

3 March 2015

MALAYSIA EQUITY

EARNINGS WRAP

EARNINGS WRAP

Review of corporate earnings

Quarter Ended December 2014

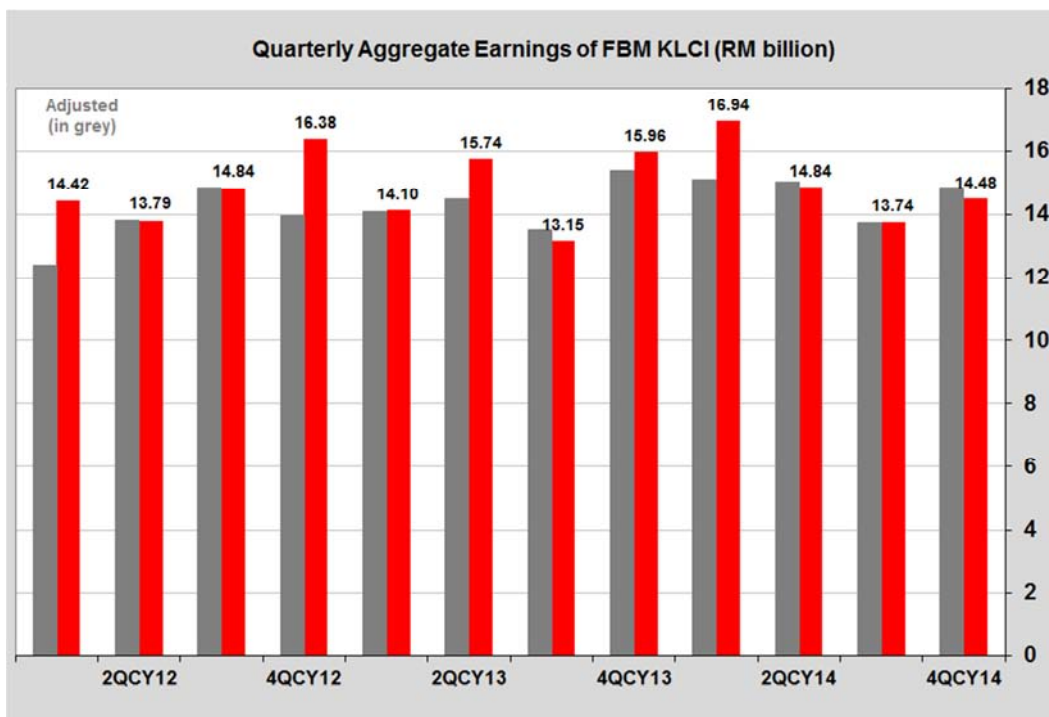
3 March 2015 | Earnings Wrap

Weaker than expected, again

- The aggregate reported earnings of the current 30 FBM KLCI companies totalled RM14.48b in 4QCY14, sequentially higher but lower year-on-year at +5.3%qoq and -9.3%yoy respectively.
- However, the reported growth figures were slightly depressed by extraordinary items. Stripping off these one-off figures, the sequential and on-year adjusted growth numbers improved to +8.0%qoq and -3.6%yoy respectively.
- The growth figures came in plainly below expectations. Recall our earnings preview report dated 9 February 2015 in which we anticipated higher sequential and on-year adjusted growth figures of +19.5%qoq and +6.7%yoy respectively.
- Overall, 36% of stocks under MIDFR Universe coverage reported lower-than-expected earnings. Of the rest, 15% posted earnings that were better than expected versus 49% which came within expectations.
- We made 11 changes to our stock recommendations with 0 upgrade and 11 downgrades.
- Target price changes involved 11 upward adjustments and 30 downward adjustments.
- We ceased coverage of Malaysian Airline System during the review period but added Perdana Petroleum and Tune Insurance to our coverage universe.

FBM KLCI

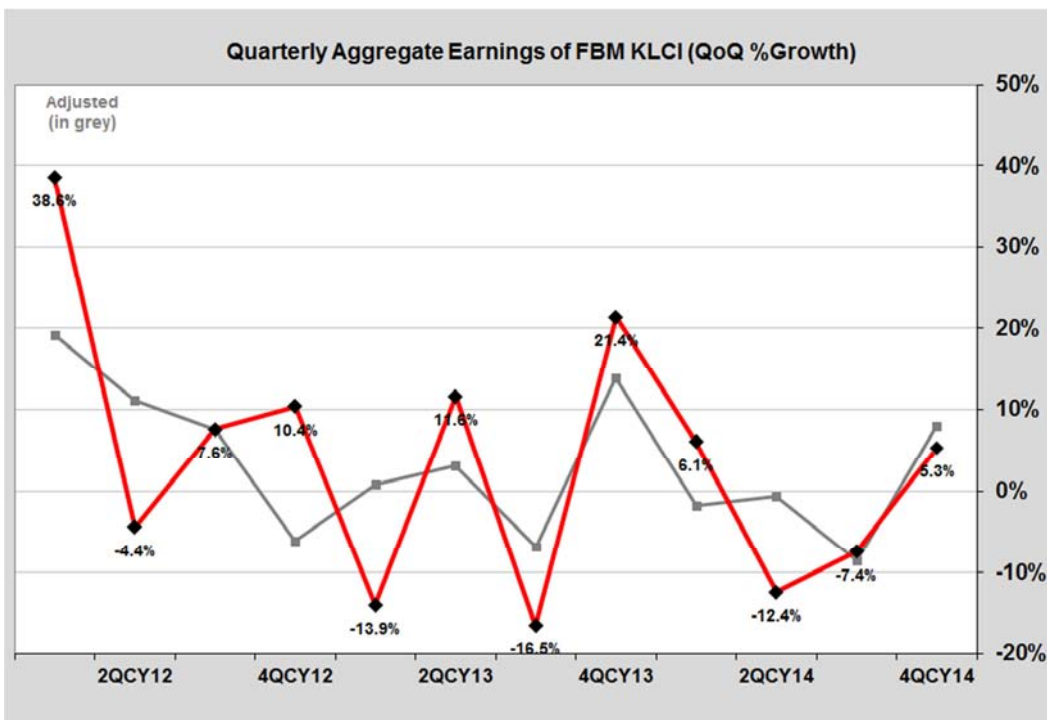
The aggregate reported earnings of current 30 FBM KLCI constituents totalled RM14.48b in 4QCY14. The figure was sequentially higher yet lower on-year at +5.3%qoq and -9.3%yoy respectively.



Source: Bloomberg, MIDFR

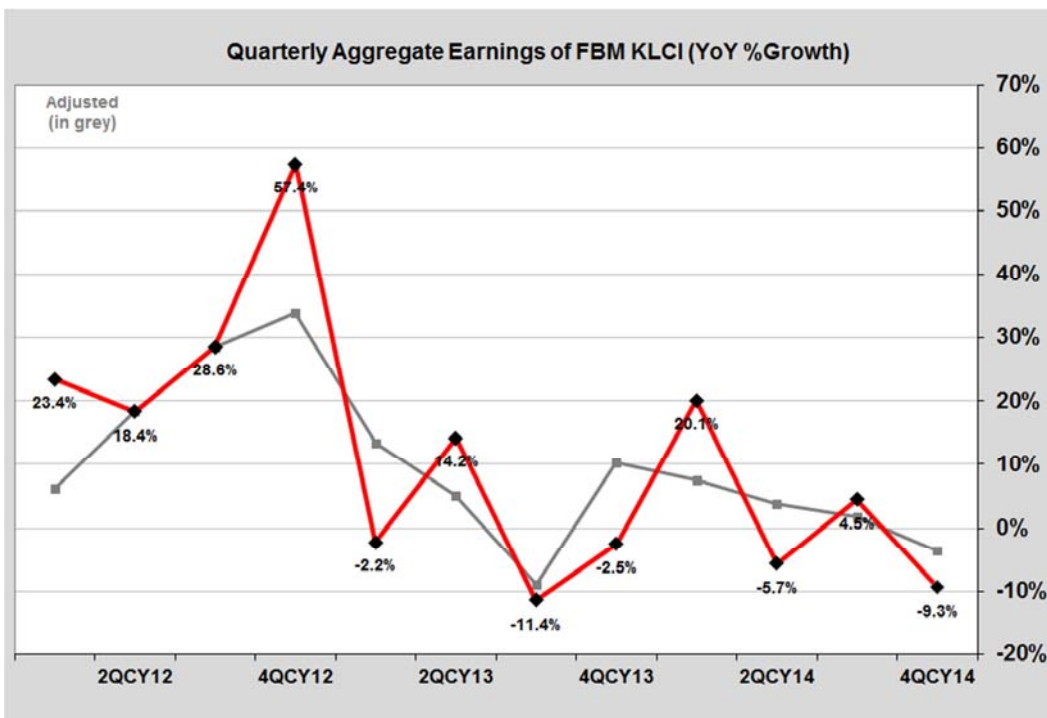
However, the sequential and on-year reported growth figures require some adjustments as they slightly dampened the fair earnings picture.

The reported sequential growth number was slightly depressed by RM358.9m impairment provisions recorded by MISC in 4QCY14. Moreover, the on-year growth number was further weakened by the effect of RM581.4m gain on disposal of Gumusut-Kakap FPS in 4QCY13, also by MISC.



Source: Bloomberg, MIDFR

After deducting the relevant exceptional items, the adjusted sequential growth figure in 4QCY14 showed a bigger growth of +8.0%qoq and the on-year growth figure recorded a smaller decline of -3.6%yoy.

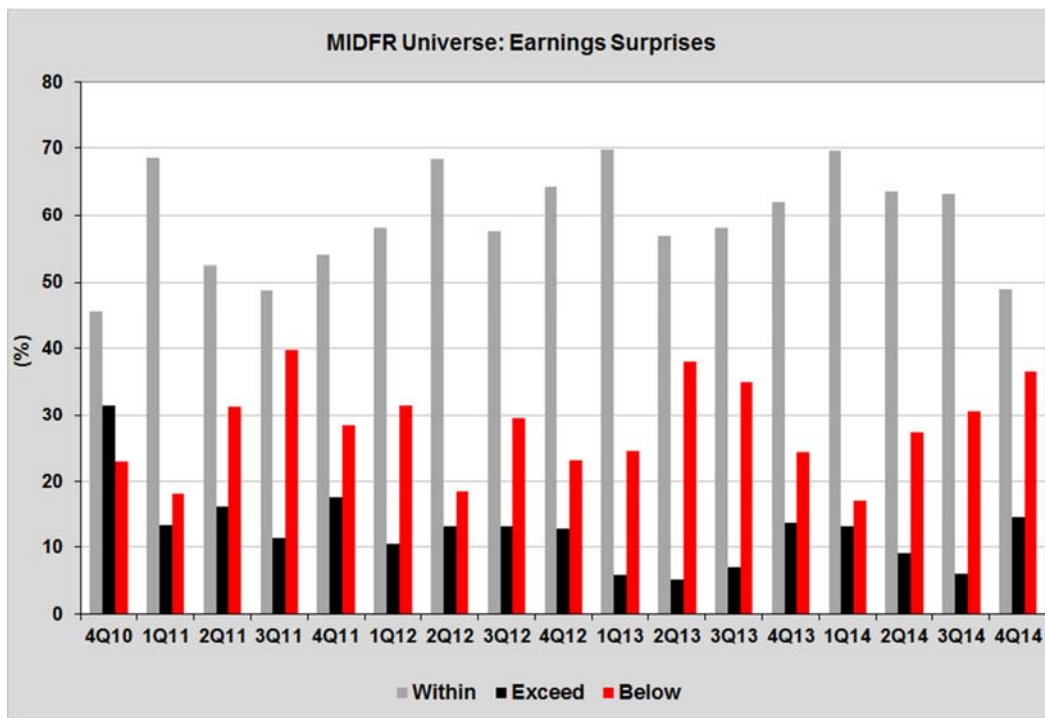


Source: Bloomberg, MIDFR

Nonetheless, the adjusted aggregate earnings and growth figures for 4QCY14 still came in plainly below expectations. Recall our earnings preview Strategy report dated 9 February 2015 which anticipated (i) aggregate earnings of RM16.42b, (ii) sequential adjusted growth figures of +19.5%qoq, and (iii) on-year adjusted growth figures of +6.7%yoy.

MIDFR Universe

Under the MIDFR Universe, we made 11 changes to our stock recommendations with 0 upgrade and 11 downgrades. In addition, target price changes involved 11 upward adjustments against 30 downward adjustments. We ceased coverage of Malaysian Airline System but added Perdana Petroleum and Tune Insurance to our coverage universe. 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 reported earnings that came below our expectations rose further to 36% (highest since second quarter 2013) in 4QCY14 from 31% in the preceding quarter. However, it is noteworthy that the proportion of positive surprises also increased to 15% (highest since fourth quarter 2011) during the quarter under review vis-à-vis 6% recorded in 3QCY14.

MIDFR Universe: 4QCY14 Earnings Surprises

	Within	Exceed	Below
CONSTRUCTION	78%	11%	11%
TELECOMMUNICATIONS	50%	25%	25%
MEDIA	33%	0%	67%
TECHNOLOGY	50%	0%	50%
PLANTATION	30%	20%	50%
TOBACCO	100%	0%	0%
GLOVE	67%	0%	33%
HEALTHCARE	50%	25%	25%
CONSUMER (F&B, Retail)	38%	38%	25%
BANKING	75%	13%	13%
FINANCE	50%	50%	0%
OIL & GAS	36%	9%	55%
PROPERTY	38%	0%	63%
REIT	80%	0%	20%
TRANSPORT	33%	22%	44%
UTILITY	67%	33%	0%
AUTOMOTIVE	0%	0%	100%
BUILDING MATERIAL	67%	0%	33%
TOTAL	49%	15%	36%

Source: MIDFR

Accordingly, companies with results that were in line with expectations declined to 49% in 4QCY14 from 63% 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 %	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12
CONSTRUCTION	(53.6)	15.8	446	385	556	384	961	301	382	379	441	468	380	368
TELECOM	(2.6)	(2.5)	1,712	1,756	1,607	1,855	1,758	1,877	1,767	1,631	1,558	1,769	1,803	1,709
MEDIA	(54.5)	(50.9)	105	214	204	155	231	206	203	136	288	93	101	53
TECHNOLOGY	(147.0)	(18.6)	37	45	28	23	-78	15	10	0	-8	23	2	-7
PLANTATION	(60.5)	(10.6)	924	1,033	2,245	3,765	2,336	1,259	2,250	2,044	657	2,523	4,060	2,029
TOBACCO	(0.9)	(22.3)	187	241	248	225	189	219	211	204	197	186	221	195
GLOVE	(7.2)	6.0	136	128	134	128	147	146	137	146	148	151	131	125
HEALTHCARE	13.8	70.2	312	183	256	201	274	160	194	168	305	136	461	221
CONSUMER	33.8	27.5	478	374	375	457	357	435	417	475	407	405	380	508
BANKING	(6.7)	(6.8)	5,175	5,550	5,456	5,400	5,547	5,704	5,237	5,368	5,136	5,292	5,062	4,815
FINANCE	166.6	81.8	446	245	280	242	167	179	220	204	219	127	132	120
OIL & GAS	8.0	(17.6)	1,571	1,908	1,869	1,785	1,455	1,736	2,322	1,907	1,703	1,538	1,788	1,820
PROPERTY	(39.2)	62.7	1,008	620	614	728	1,657	657	662	712	778	520	623	414
REIT	17.2	55.0	538	347	476	233	459	237	470	216	781	161	478	151
TRANSPORT	(16.0)	172.8	1,205	442	661	924	1,435	755	472	614	1,213	508	1,761	-124
UTILITY	33.6	61.4	2,679	1,660	2,219	1,972	2,005	510	2,076	1,589	1,684	1,339	1,105	3,146
AUTOMOTIVE	(40.5)	(44.2)	125	224	227	300	211	168	355	337	287	367	297	293
BUILDING MATERIAL	(124.6)	(167.2)	-24	36	-334	95	99	56	40	105	109	47	2	66
TOTAL	(11.1)	10.9	17,118	15,434	17,168	18,909	19,261	14,561	17,495	16,271	15,805	15,668	18,811	15,480

Source: MIDFR

Healthcare, Consumer, Finance, REIT and Utility were the sectors which recorded higher total earnings (as reported) in 4QCY14 when compared to both the preceding quarter and corresponding period last year.

On the other hand, major sectors such as Telecommunication, Plantation and Banking were among those that showed negative sequential as well as on-year earnings (as reported) growth percentage in 4QCY14.

Overall results below expectations

As in prior reporting season, the disappointing earnings streak continued into 4QCY14 with the aggregate numbers came in plainly below expectations. This is attested by (i) the apparent negative variances between the overall earnings of both MIDFR Universe stocks and FBM KLCI constituents against their earlier estimates prior to the just concluded reporting season, and (ii) the continued rise to 35% in the percentage of earnings underperformers among our coverage universe.

Furthermore, among the FBM KLCI constituents under our coverage, Tenaga Nasional, Telekom Malaysia, MISC and Maybank were the only four companies that reported better than expected earnings. On the contrary, there were nine earnings underperformers, namely AMMB, Astro, Axiata, CIMB, FGV, IHH Healthcare, IOI Corp, KL Kepong and Sime Darby.

Changes to estimates

Consequently, the respective aggregate earnings result and estimate for FY2014 and FY2015 of the 23 FBM KLCI stocks under our coverage were lowered by -0.7% and -1.5% to RM52.53b and RM53.03b respectively vis-à-vis their earlier estimates prior to the just concluded reporting season. Concomitantly, the respective aggregate earnings result and estimate for FY2014 and FY2015 of stocks under MIDFR Universe were also adjusted lower by -0.6% and -2.8% to RM68.87b and RM70.66b respectively. Refer to [Appendix 3](#) with regard to changes in aggregate earnings estimates.

FBM KLCI target

We reaffirm our FBM KLCI year-end 2015 target of 1,900 points. But in view of the disappointing 4QCY14 results, we can expect a slight headwind against the local benchmark in the short-term. Nonetheless, an overriding factor may emanate externally and come in the form of a recent signal from the US Fed which indicates that its economy is experiencing disinflation. Thus a plausible implication is that the US interest rate may not likely be raised so soon or at least a string of hikes is not forthcoming. This latest development could mean better days ahead for the ringgit. And by extension, the local equity market may benefit from favourable flows of foreign funds.



APPENDIX 1

MIDFR Universe: Changes in Recommendations & Target Prices

STOCK	SECTOR	RECOMMENDATION		TARGET PRICE (RM)	
		Old	New	Old	New
AFG	Banking	Neutral	Neutral	4.80	4.70
AMMB	Banking	Neutral	Neutral	7.30	7.00
Astro	Media	Neutral	Neutral	3.75	3.60
Axiata	Telecom	Neutral	Neutral	6.55	6.15
Axis REIT	REIT	Neutral	Neutral	3.50	3.55
BAT	Tobacco	Neutral	Neutral	63.49	71.85
Bumi Armada	Oil & Gas	Buy	Neutral	1.69	1.12
Bursa	Finance	Buy	Buy	9.38	8.84
CMMT	REIT	Buy	Neutral	1.66	1.66
Daibochi	General Ind.	Neutral	Sell	4.61	3.71
Dayang Ent.	Oil & Gas	Buy	Buy	4.37	3.82
Dialog	Oil & Gas	Neutral	Neutral	1.55	1.57
Digi.Com	Telecom	Buy	Neutral	6.50	6.50
E&O	Property	Buy	Sell	2.67	1.88
Eversendai	Construction	Neutral	Neutral	0.58	0.63
Favelle Favco	General Ind.	Buy	Buy	3.81	4.51
FGV	Plantation	Neutral	Neutral	2.94	3.40
Gas Malaysia	Oil & Gas	Neutral	Neutral	3.84	3.40
Globetronics	Technology	Buy	Neutral	5.45	5.45
Hong Leong Bank	Banking	Buy	Buy	16.30	16.10
IHH Healthcare	Healthcare	Neutral	Neutral	4.55	5.05
IJM Plant.	Plantation	Neutral	Neutral	3.30	3.78
IOI Corp.	Plantation	Neutral	Neutral	4.70	4.42
KKB Eng.	General Ind.	Trading Buy	Trading Buy	2.15	1.80
Kossan	Gloves	Buy	Neutral	5.23	6.02
Maxis	Telecom	Neutral	Neutral	6.34	6.41
Maybulk	Transport	Buy	Neutral	1.72	1.28
Media Prima	Media	Neutral	Neutral	2.01	1.84
MMHE	Oil & Gas	Neutral	Sell	2.32	1.19
MRCB	Property	Buy	Buy	2.59	2.24

Naim Hldgs.	Property	Buy	Buy	4.86	4.42
Perdana Petr.	Oil & Gas	Buy	Neutral	1.33	1.26
Petronas Chem.	Oil & Gas	Neutral	Neutral	5.12	5.01
Sime Darby	Plantation	Neutral	Neutral	9.02	8.52
Tan Chong Motor	Automotive	Neutral	Neutral	4.00	3.20
Telekom	Telecom	Neutral	Neutral	7.43	6.42
Tenaga	Utility	Buy	Buy	16.34	17.20
TH Plant.	Plantation	Buy	Neutral	2.00	1.54
Top Glove	Gloves	Buy	Buy	5.70	5.41
UEM Sunrise	Property	Neutral	Neutral	2.26	1.50
Unisem	Technology	Buy	Buy	2.45	2.37
UOA Dev.	Property	Neutral	Neutral	2.08	2.05
Wah Seong	Oil & Gas	Buy	Buy	2.20	1.88
WCT Hldgs.	Construction	Neutral	Neutral	1.90	1.84

Source: MIDFR

APPENDIX 2

MIDFR Universe: 4QCY14 Outperformers and Underperformers

STOCK	SECTOR	EXPECTATION (Above/Below %)		COMMENT
AEON	Consumer	Above		Start-up costs from newly-opened stores was more than offset by the strong performance of existing stores.
AirAsia X	Transport	Above		Improvement in yields as a result of capacity management particularly within the Australia segment.
Favelle Favco	General Ind.	Above		4QFY14 earnings growth was mainly contributed by its improved margin sales margins by its activities inside Malaysia which contributes approximately 60% of its revenue. Further supporting the growth were its lower administrative expenses (-6.3%yoy) and higher finance income (+82.8%).
Genting Plant.	Plantation	Above		Higher porperty's profit abd strong FFB production growth.
IJM Plant.	Plantation	Above		Higher FFB production and CPO sales volume as well as lower net foreign exchange losses on its USD denominated borrowings.
KKB Eng.	General Ind.	Above		Strong earnings due to (1) on-going supply of polyurethane-lined mild steel pipes to CMS Infra Trading Sdn Bhd; and (2) increased in the supply of LPG cylinders to its long-term customer.
KNM	Oil & Gas	Above		Stronger-than-expected earnings from Europe.
KPJ	Healthcare	Above		Earnings rebounded in 4Q14 driven by higher occupancy rate but partially mitigated by higher interest expense and lower associate contribution.
MBSB	Finance	Above		Due to deferred tax assets recognition of RM366m.
MISC	Transport	Above		Petroleum division yielded stronger freight rates and the delivery of FPSO Cendor was more than enough to offset weakness in LNG segment where one of its LNG vessels saw its charter lapsed.

MSM	Consumer	Above		Earnings boosted by higher sales volume and lower zakat payment.
Panasonic	Consumer	Above		Its 3QFY15 earnings increased mainly due to improved margins from both segments. The home appliances segment's PBT margin expanded by +2.8ppts to 15.6%, meanwhile the fan products and others segment expanded by +1.5ppts to 12.7%.
Telekom	Telecommunication	Above		Better than expected operating profit margin; Lower effective tax rate.
Tenaga	Utility	Above		Lower generation cost due to higher utilization of coal generation coupled with lower input cost.
Eversendai	Construction	Above		Stronger than expected due to higher local construction contribution was due to steel fabrication and erection of coal-fired plant as well as Oil & Gas two units of liftboats.
Maybank	Banking	Above		Due to a lower than expectation allowance for loan losses.
AirAsia	Transport		Below	Underperformance by Malaysia AirAsia - Load factor dropped -7ppt on flat RPK growth and +8% ASK growth indicating capacity has not been absorbed mainly due to the air tragedies in FY14 as well as a dip in tourists from China.
AMMB	Banking		Below	Due to lower than expected NOII after stripping out one-off divestment gain.
Astro	Media		Below	Slower than expected net adds for the Pay-TV households segment.
Axiata	Telecommunication		Below	IT system issues experienced by Celcom; Axis acquisition; Forex losses.
Axis REIT	REIT		Below	Lower than expected occupancy rates for some of its investment properties.
Bumi Armada	Oil & Gas		Below	The OSV and T&I segment experienced impairments on financial assets and charges on trade receivables.
Daibochi	General Ind.		Below	Its 4QFY14 earnings were impacted by the higher raw material prices of polyethylene and polypropylene resins and films, electricity tariff hikes as well as the larger wage bill due to the implementation of the minimum wage policy.
Dayang Ent.	Oil & Gas		Below	4Q14 results were hampered by worse-than-expected seasonal decline especially in Nov and Dec 2014.
Dialog	Oil & Gas		Below	Lower contribution from all business segments due to the slowdown in job activities.
E&O	Property		Below	Lower than expected new sales in which we think may likely to stay below RM1.0b in FY15 (against management target of RM1.2b).
FGV	Plantation		Below	Higher non-cash accounting treatment and lower profit from downstream segment.
Gas Malaysia	Oil & Gas		Below	Weak earnings were hampered by high input cost of liquefied natural gas.
Hartalega	Gloves		Below	3QFY15 earnings were impacted by the additional pre-operating expenses from the New Generation Integrated Glove Manufacturing Complex (NGC) project, opportunity loss of approximately RM20-22m (due to delay of NGC commissioning) and the higher electricity as well as natural gas costs.
IHH	Healthcare		Below	FY14 earnings fell short of expectations mainly due to higher-than-expected MI charge off rate.
IOI Corp.	Plantation		Below	Poor performance of Resource-Based Manufacturing.

KL Kepong	Plantation		Below	Lower contribution from manufacturing segment.
Lafarge	Building Mat.		Below	Lower earnings were attributed to higher operational costs. The strong competition from other cement players also has led to lower sales volumes alongside with lower sales prices (ASP) as well as completion of KLIA2 project has resulted in lower sales from concrete segment.
MAHB	Transport		Below	Higher finance cost arising from the completion of KLIA2, higher operating expenditure (electricity tariffs and staff costs) and depreciation charges for KLIA2.
Maybulk	Transport		Below	Losses were recorded due to depressed Time Charter (TC) rates, lower contribution from its associate (POSH) and higher operating expenses.
MBM Res.	Automotive		Below	Disappointed due to weaker-than-expected sales and contribution from Perodua.
MMHE	Oil & Gas		Below	Weak earnings due to stiff competition and higher operating expenses.
MRCB	Property		Below	Lower earnings due to (1) additional finance and start-up costs incurred during the quarter and (2) we overestimates property margin
Naim Hldgs.	Property		Below	Lower earnings contribution from construction segment due to provisions made for potential LAD charges and doubtful debt.
NCB	Transport		Below	Lower container throughput (-2.5%yoy) and larger losses from its logistics segment due to low volume.
Nestle	Consumer		Below	Weaker sentiment as well as higher advertising and promotion cost dented the bottom line numbers.
Padini	Consumer		Below	Aggressive promotion and discount ahead of GST has affected margins and bottomline.
Perdana Petr.	Oil & Gas		Below	The 4QFY14 earnings declined due to the impairment losses on goodwill of RM16.8m recognized in the quarter. This impairment loss was due to the excess of the acquired subsidiaries' carrying values over their recoverable amount.
Sime Darby	Plantation		Below	Lower contribution from key business unit, namely plantation and industrial.
Star	Media		Below	Lower print revenue and impairment losses.
Tan Chong	Automotive		Below	Disappointed due to weaker-than-expected margins and heavy discounting.
TH Plant.	Plantation		Below	Lower FFB yield coupled with higher operating costs due to young mature estate profile.
UEM Sunrise	Property		Below	Lower than expected new sales in FY14 which tumbled 18%yoy to RM2.44b.
UMW Hldgs.	Automotive		Below	Auto division impacted by heavy discounting while the M&E and legacy business slipped into the red in 4Q14.
Unisem	Technology		Below	Lower than expected profit margin.
UOA Dev.	Property		Below	Lower than expected new sales in FY14 (-18% YoY to RM1.64b) as well as a lower than expected PBT margin.
WCT Hldgs.	Construction		Below	Earnings dragged lower by (1) persistent slower property progress billing, (2) thinner operating property margin, (3) lower margin of building projects specifically MITI office building and Kota Kinabalu Medical Centre and (4) higher deferred tax and amortization at JV level, KLIA2 Gateway Mall.

Source: MIDFR

APPENDIX 3

MIDFR Universe: Changes in Aggregate Earnings Estimates

	EARNINGS (RM mn)				EARNINGS (% Chg)	
	FY2014		FY2015 (E)		FY2014	FY2015
	Old (E)	New (A)	Old	New		
TOTAL (MIDFR Universe)	69,300.7	68,868.0	72,714.4	70,662.3	<i>(0.6)</i>	<i>(2.8)</i>
<i>Annual % Change</i>	2.1	1.5	4.9	2.6		
TOTAL (FBM KLCI) *	52,911.5	52,526.3	53,829.4	53,026.1	<i>(0.7)</i>	<i>(1.5)</i>
<i>Annual % Change</i>	5.7	2.3	1.7	1.0		

Source: MIDFR; (A) - actual, (E) - estimate; * Aggregate non-weighted earnings of 23 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.