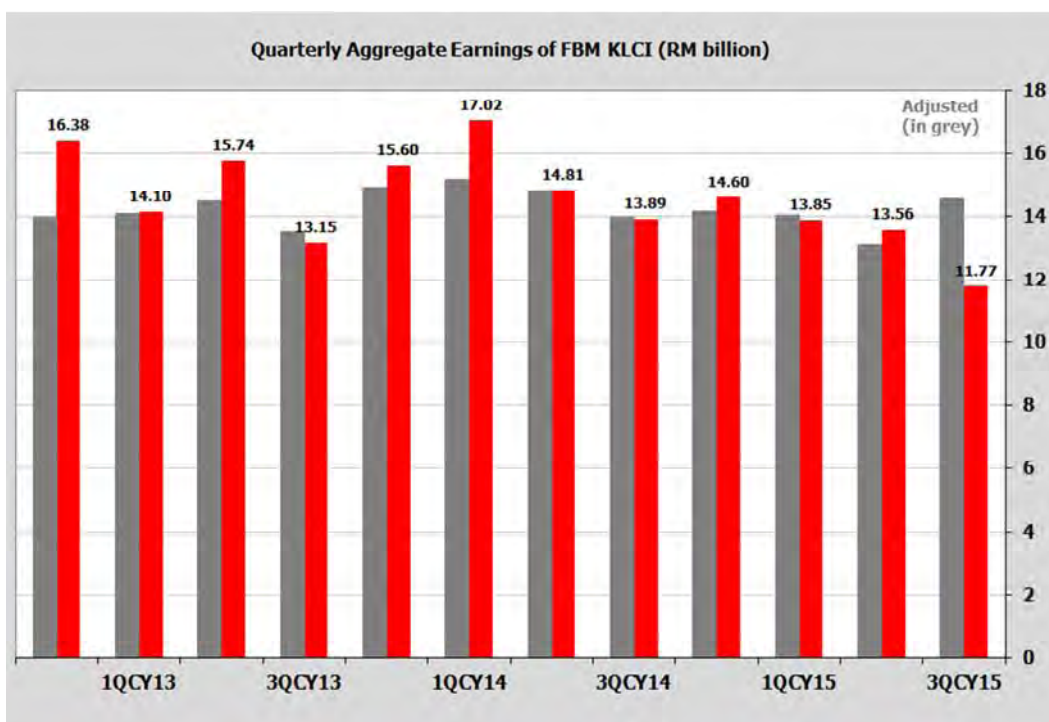
2 December 2015 | Earnings Wrap

The weaker-than-expected streak since 1QCY14 is broken

- The aggregate reported earnings of current 30 FBM KLCI constituents totalled RM11.77b in 3QCY15, lower both sequentially and on-year at -13.2%qoq and -15.3%yoy respectively.
- In contrast, the aggregate normalized growth figures were higher at +10.9%qoq and +4.1%yoy respectively.
- The 3QCY15 aggregate adjusted earnings of RM14.53b came within expectation at 96% of our estimate.
- Hence, the weaker-than-expected streak which began in 1QCY14 is broken.
- Overall, 21% of stocks under MIDFR Universe coverage reported lower-than-expected earnings. Of the rest, 17% posted earnings that were better than expected versus 62% which came within expectations.
- Target price changes involved 15 upward adjustments and 27 downward adjustments.
- We made 14 changes to our stock recommendations with 3 upgrades and 11 downgrades.
- We added MMC Corporation and Supermax Corporation to our coverage universe.
- Maintain year-end 2015 FBM KLCI baseline target of 1,650 points (with upper and lower range of 1,700 and 1,600 points respectively) and reiterate year-end 2016 target at 1,800 points.

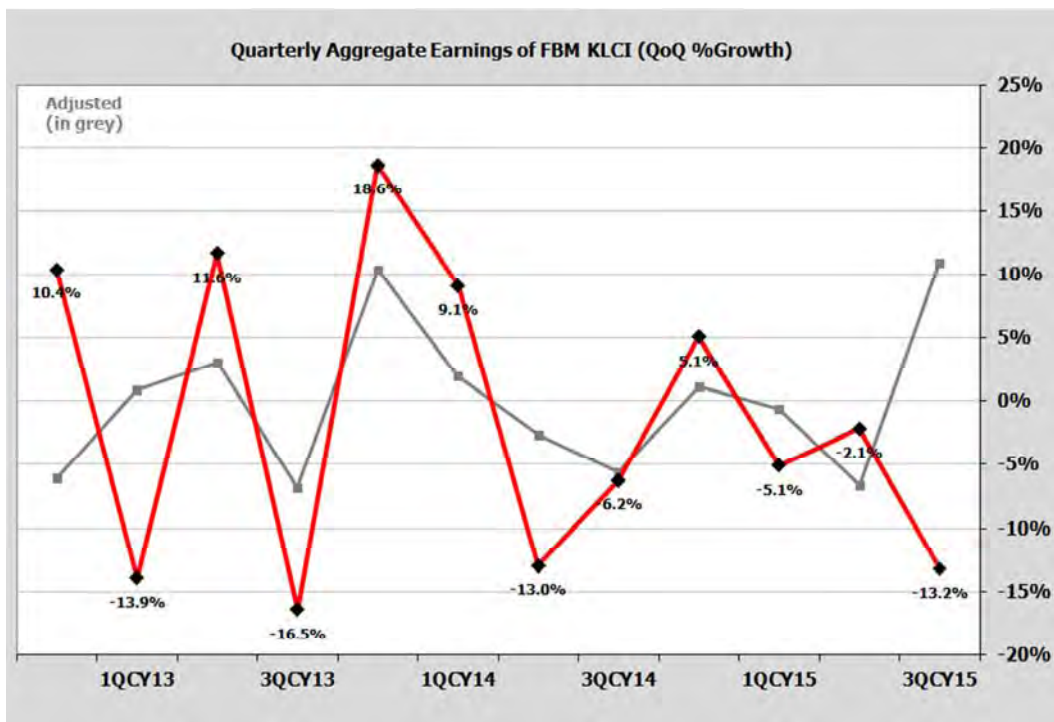
FBM KLCI

The aggregate reported earnings of current 30 FBM KLCI constituents totalled RM11.77b in 3QCY15. The figure was lower both sequentially and on-year at -13.2%qoq and -15.3%yoy respectively. However, the aggregate reported earnings figure require some adjustments in order for the sequential and on-year growth numbers to reflect a fairer picture of the benchmark's earnings performance.



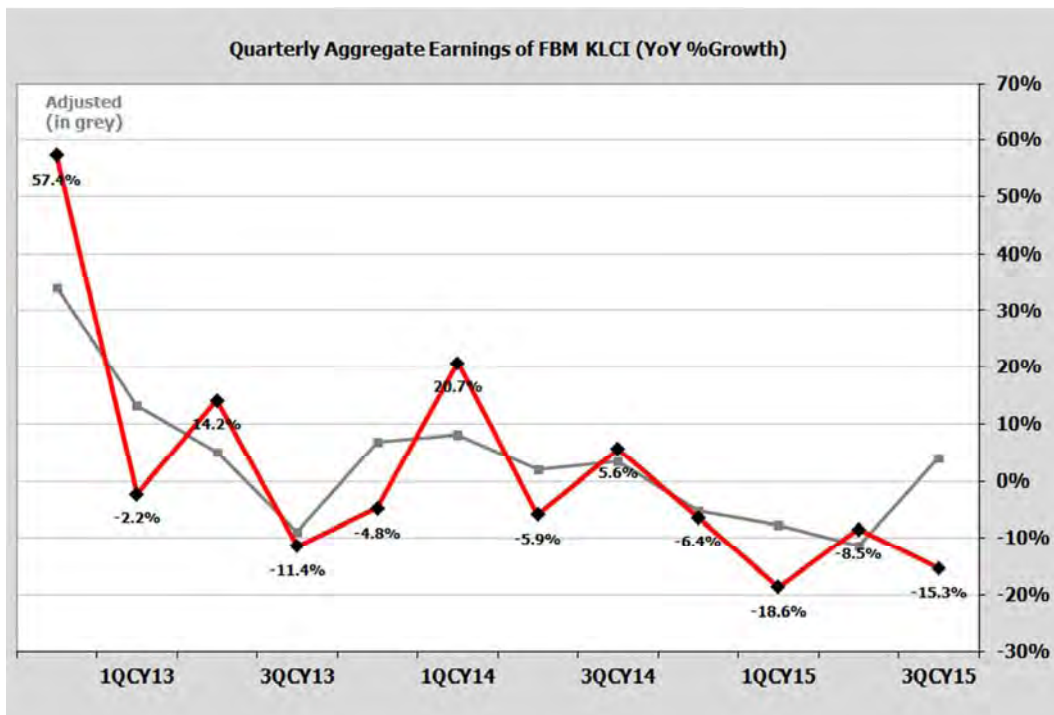
Source: Bloomberg, MIDFR

The aggregate adjusted earnings of current 30 FBM KLCI constituents totalled RM14.53b in 3QCY15, or higher by RM2.77b in comparison to the reported amount. Some of the major non-ordinary items reported during the review quarter include (i) RM1.06b losses on FX and fair value of derivatives by IOI Corp, (ii) RM443m assets impairment and FX translation by SapuraKencana, and (iii) RM309m CTS expenses by RHB Capital.



Source: Bloomberg, MIDFR

After normalizing the impact of non-ordinary items (3QCY15: +RM2.77b, 2QCY15: -RM449m, 3QCY14: +RM71m), the adjusted sequential growth in 3QCY15 was substantially higher at +10.9%qoq. Likewise, the adjusted on-year growth number was also much better at +4.1%yoy, which was also a reversal to the -11.4%yoy adjusted growth performance of the preceding 2QCY15 quarter.

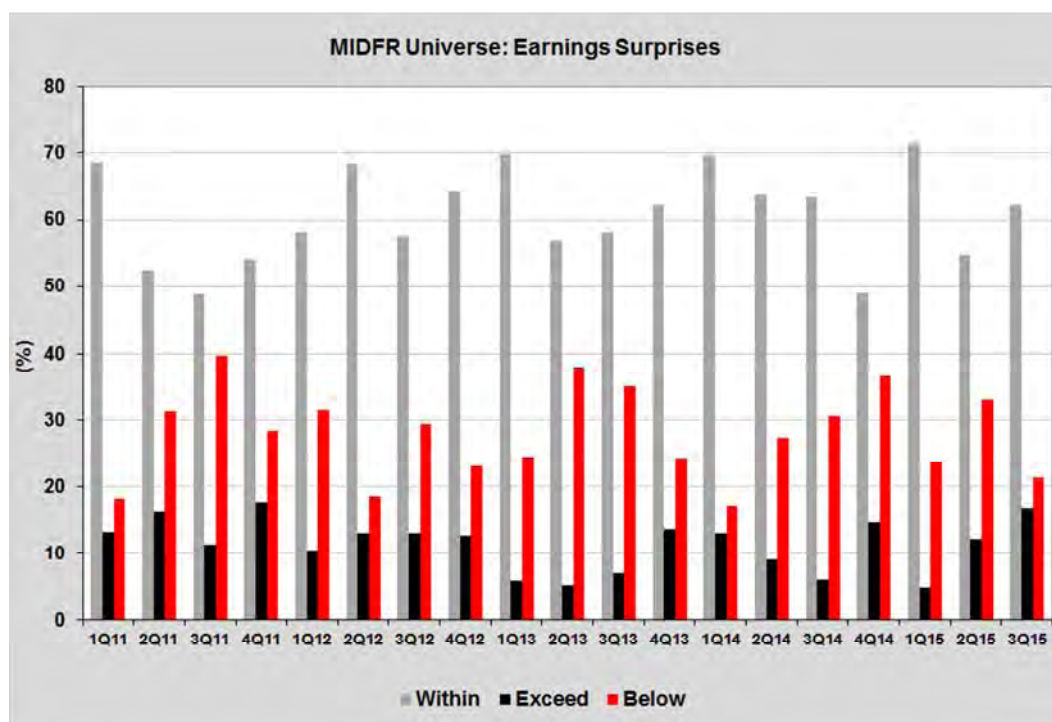


Source: Bloomberg, MIDFR

In our 3QCY15 earning preview report dated 9 November 2015, we estimated the aggregate earnings of FBM KLCI to come in at RM15.15b. On this score, basing on the adjusted aggregate earnings of RM14.53b in 3QCY15, the actual figure accounted for 96% of our earlier estimate.

MIDFR Universe

Under the MIDFR Universe, we made 14 changes to our stock recommendations with 3 upgrades and 11 downgrades. In addition, target price changes involved 15 upward adjustments against 27 downward adjustments. For the record, we added MMC Corporation and Supermax Corporation to our coverage universe after the prior result season. 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 declined to 21% in 3QCY15 from 33% in the preceding quarter. On the other hand, it is noteworthy that the proportion of positive surprises increased to 17% during the quarter under review vis-à-vis 12% recorded in 2QCY15.

MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	75%	0%	25%
BANKING	70%	0%	30%
BUILDING MATERIAL	33%	0%	67%
CONSTRUCTION	50%	30%	20%
CONSUMER	88%	13%	0%
FINANCE	50%	0%	50%
GLOVE	50%	50%	0%
HEALTHCARE	67%	33%	0%
INSURANCE	100%	0%	0%
MEDIA	67%	0%	33%
OIL & GAS	50%	21%	29%
PLANTATION	45%	18%	36%
PROPERTY	50%	25%	25%
REIT	67%	33%	0%
TECHNOLOGY	50%	50%	0%
TELECOMMUNICATIONS	25%	0%	75%
TOBACCO	100%	0%	0%
TRANSPORT	89%	11%	0%
UTILITY	100%	0%	0%
TOTAL	62%	17%	21%

Source: MIDFR

Accordingly, companies with results that were in line with expectations had risen to 62% in 3QCY15 from 55% 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 %	3Q15	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13	1Q13	4Q12
AUTOMOTIVE	(63.1)	(38.0)	104	167	273	183	280	275	331	211	168	355	337	287
BANKING	(5.6)	(0.2)	5,728	5,738	5,589	5,753	6,068	6,035	5,938	6,019	6,210	5,696	5,762	5,636
BUILD MATERIAL	(177.3)	(53.5)	-28	-60	38	-24	36	-334	95	99	56	40	105	109
CONSTRUCTION	45.0	(19.8)	521	649	468	460	359	445	376	962	431	388	385	452
CONSUMER	26.0	76.2	472	268	438	478	374	375	457	357	435	417	475	407
FINANCE	(53.1)	(14.8)	115	135	171	446	245	280	242	167	179	220	204	219
GLOVE	64.5	24.1	257	207	181	156	156	161	154	172	182	172	178	180
HEALTHCARE	22.2	(29.9)	227	323	243	359	185	254	197	292	151	189	164	287
INSURANCE	8.4	(12.6)	123	141	120	170	114	108	105	115	109	97	88	98
MEDIA	(4.3)	(16.4)	205	245	185	105	214	204	155	231	206	203	136	288
OIL & GAS	(14.0)	0.1	1,852	1,850	1,801	1,679	2,152	2,141	1,999	1,653	2,040	2,592	2,215	1,905
PLANTATION	(85.2)	(88.4)	202	1,731	2,120	1,205	1,358	2,411	3,910	2,617	1,545	2,429	2,281	963
PROPERTY	27.8	(10.2)	737	821	840	909	577	656	476	1,564	443	586	652	722
REIT	(25.7)	(54.9)	301	668	312	806	405	539	304	653	301	583	303	881
TECHNOLOGY	35.4	23.1	61	49	41	37	45	28	23	-78	15	10	0	-8
TELECOM	6.8	8.5	1,875	1,728	1,603	1,712	1,756	1,607	1,855	1,758	1,877	1,767	1,631	1,558
TOBACCO	6.5	19.3	257	215	243	187	241	248	225	189	219	211	204	197
TRANSPORT	(94.7)	(98.8)	29	2,308	766	1,387	541	822	941	1,461	885	513	618	1,287
UTILITY	(33.4)	(5.3)	1,210	1,278	2,612	2,919	1,816	2,498	2,315	2,365	882	2,345	1,818	1,934
TOTAL	(15.8)	(22.8)	14,245	18,463	18,012	18,926	16,924	18,751	20,069	20,809	16,228	18,845	17,557	17,264

Source: MIDFR

Consumer, Glove, Technology, Telecom and Tobacco were the sectors which recorded higher total earnings (as reported) in 3QCY15 when compared to both the preceding quarter and corresponding period last year.

On the other hand, sectors such as Auto, Banking, Media, Plantation, Transport and Utility were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 3QCY15.

Results met expectation

Recall our 3QCY15 earning preview report dated 9 November 2015 in which we estimated the aggregate earnings of FBM KLCI to come in at RM15.15b. Pursuant to the just concluded results season, we thereby conclude that the 3QCY15 earnings came within (± 5 ppts) our expectation albeit on the lower end, as the adjusted aggregate earnings of RM14.53b accounted for 96% of our estimate. At long last, the disappointing earnings streak which began in 1QCY14 is broken.

Furthermore, we have witnessed quite an encouraging improvement among the FBM KLCI constituents with regard to the ratio of outperformer against underperformer. Recall that in 2QCY15 there were only 4 outperformers against 9 underperformers among FBM KLCI constituents while the ratio stood at a measly 0:10 in the earlier 1QCY15 period. In comparison, the latest 3QCY15 season fared comparatively better than the previous ones as there are 5 outperformers against 8 underperformers. The outperformers were IHH Healthcare, KLCC Property, MISC, Petronas Dagangan and SapuraKencana. On the other hand, the underperformers were AMMB, Axiata, Digi, KL Kepong, RHB Capital, Sime Darby, TM and UMW Holdings.

In gist, while earnings had incessantly disappointed both ours and consensus expectations during the prior 6 consecutive result seasons, however, the latest reporting season seems pointing towards the beginning of the end to the prolonged drought in earnings performance.

FBM KLCI: Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
3QCY15	5	8
2QCY15	4	9
1QCY15	0	10

Source: MIDFR

Changes to estimates

The aggregate earnings estimate for FY2015 of the 28 FBM KLCI constituents under our coverage was trimmed by a minor -0.3% to RM53.81b vis-à-vis its earlier estimate pursuant to the prior reporting season. Moreover, the aggregate earnings estimate for FY2015 of all 106 stocks under MIDFR Universe was adjusted by merely -1.1% to RM68.51b. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

Maintain FBM KLCI year-end targets

We maintain our year-end 2015 FBM KLCI baseline target at 1,650 points with upper and lower range of 1,700 and 1,600 points respectively. Similarly, we reiterate our year-end 2016 target of 1,800 points.



APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Affin	Banking	Neutral	Sell	2.30	1.90
AFG	Banking	Neutral	Neutral	4.10	3.80
AMMB	Banking	Neutral	Neutral	5.50	5.10
Ann Joo	Build Material	Neutral	Sell	0.73	0.60
Axiata	Telecom	Neutral	Neutral	6.39	6.20
BAT	Tobacco	Buy	Neutral	69.62	66.44
Dayang	Oil & Gas	Buy	Neutral	1.97	1.34
Digi	Telecom	Buy	Buy	7.04	6.70
E&O	Property	Neutral	Neutral	1.66	1.63
Eversendai	Construction	Buy	Neutral	1.28	0.85
Favelle Favco	Oil & Gas	Buy	Buy	2.87	3.20
FGV	Plantation	Neutral	Sell	1.30	1.30
Genting Plant	Plantation	Neutral	Neutral	10.20	9.53
Hartalega	Glove	Neutral	Neutral	4.45	5.45
HLeong Bank	Banking	Buy	Neutral	14.60	14.60
HLeong Fin	Finance	Buy	Buy	17.80	16.90
HSL	Construction	Buy	Neutral	2.06	1.95
IGB REIT	REIT	Buy	Buy	1.46	1.56
IHH	Healthcare	Neutral	Neutral	5.96	7.06
IJM Plant	Plantation	Neutral	Neutral	3.50	3.65
KLCCP	REIT	Neutral	Neutral	6.93	7.60
KLK	Plantation	Neutral	Neutral	23.40	22.50
Litrak	Transport	Buy	Neutral	5.84	5.34
LPI Cap	Insurance	Neutral	Neutral	13.18	13.66
MAHB	Transport	Neutral	Buy	6.35	6.35
MBSB	Finance	Neutral	Neutral	1.44	1.42
MISC	Transport	Buy	Buy	9.09	10.27
MMHE	Oil & Gas	Neutral	Neutral	1.27	1.01
MRCB	Construction	Buy	Buy	2.12	1.70
Panasonic	Consumer	Buy	Buy	27.44	31.40
Petro Chem	Oil & Gas	Sell	Neutral	4.77	5.49
Petro Dagang	Oil & Gas	Trading Sell	Neutral	18.89	18.89
Public Bank	Banking	Neutral	Neutral	19.80	18.80
RHB	Banking	Neutral	Neutral	6.60	6.20

SapuraKencana	Oil & Gas	Buy	Buy	3.55	2.89
Sime	Plantation	Buy	Neutral	8.80	8.20
SPSetia	Property	Buy	Buy	3.60	3.70
Star	Media	Neutral	Neutral	2.46	2.22
Supermax	Glove	Neutral	Neutral	2.09	2.40
Ta Ann	Plantation	Buy	Buy	4.50	6.50
TM	Telecom	Neutral	Neutral	7.10	7.01
Top Glove	Glove	Buy	Neutral	6.79	9.84
UEMS	Property	Neutral	Neutral	1.13	1.10
UMW Holdings	Automotive	Neutral	Neutral	8.60	6.90
Unisem	Technology	Buy	Buy	2.74	3.13
UOA Dev	Property	Neutral	Neutral	2.05	2.02

Source: MIDFR

APPENDIX 2

MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below)	COMMENT
Gamuda	Construction	Above	Catalysts from KVMRT1 construction packages especially tunnelling and station constructions
IGB REIT	REIT	Above	Driven by lower operating expenses
IHH	Healthcare	Above	Better performance from its Singapore and Turkey operations. Higher revenue intensity growth in FY15 for Malaysia and Singapore
IJM Plant	Plantation	Above	Earnings came in above expectations due to lower-than-expected operating expenses
KLCCP	REIT	Above	Earnings beat expectations due to lower-than-expected tax rate coupled with higher earnings contribution from office and retail segments.
KNM	Oil & Gas	Above	Higher utilisation rates coupled with higher margin jobs executed
MISC	Transport	Above	The petroleum tanker segment which recorded PBT of US\$97m (3Q14: Loss of -US\$30m) was more than enough to offset weaker contributions from LNG segment. The petroleum tanker segment was buoyed by strong time charter and spot rates, up +50%yoy and +83%yoy respectively
Muhibbah	Construction	Above	Underpinned by; (i) project roll outs from RAPID, Pengerang and (ii) favourable USD/MYR rate from airport concessions in Cambodia
Panasonic	Consumer	Above	Stronger sales in the domestic and export market for both home appliances and fan products. Improved profit margins from both product segments
Petro Dagang	Oil & Gas	Above	Increase in earnings was due to aggressive cost cutting

			measure in light of declining revenue and volume sold
SapuraKencana	Oil & Gas	Above	Higher contribution from Drilling segment despite lower realized selling prices from its crude oil extracted
SPSetia	Property	Above	Margin for Fulton Lane project in Australia was stronger than expected
Sunway Con	Construction	Above	Intra urban infrastructure project roll out such as Sunway BRT route and other construction projects from Sunway Group
Supermax	Glove	Above	Higher operating efficiency, stronger USD against MYR, higher capacity output from new refurbished lines and better sales mix.
Ta Ann	Plantation	Above	Earnings surprise stemmed from stronger US Dollar and higher export logs price
Top Glove	Glove	Above	Increase in sales volume, lower operating expenses, lower minority interest and stronger USD against Ringgit
Unisem	Technology	Above	Favourable USD-MYR exchange rate and expansion in profit margin
UOA Dev	Property	Above	Driven by higher-than-expected progress billing and the contribution from Vertical Office Suites
Affin	Banking	Below	Due to a significant increase in credit charge-off from higher IA and with lower than anticipated NOII
AMMB	Banking	Below	Lower than expected NOII
Ann Joo	Build Material	Below	Steep decline in selling prices of steel causing margins to be eroded, write down in inventory value and net FX losses due to strengthening of USD against MYR on USD borrowings
Axiata	Telecom	Below	Higher operating expenditure
Dayang	Oil & Gas	Below	Earnings drag from Perdana Petroleum
Digi	Telecom	Below	Weaker consumer sentiment and fierce price competition among its peers
E&O	Property	Below	Earnings weighed by slower profit recognition of its property projects and higher expenses
Eversendai	Construction	Below	High cost of sales
Favelle Favco	Oil & Gas	Below	Orderbook lower by -29% compared to same period last year
FGV	Plantation	Below	Unexpected Loss Before Tax (LBT) of RM80m in the Trading, Marketing and Logistics (TML) division. Higher than expected expenses as FGV's administrative expenses surged by 33%yoy to RM709m
Genting Plant	Plantation	Below	Higher-than-expected depreciation charges
HSL	Construction	Below	Higher cost of sales and lower sales rate from property development launches
KLK	Plantation	Below	FFB growth of 1.9% in FY15 was lower than our earlier estimate of 4.7%
Lafarge	Build Material	Below	Influenced by intense pricing competition and wider distribution channels from competitors
MBSB	Finance	Below	The variance was due to (1) Higher allowance for impairment losses on loans, advances and financing of RM431.1m (>100%yoy), and (2) lower core operating income of RM971.8m (-5%yoy)
MMHE	Oil & Gas	Below	Additional provisions made for TLP Malikai

RHB	Banking	Below	Slow growth in non fund based income
Sime	Plantation	Below	Significantly lower EBIT in the industrial division which tumbled 71%yoy to RM54m
Star	Media	Below	Lower revenue from Print and I.star Ideas Factory segments; Higher direct costs from Cityneon
TM	Telecom	Below	Earnings impacted by loss making P1 and higher effective tax rate
UEMS	Property	Below	Higher than expected interest cost and expenses
UMW Holdings	Automotive	Below	Underperformance in the automotive (shortfall in Toyota TIV, worse than expected margin impact from competition) and O&G divisions (3 idle rigs in 3Q15, low utilization rates, while two rigs have reached contract expiry in Oct 2015)
Wah Seong	Oil & Gas	Below	Poor activity levels from oil and gas segment coupled with lower margin works executed

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)		EARNINGS (% Chg)
	FY2015 (E)		FY2015
	Old	New	
TOTAL (MIDFR Universe)	69,265.5	68,512.0	<i>(1.1)</i>
Annual % Change	<i>(7.9)</i>	<i>(8.9)</i>	
TOTAL (FBM KLCI) *	53,988.4	53,806.2	<i>(0.3)</i>
Annual % Change	<i>(6.7)</i>	<i>(7.0)</i>	

Source: MIDFR; (E) – estimate; * Aggregate non-weighted 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.