

4 March 2014

MALAYSIA EQUITY

EARNINGS WRAP

Review of corporate earnings

Quarter Ended December 2013

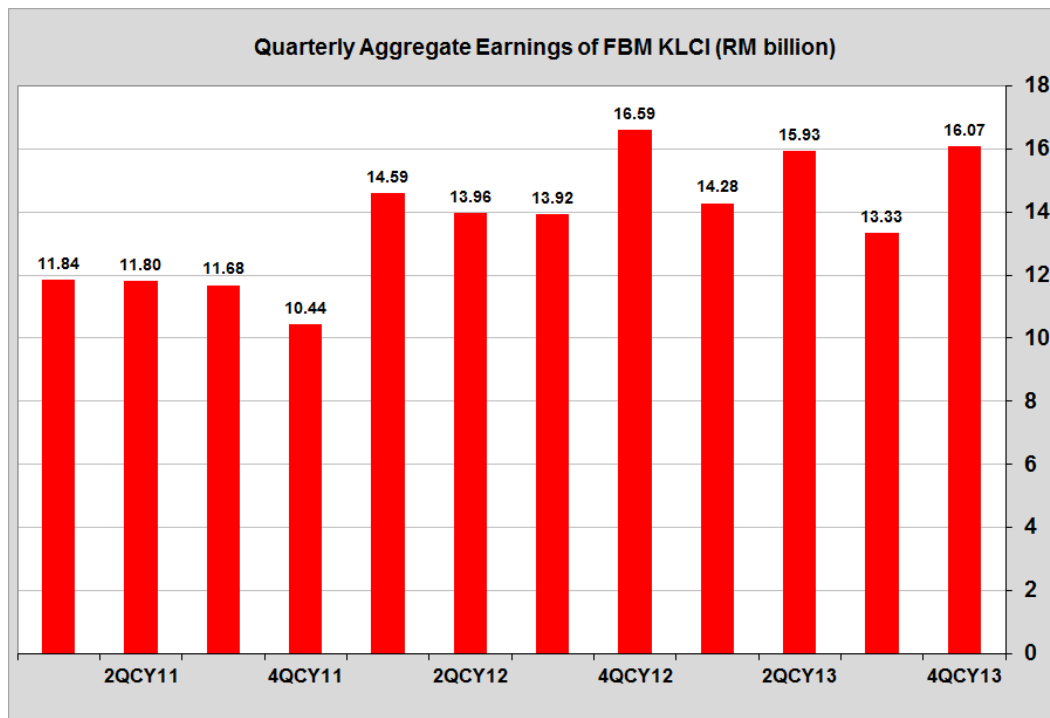
4 March 2014 | Earnings Wrap

Sequential rebound in FBM KLCI earnings

- The aggregate (as reported) earnings of current 30 FBM KLCI companies totalled RM16.07b in 4QCY13, a decline of -3.1%yoy.
- Adjusted for their respective weights in the benchmark, the current 30 FBM KLCI weighted-earnings of RM8.03b showed a slightly bigger decline of -5.7%yoy.
- Nevertheless, the growth figure was impacted by extraordinary items. Stripping off these items, the on-year weighted growth figure would have actually risen by 6.5%yoy.
- Overall, 24% of stocks under MIDFR Universe coverage reported lower-than-expected earnings. Of the rest, 14% posted earnings that were better than expected versus 62% which came in within expectations.
- We made 13 changes to our stock recommendations with 6 downgrades and 7 upgrades.
- Target price changes involved 21 downward adjustments and 19 upward adjustments.
- We added Daibochi, Syarikat Takaful and Westport to our coverage universe during the review period.

FBM KLCI

The aggregate (as reported) earnings of current 30 FBM KLCI constituents totalled RM16.07b in 4QFY13, an increase of 20.5%qoq but a decline of -3.1%yoy.

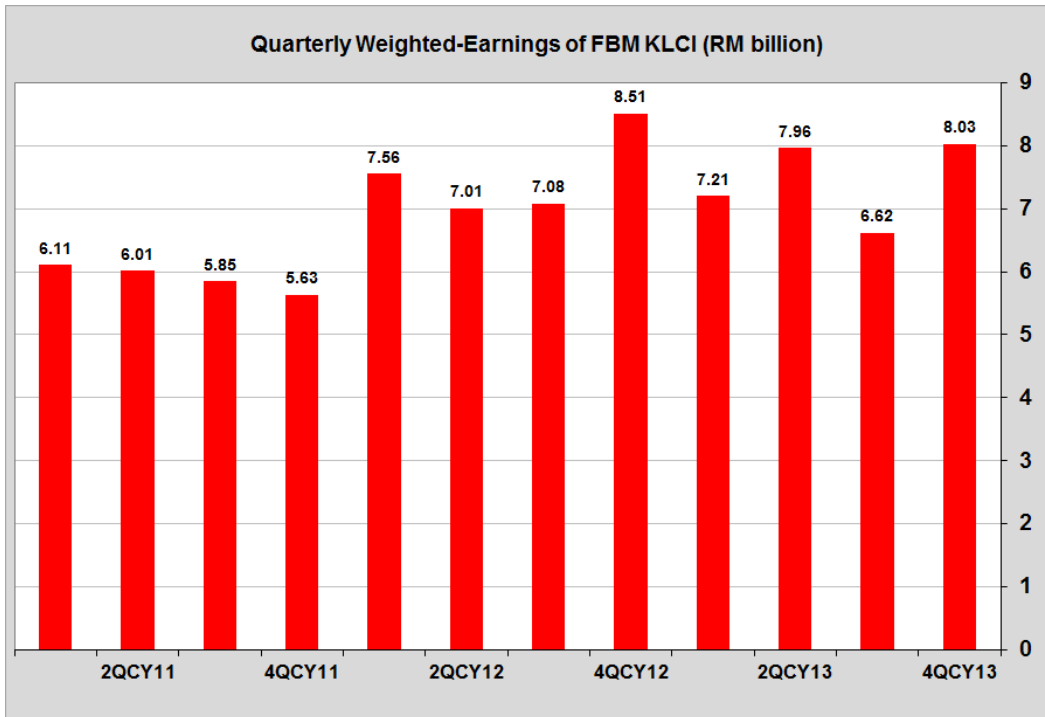


Source: Bloomberg, MIDFR

On a weighted scale, the reported earnings of current 30 FBM KLCI constituents jumped by 21.2%qoq but nevertheless contracted by -5.7%yoy to RM8.03b during the quarter ended December 2013.

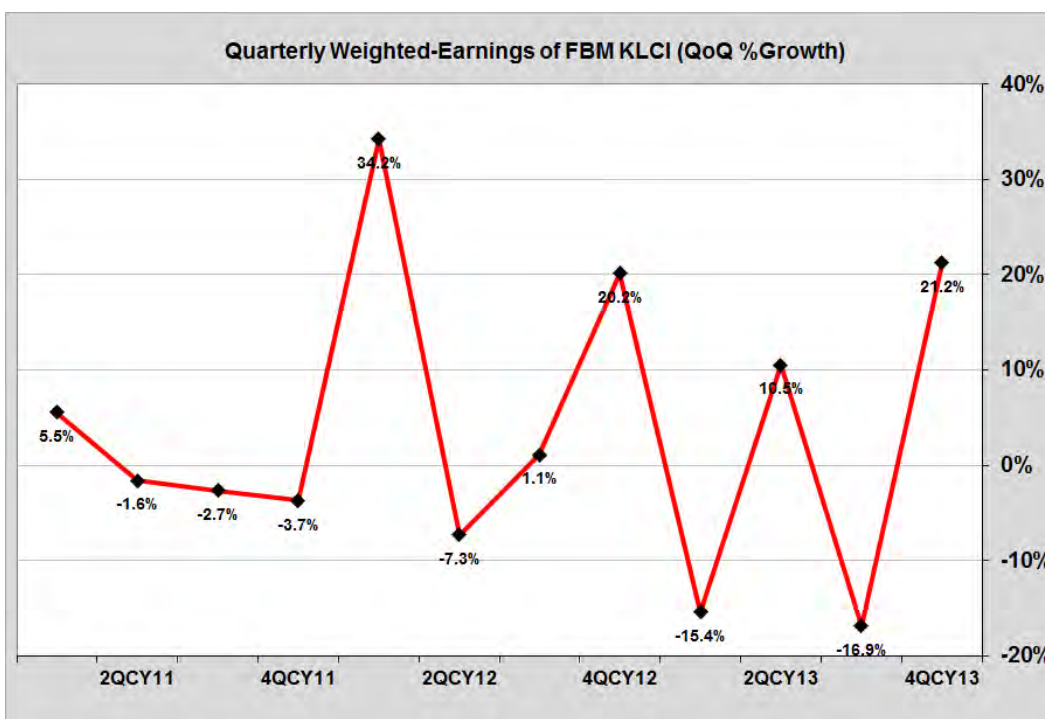
The sequential and on-year growth figures were however not quite reflective of the true weighted earnings growth of the benchmark as the reported number in 4QCY13 was bumped-up mainly by MISC's RM581m non-recurring gain from the realization of finance lease on Gumusut-Kakap FPS. On the other hand, the on-year growth number was dampened principally due the high base effect of Genting's RM1.9b extraordinary profit related to the disposal of its Kuala Langat power plant which was realized in 4QCY12.

After deducting the weighted amount of the exceptional items, the adjusted sequential growth figure in 4QFY13 was lower at 18.3%qoq but the on-year growth figures improved markedly to 6.5%yoy.



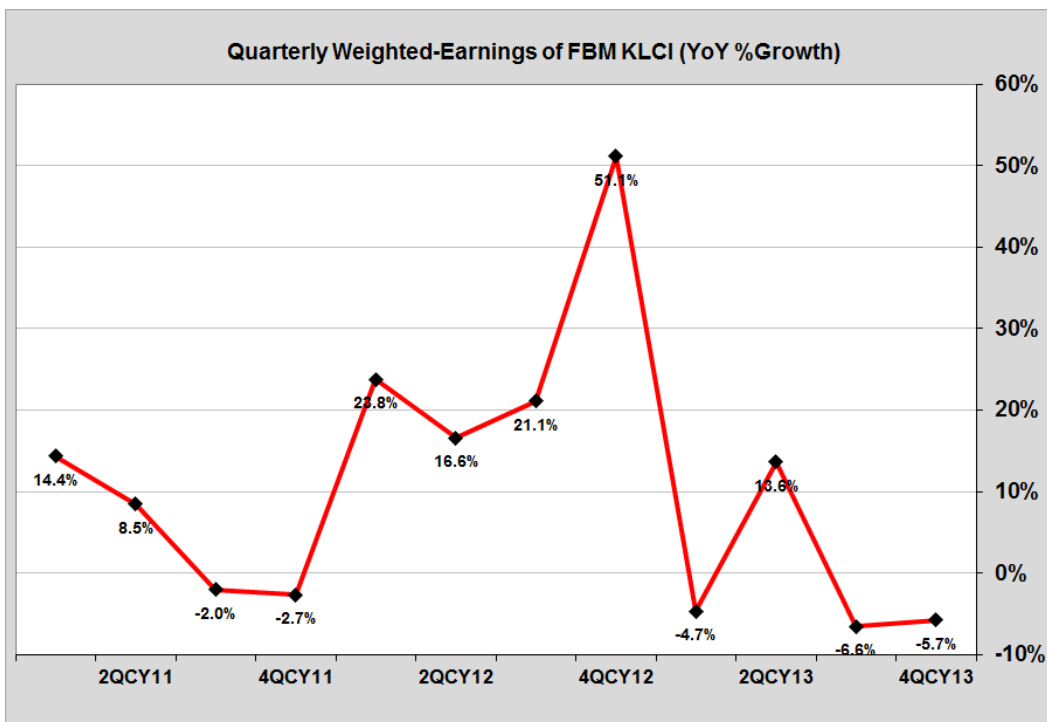
Source: Bloomberg, MIDFR

The sequential weighted-earnings (as reported) of FBM KLCI stocks in 4QCY13 increased by 21.2%qoq, in contrast to a slump of -16.9%qoq recorded in the preceding quarter. Nonetheless, adjusted for some exceptional items, the weighted earnings actually showed a smaller sequential rise of 18.3%qoq in the quarter under review.



Source: Bloomberg, MIDFR

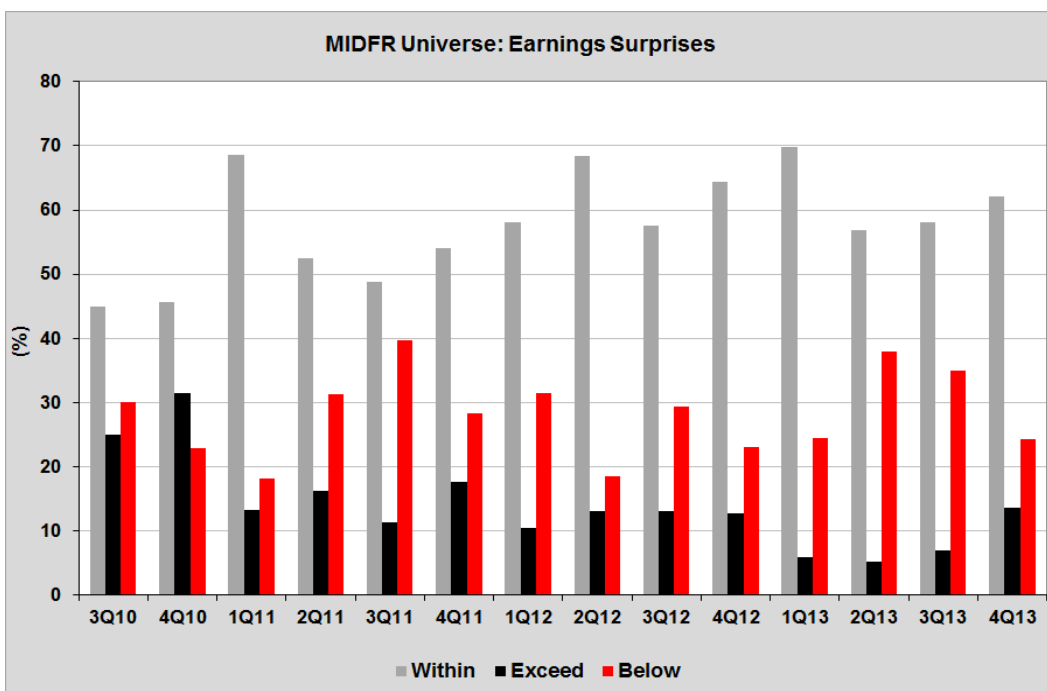
Conversely, the on-year weighted-earnings (as reported) of FBM KLCI stocks in 4QCY13 registered a fall of -5.7%yoy as compared to the same period last year. Moreover, it was only slightly better than the reported growth figures of -6.6%yoy recorded during the preceding 3QFY13 quarter. On adjusted basis, the on-year growth in 4QCY13 nonetheless improved markedly to 6.5%yoy.



Source: Bloomberg, MIDFR

MIDFR Universe

Under the MIDFR Universe, we made 13 changes to our stock recommendations with 7 upgrades and 6 downgrades. In addition, target price changes involved 19 upward adjustments against 21 downward adjustments. We added Daibochi, Syarikat Takaful and Westport 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 declined to 24% (lowest since first quarter 2013) in 4QCY13 from 35% in the preceding quarter. Conversely, the proportion of positive surprises increased to 14% (highest since fourth quarter 2011) during the quarter under review vis-à-vis 7% recorded in 3QCY13.

MIDFR Universe: 4QCY13 Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	57%	14%	29%
TELECOMMUNICATIONS	75%	25%	0%
MEDIA	100%	0%	0%
SEMICONDUCTOR	50%	0%	50%
PLANTATION	0%	50%	50%
TOBACCO	100%	0%	0%
GLOVE	67%	0%	33%
HEALTHCARE	100%	0%	0%
CONSUMER (F&B, Retail)	86%	0%	14%
BANKING	75%	25%	0%
FINANCE	100%	0%	0%
OIL & GAS	40%	0%	60%
PROPERTY	75%	25%	0%
REIT	100%	0%	0%
TRANSPORT	40%	10%	50%
UTILITY	100%	0%	0%
AUTOMOTIVE	67%	0%	33%
BUILDING MATERIAL	50%	25%	25%
TOTAL	62%	14%	24%

Source: MIDFR

The remaining 62% of stocks under our coverage performed within expectations in 4QCY13, a 4%-pts rise 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 %	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11	2Q11	1Q11
CONSTRUCTION	56.9	243.7	921	268	346	354	587	431	356	346	409	310	363	185
TELECOM	12.9	(6.3)	1,758	1,877	1,767	1,631	1,558	1,769	1,803	1,709	2,437	1,721	1,578	1,582
MEDIA	(19.7)	12.1	231	206	203	136	288	93	101	53	125	94	100	75
SEMICONDUCTOR	838.6	(634.4)	(78)	15	10	0	(8)	23	2	(7)	2	13	20	12
PLANTATION	255.9	85.5	2,336	1,259	2,250	2,044	657	2,523	4,060	2,029	2,365	2,240	2,748	2,170
TOBACCO	4.8	(16.3)	209	250	242	244	200	217	250	232	199	216	215	213
GLOVE	(0.7)	0.2	147	146	137	146	148	151	131	125	106	96	101	101
HEALTHCARE	(10.3)	71.1	274	160	194	168	305	136	461	221	117	8	53	48
CONSUMER	(12.8)	(18.3)	350	428	411	468	401	398	374	503	430	411	397	538
BANKING	8.0	(2.8)	5,547	5,704	5,237	5,368	5,136	5,292	5,062	4,815	4,647	4,606	4,401	4,066
FINANCE	(23.7)	(6.4)	167	179	220	204	219	127	132	120	115	134	114	109
OIL & GAS	(16.6)	(16.7)	1,433	1,720	2,309	1,896	1,719	1,523	1,783	1,828	1,493	1,794	1,498	1,568
PROPERTY	112.9	152.2	1,657	657	662	712	778	520	623	414	639	388	500	385
REIT	(41.2)	94.2	459	237	470	216	781	161	478	151	128	88	246	92
TRANSPORT	(13.6)	257.4	960	269	301	335	1,263	548	1,422	(291)	(2,663)	11	(118)	(173)
UTILITY	19.1	293.0	2,005	510	2,076	1,589	1,684	1,339	1,105	3,146	98	(203)	15	958
AUTOMOTIVE	(26.8)	25.1	211	168	355	337	287	367	297	293	108	259	209	264
BUILD MATERIAL	197.3	(189.2)	50	(56)	5	96	17	31	(2)	76	23	66	148	154
TOTAL	17.2	33.2	18,639	13,998	17,226	15,945	15,901	15,643	18,438	15,324	10,779	12,251	12,587	12,405

Source: MIDFR

Telecommunication, Utility and Property were among the sectors which recorded higher total earnings (as reported) in 4QCY13 when compared to the corresponding period last year.


- The year-on-year increase in 4QCY13 earnings for Telecommunication stocks under our coverage was mainly attributable to expansion in topline contribution, especially from the data and internet segments. This was on the back of higher subscriber base. Blended ARPU, especially in the case of Digi.com and TM, have also shown some improvements. Higher profitability was further boosted by the handsome tax incentive. For instance, TM received tax incentives which relates to HSBB amounting to RM162.8m in 4QCY13 versus the company's PBT of RM309.7m in the same period.
- TNB, the bell weather of Power Utility sector, reported a strong 22.6%yoy growth in its 1QFY14 earnings of RM1.73b. The jump in net profit was primarily boosted by some deferred taxation adjustments as TNB expects some tax credits arising from corporate tax reduction to 24% in 2014. The 5.0%yoy increase in revenue was mainly attributable to the higher electricity consumption in domestic and commercial sectors. However, higher operating expenses were recorded for the quarter, predominantly contributed by burning of the more expensive gas fuel due to unplanned outages in some coal-fired power plants for the quarter.
- The positive growth in 4QCY13 earnings for Property companies was likely the result of house buyers and speculators alike rushing to lock in their purchases ahead of the abolishment of the Developer Interest Bearing Scheme effective 1 Jan 2014.

On the other hand, sectors such as Media, Oil & Gas, Consumer and Transport were among those that showed negative on-year earnings (as reported) growth percentage in 4QCY13.

- Poorer performance by the Media stocks under our coverage was mainly due to the dwindling contribution from TV and print media segments, which formed bulk of the respective companies' earnings. This could be due to the gaining popularity of the online media platform as well as repercussion from the on-going subsidy rationalisation programme.
- Earnings for the Oil & Gas stocks under our coverage declined -16.6%yoy and -16.7%qoq. The lackluster earnings growth was largely attributable to poor job executions amongst the offshore fabricators (i.e. Wah Seong Corp and MMHE) and relatively unexciting earnings from the gas utilities companies. In addition Petronas Chemical's 4Q earnings slumped by -50%yoy due longer-than-anticipated plant maintenance. Additionally, KNM Group recorded more than RM100m worth of tax incentives in 2012, but did not record any in 2013.
- The Consumer sector was dragged by the weak numbers from Parkson which reported a -65.5% decline in earnings for 4QFY13. This was mainly due to (i) weaker consumer sentiments in China, Vietnam and Myanmar, (ii) temporary closure of the Shanghai flagship store in China and three performing stores in Malaysia (at Ipoh Parade, Seremban Prima and Klang Parade), and (iii) new store losses in Indonesia coupled with the weakening of Indonesian Rupiah. AEON, Nestle and F&N also showed slight decline in earnings for 4QFY14 mainly due to higher operating costs and the weakening of Malaysian Ringgit against the US Dollar.
- The Transport sector performance was dragged by the declining ticket yield among the airline companies. For 4QFY14, MAS and AirAsia X reported core losses of RM403m and RM64m respectively. AirAsia Bhd was not spared from the intense competition and recorded lower core profit of RM177m (-23%yoy). Furthermore, MAHB failed to grip the upside of its strong passenger growth due to higher operating expenditures and higher losses in its ISG associate.

Changes to Estimates

Pursuant to the 4QCY13 results season, we can safely conclude that the overall numbers came within expectations. This is attested by the narrow variances between the actual aggregate FY2013 earnings of both MIDFR Universe stock and FBM KLCI constituents against their earlier estimates prior to the just concluded reporting season. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

On the other hand, the aggregate earnings estimate for FY2014 of the 23 FBM KLCI stocks under our coverage was lowered by -3.8% to RM53.40b vis-à-vis its earlier estimate prior to the just concluded reporting season. Concomitantly, the aggregate earnings estimate for FY2014 of stocks under MIDFR Universe were also adjusted lower by -4.9% to RM70.21b. 

APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
AirAsia	Aviation	Buy	Buy	3.78	3.48
AirAsia X	Aviation	Buy	Buy	1.45	1.18
AMMB	Banking	Buy	Neutral	8.10	8.00
Public Bank	Banking	Neutral	Neutral	18.40	18.60
Eversendai	Construction	Neutral	Buy	1.14	1.14
Hock Seng Lee	Construction	Neutral	Buy	2.01	2.01
IJM Corp	Construction	Buy	Buy	6.35	6.58
MRCB	Construction	Neutral	Neutral	1.64	1.45
Naim	Construction	Buy	Buy	4.23	5.02
AEON	Consumer	Neutral	Neutral	14.02	14.70
Padini	Consumer	Buy	Buy	1.80	1.93
KKB Engineering	General Industries	Buy	Buy	3.16	3.35
Hartalega	Gloves	Neutral	Neutral	6.61	7.69
Kossan	Gloves	Buy	Buy	3.71	5.20
Top Glove	Gloves	Neutral	Neutral	6.05	5.80
Media Prima	Media	Neutral	Neutral	2.73	2.65
Star	Media	Neutral	Neutral	2.60	2.40
Bumi Armada	Oil & Gas	Buy	Buy	4.83	4.62
Dialog Group	Oil & Gas	Neutral	Neutral	3.15	3.41
KNM Group	Oil & Gas	Sell	Neutral	0.40	0.53
MMHE	Oil & Gas	Neutral	Sell	3.36	2.66
Petronas Chemicals	Oil & Gas	Neutral	Neutral	6.96	6.37
Wah Seong Corp	Oil & Gas	Neutral	Neutral	1.76	2.06
Daibochi	Packaging	Buy	Neutral	4.67	4.47
IJM Plantations	Plantation	Neutral	Neutral	2.90	3.12
IOI Corporation	Plantation	Neutral	Neutral	5.67	4.45
Sime Darby	Plantation	Buy	Buy	10.80	10.26
TSH Resources	Plantation	Neutral	Neutral	2.50	3.06
NCB	Port	Buy	Neutral	4.50	3.70
IJM Land	Property	Buy	Buy	3.32	3.56
Mah Sing	Property	Buy	Buy	2.62	2.53
UEM Sunrise	Property	Buy	Neutral	3.83	2.26
Axis REIT	REIT	Neutral	Neutral	3.48	2.97
CapitaMalls	REIT	Neutral	Buy	1.66	1.66
IGB REIT	REIT	Neutral	Neutral	1.32	1.20
Pavilion REIT	REIT	Neutral	Neutral	1.51	1.36
Sunway REIT	REIT	Neutral	Buy	1.44	1.44
Maybulk	Shipping	Neutral	Neutral	1.90	2.25
MISC	Shipping	Neutral	Neutral	5.35	5.90
Lion Industries	Steel	Neutral	Sell	0.71	0.43
Unisem (M)	Technology	Sell	Neutral	0.62	1.01

Axiata Group	Telecommunications	Neutral	Neutral	7.43	6.53
Telekom Malaysia	Telecommunications	Buy	Buy	6.75	6.82
BAT	Tobacco	Neutral	Neutral	60.00	62.24
Litrak	Toll	Neutral	Buy	4.56	4.56

Source: MIDFR

APPENDIX 2

MIDFR Universe: 4QCY13 Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below %)		COMMENT
UMW Holdings	Automotive	Below	40%	Lower contributions from the Automotive and M&E segments
AirAsia	Aviation	Below	21%	Weaker-than-expected fare yield and lower contributions by associates
AirAsia X	Aviation	Below	74%	Overcapacity and worse-than-expected yield declines
MAHB	Aviation	Below	27%	Higher ISG associate losses and higher OPEX
Affin Holdings	Banking	Above	105%	Due to write back in loan impairment
RHB Cap	Banking	Above	106%	Due to higher than expected increase in non-interest income and lower than expected provision for loan losses
Lafarge	Cement	Above	12%	The better than expected FY13 results were partly consequent to an over-reaction in our earnings downgrade following the company's disappointing 1HFY13 results
WCT	Construction	Above	17%	FY13 numbers was boosted by progress in the completion made in civil and engineering works
Eversendai	Construction	Below	44%	The weaker results were due to variation costs for projects in Mumbai, the share of losses in associates, RM26.2m impairment loss on investment in associate and start-up cost for new business ventures for the oil and gas industry
Naim	Construction	Below	46%	The decline was dragged by construction's performance which mainly due to additional cost incurred in resettlement projects and escalation of operational costs
MSM Holdings	Consumer	Below	3%	Lower domestic sales
KKB Engineering	General Ind.	Below	-13%	The on-year decline in 4QFY13 earnings was due to lower progress claims from civil construction divisions within the engineering sector coupled with higher costs
Top Glove	Gloves	Below	4%	Lower average selling prices caused by the low raw material prices and the decline in sales from the vinyl segment in China.
Ta Ann	Ind./Timber	Above	26%	Boosted by the compensation received from Australian Government
Bumi Armada	Oil & Gas	Below	13%	Dip in offshore service vessel earnings was mainly caused by a steep decline in earnings in 4Q13. Management noted that this was due to changes in Petronas' operating guidelines requiring vessels of certain age and older to only be chartered on a spot basis, rather than on a term charter previously
KNM Group	Oil & Gas	Below	12%	Poor job execution and still restructuring business segments
MMHE	Oil & Gas	Below	10%	Fewer projects in hand with most nearing their tail-end, awaiting deliveries. In addition, the segment's operating profit also dropped a hefty -31.7%yoy, caused by higher project execution costs
Petronas Chem.	Oil & Gas	Below	8%	Statutory turnaround maintenance activities dragged into 4Q13, which caused a drop in sales volumes
Puncak Niaga	Oil & Gas	Below	9%	Higher operating cost from Oil and Gas arm due to deferment of projects. Construction arm suffered due to tail-end nature of certain projects
Wah Seong Corp	Oil & Gas	Below	60%	Poor job execution, i.e. Pipe coating works

FGV Holdings	Plantation	Above	41%	Boosted by gain arising from FHB's acquisition and gain from fair value changes of LLA liability
Genting Plant	Plantation	Above	35%	Higher FFB production and better palm product prices in 4QFY14
IJM Plantations	Plantation	Above	>100%	Higher FFB production and better palm product prices in 3QFY14
TH Plantation	Plantation	Above	34%	Higher production and sales of CPO and Palm Kernel
IOI Corporation	Plantation	Below	3%	Earnings was affected by FOREX losses
KL Kepong	Plantation	Below	6%	Lower profit from property segment
Kulim	Plantation	Below	6%	Lower profit contribution from New Britain Palm Oil and weakening FOREX of Kina against USD
Sime Darby	Plantation	Below	12%	Dragged by lower profit contribution from Plantation Division
TSH Resources	Plantation	Below	1%	Earnings was affected by FOREX losses
NCB	Port	Below	40%	Extending losses in logistics segment
IJM Land	Property	Above	12%	Higher progress billing, net finance income and contribution from jointly controlled entities
UOA Dev	Property	Above	10%	Inventory sales remained unexpectedly high
MISC	Shipping	Above	14%	Narrowing losses in Petroleum and Tanker segment
Maybulk	Shipping	Below	7%	Lower earnings contribution in POSH associate and continual losses in dry bulk segment
Lion Industries	Steel	Below	<100%	Impacted by higher impairment losses on its investments in quoted securities. Steel Division still reporting losses albeit a narrower losses in 2QFY14
Unisem (M)	Technology	Below	>100%	Kitchen sinking exercise in 4Q13
Telekom Malaysia	Telecom	Above	8%	Higher than expected operating profit margin

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Forecasts

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2013		FY2014		FY2013	FY2014
	Old (E)	New (A)	Old (E)	New (E)		
TOTAL (MIDFR Universe)	64,954.5	65,264.2	73,826.1	70,210.4	0.5	(4.9)
<i>Annual % Change</i>	0.6	1.1	13.7	7.6		
TOTAL (FBM KLCI) *	50,061.4	50,085.5	55,518.1	53,399.7	0.0	(3.8)
<i>Annual % Change</i>	6.4	6.4	10.9	6.6		

Source: MIDFR; (E) - estimate, (A) - actual; * 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.