

2 December 2016

**MALAYSIA EQUITY**

# **EARNINGS WRAP**

**Review of corporate earnings**

**Quarter Ended September 2016**

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

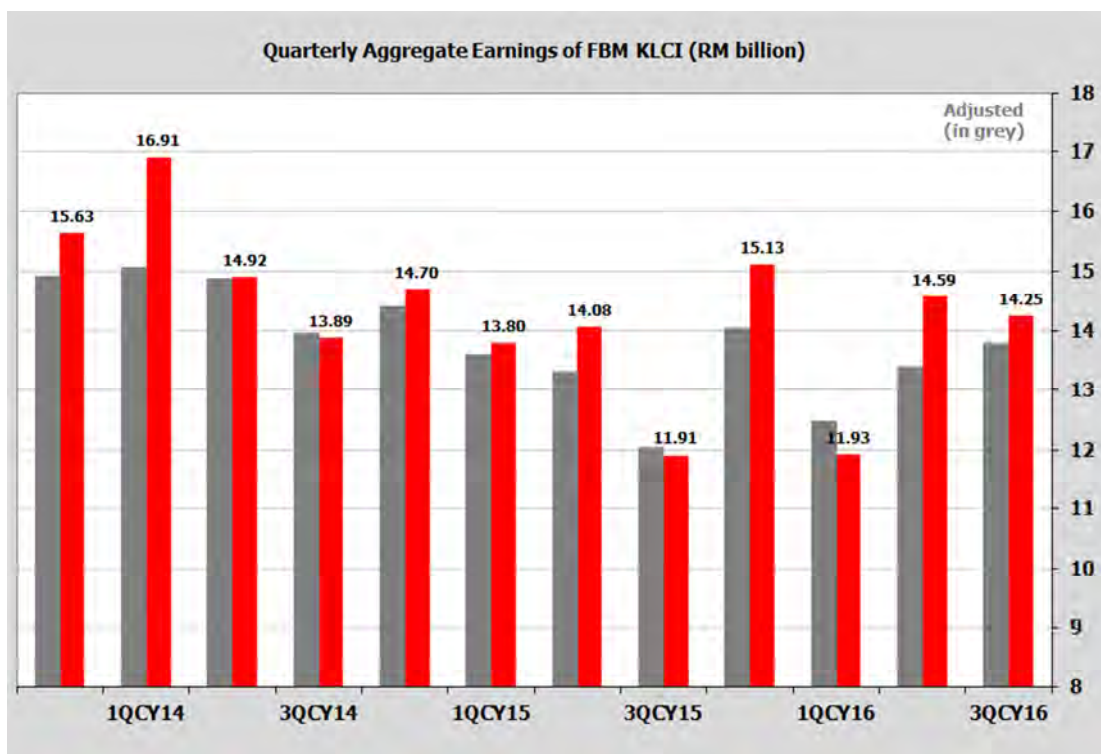
## 2 December 2016 | Earnings Wrap

### Slightly lagged expectation

- The aggregate reported earnings of FBM KLCI 30 constituents totalled RM14.25b in 3QCY16, lower sequentially but higher on-year at -2.3%qoq and 19.6%yoy respectively.
- However, the aggregate normalized growth figures were higher sequentially at 3.0%qoq but slightly moderated on-year at 14.7%yoy.
- The 3QCY16 aggregate earnings slightly lagged expectation at 94.0% of our estimate.
- Within MIDFR Universe, 5% of stocks under coverage reported higher than expected earnings. Of the rest, 33% posted earnings that were lower than expected versus 62% which came within expectations.
- Target price changes involved 16 upward adjustments and 29 downward adjustments.
- We made 14 changes to our stock recommendations with 7 upgrades and 7 downgrades.
- We recently added AEON Credit Service, Cahya Mata Sarawak, Inari Amertron, Superlon Holdings and Tiong Nam Logistics Holdings to our universe and ceased coverage of Parkson Holdings and Protasco.
- Revised year-end 2016 FBM KLCI target to 1,700 points.

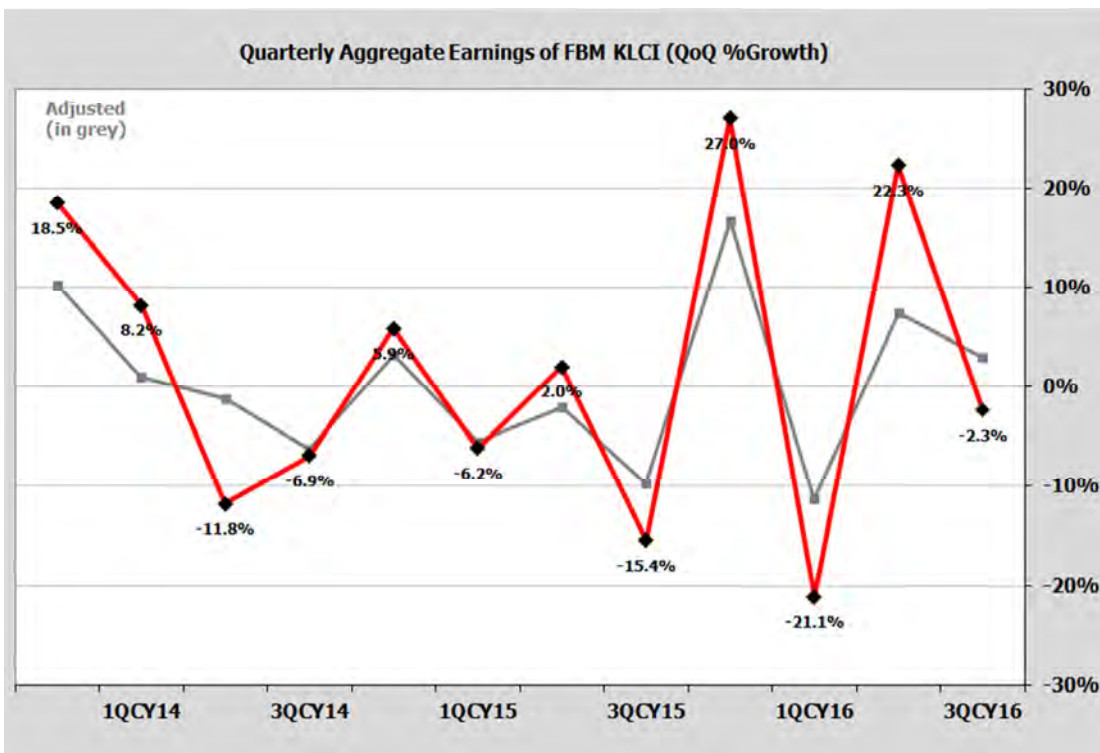
### FBM KLCI

The aggregate reported earnings of FBM KLCI 30 constituents totalled RM14.25b in 3QCY16. The figure was lower sequentially but higher on-year at -2.3%qoq and 19.6%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.



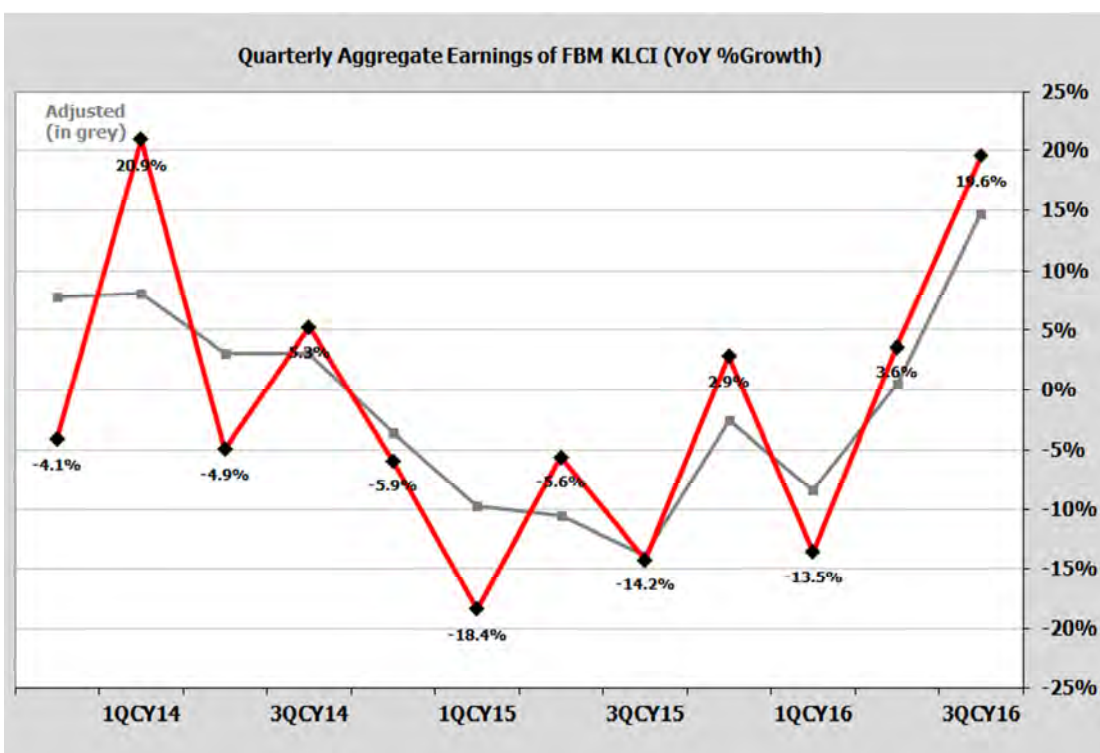
Source: Bloomberg, MIDFR

The aggregate normalized 3QCY16 earnings of FBM KLCI 30 constituents were lower at RM13.80b. Some of the major non-operational items reported during the review quarter include (i) RM198m gain on disposals (mainly RM131m from disposal of property in Singapore and RM35m from disposal of 10% stake in E&O) by Sime Darby, and (ii) RM150m gain on the sale of Sun Life by CIMB.



Source: Bloomberg, MIDFR

After neutralizing the impact of non-operational items (3QCY16: -RM452m, 2QCY16: -RM1.20b, 2QCY15: +RM118m), the normalized sequential growth in 3QCY16 was higher at 3.0%qoq. While the normalized on-year growth number was slightly moderated at 14.7%yoy, nonetheless it was much superior to the tepid 0.5%yoy normalized growth performance of the preceding 2QCY16 quarter.

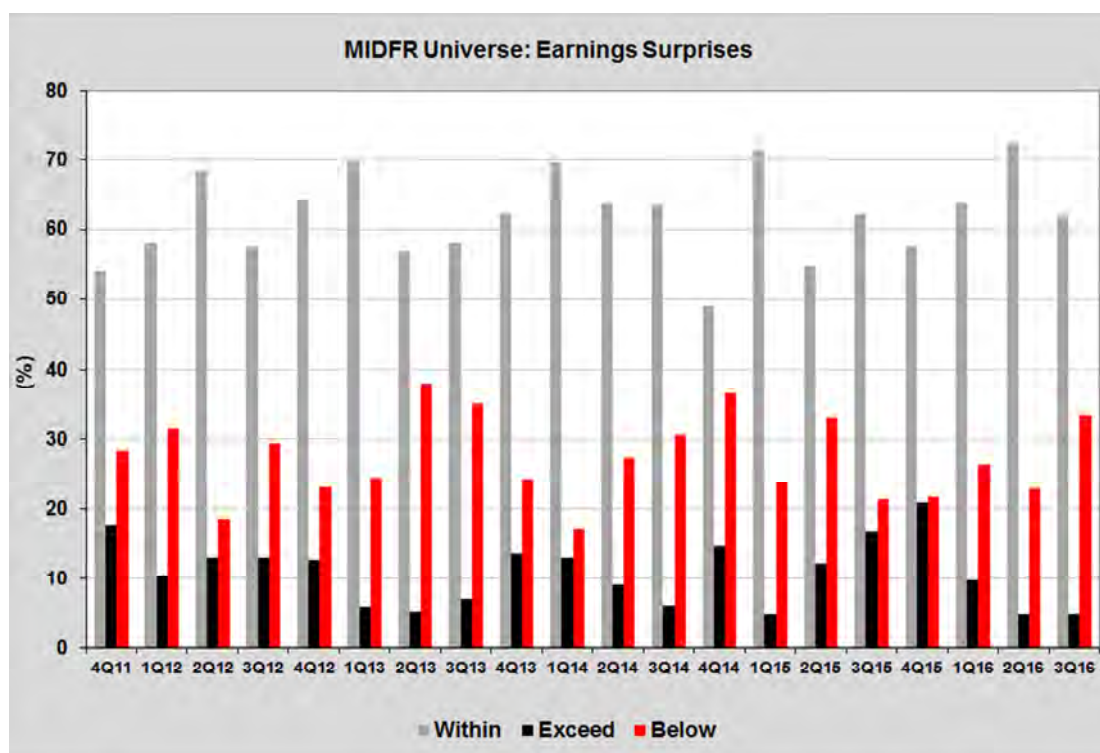


Source: Bloomberg, MIDFR

It is notable that prior to the 3QCY16 earnings reporting season, the aggregate earnings of FBM KLCI constituents was estimated to come in at RM15.16b. On that score, basing on the actual results, the aggregate figure of RM14.25b accounted for 94.0% of our estimate.

## MIDFR Universe

Under MIDFR Universe, we made 45 changes to our stock recommendations with 16 upgrades and 29 downgrades. Moreover, target price changes involved 7 upward against 7 downward adjustments. Also, we recently added AEON Credit Service (M) Bhd, Cahya Mata Sarawak Bhd, Inari Amertron Bhd, Superlon Holdings Bhd and Tiong Nam Logistics Holdings Bhd to our universe and ceased coverage of Parkson Holdings Bhd and Protasco Bhd. 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 risen to 33% in 3QCY16 from 23% in the prior quarter. Nevertheless, it is noteworthy that the percentage of positive surprises remained at 5% during the quarter under review vis-à-vis in 2QCY16.

## MIDFR Universe: Earnings Surprises

	Within	Exceed	Below
AUTOMOTIVE	100%	0%	0%
BANKING	70%	10%	20%
BUILDING MATERIAL	100%	0%	0%
CONSTRUCTION	0%	13%	88%
CONSUMER	50%	0%	50%
FINANCE	67%	0%	33%
GLOVE	25%	0%	75%
HEALTHCARE	100%	0%	0%
INSURANCE	67%	0%	33%
MEDIA	33%	0%	67%
OIL & GAS	50%	17%	33%
PLANTATION	44%	11%	44%
PROPERTY	80%	0%	20%
REIT	83%	0%	17%
TECHNOLOGY	50%	0%	50%
TELECOMMUNICATION	75%	0%	25%
TOBACCO	100%	0%	0%
TRANSPORTATION	78%	0%	22%
UTILITY	100%	0%	0%
<b>TOTAL</b>	<b>62%</b>	<b>5%</b>	<b>33%</b>

Source: MIDFR

Accordingly, companies with results that were in line with expectations declined to 62% in 3QCY16 from 72% 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 %	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13
<b>AUTOMOTIVE</b>	(168.5)	(262.2)	-71	44	39	-220	104	167	273	183	280	275	331	211
<b>BANKING</b>	9.2	17.4	6,257	5,328	5,496	5,589	5,728	5,738	5,589	5,753	6,068	6,035	5,938	6,019
<b>BUILD MATERIAL</b>	(185.8)	(104.2)	24	-571	-89	20	-28	-60	38	-24	36	-334	95	99
<b>CONSTRUCTION</b>	(10.1)	20.4	481	399	303	638	535	642	449	428	455	453	299	854
<b>CONSUMER</b>	(25.7)	(25.5)	298	401	471	428	402	352	429	361	349	341	395	324
<b>FINANCE</b>	(3.9)	(10.3)	157	175	150	88	163	193	227	495	293	336	290	210
<b>GLOVE</b>	(26.0)	14.4	190	166	237	295	257	207	181	156	156	161	154	172
<b>HEALTHCARE</b>	13.4	(4.3)	257	268	290	466	227	323	243	359	185	254	197	292
<b>INSURANCE</b>	11.2	(51.9)	137	285	135	162	123	141	120	170	114	108	105	115
<b>MEDIA</b>	(86.6)	(90.0)	27	274	237	187	205	245	185	105	214	204	155	231
<b>OIL &amp; GAS</b>	(6.1)	116.2	1,713	792	949	1,318	1,825	1,803	1,712	1,574	2,058	2,046	1,928	1,599
<b>PLANTATION</b>	1,204.2	(0.7)	1,415	1,424	1,839	2,312	108	1,727	753	1,172	1,328	2,293	3,866	2,576
<b>PROPERTY</b>	0.9	(16.6)	869	1,043	718	1,006	862	1,234	951	1,190	679	1,071	566	1,864
<b>REIT</b>	11.4	(14.4)	336	392	333	671	301	668	312	806	405	539	304	653
<b>TECHNOLOGY</b>	1.2	0.9	136	135	93	147	135	113	98	91	91	74	62	-42
<b>TELECOM</b>	(27.6)	9.8	1,358	1,237	1,608	1,510	1,875	1,728	1,603	1,712	1,756	1,607	1,855	1,758
<b>TOBACCO</b>	(18.8)	335.2	209	48	175	195	257	215	243	187	241	248	225	189
<b>TRANSPORT</b>	3,064.8	(60.1)	793	1,989	1,921	630	25	2,314	791	1,387	558	832	967	1,480
<b>UTILITY</b>	70.1	(30.2)	2,059	2,948	1,727	2,514	1,210	1,278	2,612	2,919	1,816	2,498	2,315	2,365
<b>TOTAL</b>	<b>16.3</b>	<b>(0.8)</b>	16,658	16,787	16,641	17,966	14,324	19,040	16,786	19,030	17,090	19,048	20,025	20,980

Source: MIDFR

Banking and Technology were the few sectors which recorded higher total earnings (as reported) in 3QCY16 when compared to both the preceding quarter and corresponding period last year.

On the other hand, Automotive, Building Material, Consumer, Finance and Media sectors were those that showed negative sequential as well as on-year earnings (as reported) growth percentages in 3QCY16.

### Overall results slightly lagged expectation

Prior to the just concluded earnings reporting season, the aggregate 3QCY16 earnings of FBM KLCI constituents were estimated to come in at RM15.16b. Hence, basing on the actual results, we thereby conclude that the 3QCY16 earnings of FBM KLCI constituents slightly lagged (i.e. more than -5ppts) our expectation as the aggregate figure of RM14.25b accounted for only 94.0% of our estimate.

### FBM KLCI: Outperformer versus Underperformer

	No. of Outperformer	No. of Underperformer
3QCY16	2	5
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 remains skewed toward the latter at 2:5 in 3QCY16. The outperformers were Petronas Dagangan and Tenaga Nasional while the underperformers were CIMB, Maybank, MISC, Sime Darby and Telekom Malaysia.

While the 3QCY16 ratio was quite comparable to the preceding 2QCY16 performance, nonetheless it was a clear improvement over the zero outperformer against 8 underperformers in 1QCY16.

### Changes to estimates

The aggregate FY2016 earnings of the FBM KLCI constituents under our coverage were adjusted lower by -1.3% to RM53.58b 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 -2.0% to RM69.30b vis-à-vis our earlier estimate pursuant to the prior reporting season. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

### Revised FBM KLCI year-end 2016 target to 1,700 points


As the overall 3QCY16 results slightly lagged our expectation and couple with the cagey market sentiment due to the still unsettling Ringgit situation, we thereby revised our FBM KLCI year-end 2016 target (from 1,750 points) to 1,700 points. Nonetheless, we maintain our year-end 2017 target at 1,830 points.

#### FBM KLCI: Year-end bumps

	15-Dec	31-Dec	Change (points)
Year 2015	1,622.84	1,692.51	+69.67
Year 2014	1,697.31	1,761.25	+63.94

Source: Bloomberg, MIDFR

The impetus for the FBM KLCI to rise from the current levels of 1,620-1,630 points towards our revised year-end 2016 target of 1,700 points may come from an anticipated year-end rally.

Recall in both Decembers of 2014 and 2015, despite against the backdrop of tumbling crude oil prices and a US Fed rate lift-off, the market benchmark advanced by 60-70 points during the final fortnight of the calendar years. As in the previous years, we foresee a tendency for possible repeat of a year-end rally in 2016. 

## 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 X	Aviation	Neutral	Buy	0.40	0.50
Affin	Banking	Neutral	Buy	2.30	2.50
Alliance	Banking	Neutral	Neutral	4.00	4.05
AMMB	Banking	Buy	Neutral	5.10	4.55
CIMB	Banking	Buy	Buy	5.50	5.90
Hong Leong Bank	Banking	Neutral	Buy	14.10	15.00
Public Bank	Banking	Neutral	Buy	20.40	22.20
Vivocom	Construction	Buy	Buy	0.63	0.40
WCT	Construction	Neutral	Sell	1.61	1.61
Aeon Co	Consumer	Neutral	Neutral	2.58	2.35
Fraser & Neave	Consumer	Neutral	Neutral	28.35	25.32
MSM	Consumer	Neutral	Neutral	5.20	4.02
Padini	Consumer	Neutral	Neutral	2.75	2.81
MBSB	Finance	Buy	Buy	1.14	1.08
Kossan	Glove	Buy	Buy	8.60	7.85
Supermax	Glove	Buy	Neutral	3.02	2.42
Top Glove	Glove	Buy	Neutral	6.28	5.24
IHH Health	Healthcare	Neutral	Neutral	6.95	6.75
Takaful	Insurance	Buy	Buy	4.65	4.84
Tune Protect	Insurance	Buy	Buy	2.28	2.18
Media Prima	Media	Neutral	Sell	1.17	0.78
Bumi Armada	Oil & Gas	Neutral	Neutral	0.71	0.63
Dayang Enterprise	Oil & Gas	Buy	Neutral	0.95	0.95
Gas Malaysia	Oil & Gas	Buy	Buy	2.92	3.07
KNM	Oil & Gas	Neutral	Neutral	0.43	0.41
MMHE	Oil & Gas	Neutral	Neutral	0.81	0.77
Petronas Dagangan	Oil & Gas	Neutral	Neutral	23.57	24.80
Wah Seong	Oil & Gas	Trading Sell	Sell	0.68	0.65
KL Kepong	Plantation	Buy	Buy	27.38	29.05
PPB	Plantation	Neutral	Neutral	15.00	14.70
Sime Darby	Plantation	Neutral	Neutral	7.75	7.70
Ta Ann	Plantation	Neutral	Buy	3.50	4.50
TSH Res	Plantation	Neutral	Neutral	2.10	2.05
MMC	Port	Buy	Buy	3.11	2.94
E&O	Property	Neutral	Neutral	1.60	1.58

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
Glomac	Property	Neutral	Neutral	0.77	0.76
Mah Sing	Property	Neutral	Neutral	1.68	1.57
UOA Development	Property	Neutral	Buy	2.68	2.68
Pavilion REIT	REIT	Neutral	Neutral	1.79	1.72
MISC	Shipping	Neutral	Neutral	8.05	7.96
Globetronics	Technology	Neutral	Neutral	3.07	3.64
Inari	Technology	Buy	Buy	3.77	4.32
Myeg	Technology	Neutral	Buy	2.16	2.84
Panasonic	Technology	Neutral	Neutral	36.18	35.32
Unisem	Technology	Buy	Buy	3.28	3.06
Axiata	Telecom	Neutral	Neutral	5.13	4.74
Telekom Malaysia	Telecom	Buy	Buy	8.18	7.42

Source: MIDFR

## APPENDIX 2

### MIDFR Universe: Outperformers and Underperformers

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Affin	Banking	Above	The positive variance was due to the Group registering lower net impairment losses.
Muhibbah	Construction	Above	Steady contribution from infrastructure assets.
Gas Malaysia	Oil & Gas	Above	Better than anticipated gas volume sold from increase in new customers secured.
Petronas Dagangan	Oil & Gas	Above	Aggressive cost cutting initiatives despite declining average selling prices and product volume.
Ta Ann	Plantation	Above	FFB growth is better than expected as it registers FFB growth of 8%yoy in 9MFY16.
CIMB	Banking	Below	Provisions and tax came in higher than expected. However, operation-wise, results were robust with PPOP growth of +23.5%yoy.
Maybank	Banking	Below	Islamic banking income growth fell to 1.3%yoy. Our expectation was higher at between 3-6%yoy.
CMSB	Construction	Below	Slow transfer of orderbook revenue and recognition from construction package and lower recognition from road maintenance.
HSL	Construction	Below	Lower progress billings from Kuching Wastewater project.
IJM Corp	Construction	Below	Marginal compression from property segment.
Lafarge	Construction	Below	Shifts in product demand.
Sunway Cons	Construction	Below	Slightly lower results due to project completion.
Vivocom	Construction	Below	Slightly below expectations due to higher cost transfer.
WCT	Construction	Below	Possible change of management's direction.



STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Aeon Co	Consumer	Below	Due to weaker than expected performance of retailing division as revenue suffered due to weaker consumer sentiment as well as higher operation cost.
Fraser & Neave	Consumer	Below	The Malaysian business segment hit by both slowdown in consumer spending and the spike in raw material costs i.e. refined sugar and dairy.
MSM	Consumer	Below	Earnings pressured by steep rise of raw material cost (raw sugar) and weakening of ringgit.
MBSB	Finance	Below	The negative growth variance of bottom line was due to higher allowance for impairment, but it was lower interest income than our expectation that dragged bottom line fell below full-year forecasts.
Kossan	Glove	Below	Earnings were affected by hike in various production costs, i.e. minimum wage and natural gas. This is coupled with the ongoing revamp of 12 of its old production lines which resulted in loss of productivity during the quarter.
Supermax	Glove	Below	Earnings were affected by hike in various production costs, i.e. minimum wage and natural gas.
Top Glove	Glove	Below	Earnings were affected by price competition, movement of forex as well as fluctuating raw material prices.
Tune Protect	Insurance	Below	It was due to lower gross written premium recorded for travel insurance in Malaysia and higher claims liabilities following the change in IBNR valuation by Labuan's regulation that the previous provisions were understated.
Media Prima	Media	Below	Poor performance from the print media and television network segments.
Star Media	Media	Below	Lower contribution from the print and digital segment.
Bumi Armada	Oil & Gas	Below	Core operational losses at gross level from FPSO segment.
KNM Group	Oil & Gas	Below	Losses from Americas segment due to low oil sand activities.
MMHE	Oil & Gas	Below	Depleting orderbook coupled with tail-end projects (low activity levels).
Wah Seong	Oil & Gas	Below	Losses from Oil and Gas segment and slow activity levels.
FGV	Plantation	Below	Weaker than expected earnings from the sugar division due to rise in raw sugar price.
PPB	Plantation	Below	Weaker than expected earnings from Wilmar's sugar division.
Sime Darby	Plantation	Below	The impact of Super El Nino has been greater than expected on SIME's plantation division causing the division's FFB volume to decline 24%yoy to 2.15m MT in 1QFY17.
TSH Res	Plantation	Below	FFB volume dropped due to El Nino impact by more than expected.
MMC	Port	Below	Higher than expected expenses for Malakoff.
E&O	Property	Below	Weaker-than-expected property sales in 1HFY17 and lower-than-expected profit margin.
Glomac	Property	Below	Lower than expected recognition of property sales.
MRCB	Property	Below	Mixed results due to our higher forecast of revenue recognition.

STOCK	SECTOR	VS EXPECTATION (Above/Below)	COMMENT
Pavilion REIT	REIT	Below	Subdued performance of newly acquired da:mén USJ mall and lower occupancy rate in Pavilion shopping mall.
MISC	Shipping	Below	Lower charter days and lower than expected spot LNG & petroleum tanker rates.
Globetronics	Technology	Below	Lower volume loadings from some of the group's customers.
Panasonic	Technology	Below	Higher operating expenses and lower share of profits from the associated company.
Telekom Malaysia	Telecom	Below	Higher depreciation and amortization charges and higher net finance cost.

Source: MIDFR

### APPENDIX 3

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

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2016		FY2017		FY2016	FY2017
	Old	New	Old	New		
<b>TOTAL (MIDFR Univ.)</b>	70,715.7	69,296.9	77,906.1	75,187.9	<i>(2.0)</i>	<i>(3.5)</i>
<b>Annual % Change</b>	<i>5.4</i>	<i>3.2</i>	<i>10.2</i>	<i>8.5</i>		
<b>TOTAL (FBM KLCI) *</b>	54,293.6	53,580.4	57,644.9	55,607.2	<i>(1.3)</i>	<i>(3.5)</i>
<b>Annual % Change</b>	<i>2.7</i>	<i>1.4</i>	<i>6.2</i>	<i>3.8</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.