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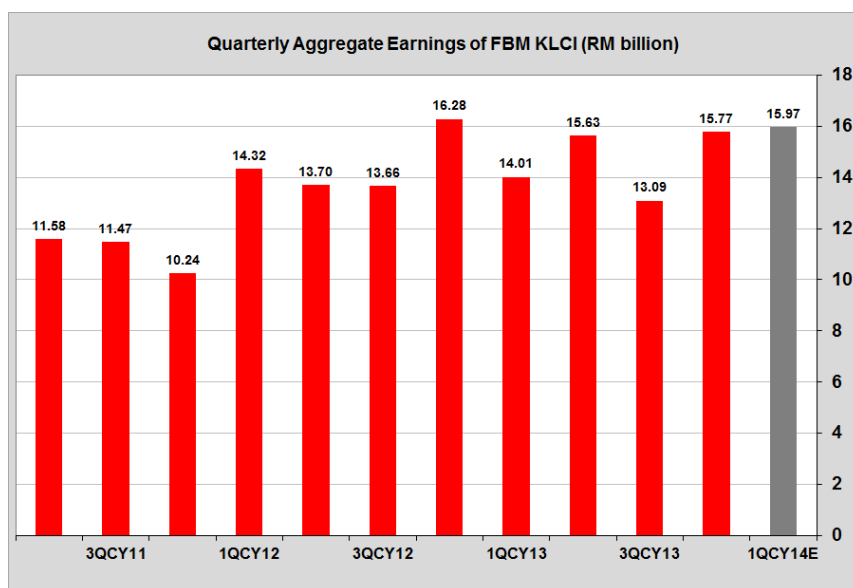
## 1QCY14: On-year growth may return to double-digit

KLCI: 1,866.72

*Playing catch-up with price-led expectation*

*(2014 Year-end Target: 1,900 points)*

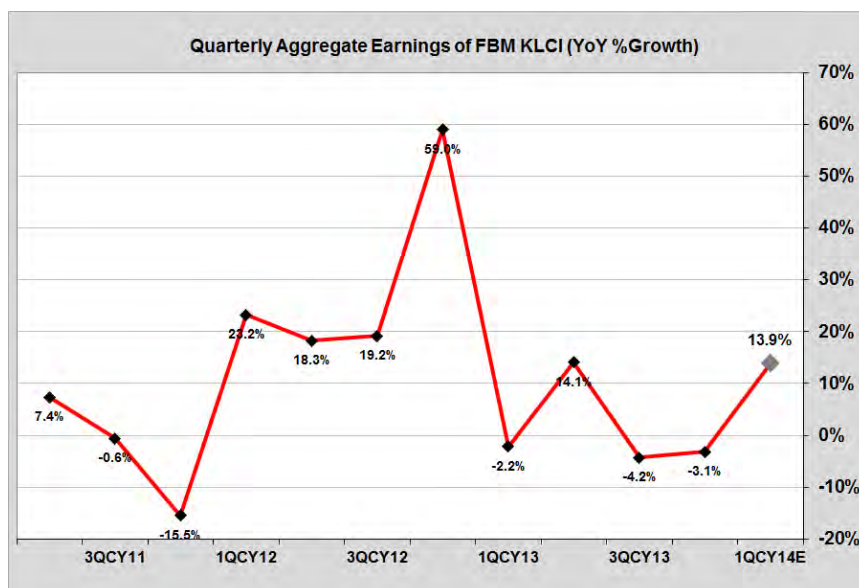
Expect aggregate earnings of FBM KLCI stocks to increase +1.2%qoq... For the quarter ended March 2014, the aggregate reported profit of FBM KLCI current constituents is expected to increase by +1.2%qoq to RM15.97b. The anticipated improvement in sequential growth is mainly attributable to better earnings performance by Oil & Gas (improved plant utilization) and Telecommunication (higher data revenue) companies. Moreover, the 1QCY14 on-quarter growth figure would be even higher at +5.1%qoq if we adjust for the RM581m gain on 50% disposal of Gumusut-Kakap FPS by MISC in 4QCY13.



Expect RM15.97b earnings in 1QCY14

Source: Bloomberg, MIDFR

...and +13.9%yoy. The on-year growth number may see a reversal from prior quarters decline with an estimated rise of +13.9%yoy in 1QCY14. The expected increase is principally due to better on-year earnings performance by Telecommunication (rising data revenue) and Plantation (higher CPO output & prices) companies.

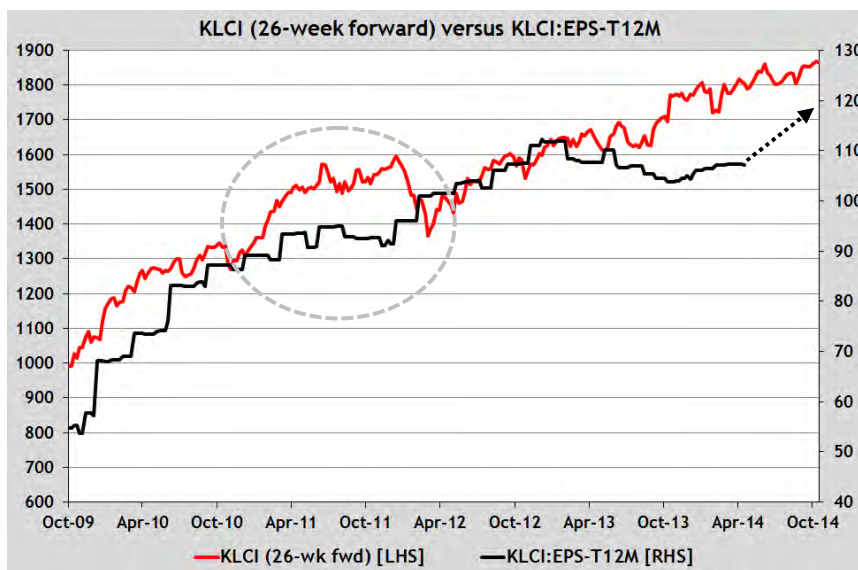


On-year growth may rebound to double-digit in 1QCY14

Source: Bloomberg, MIDFR

**Expected rebound in earnings was not unexpected.** The on-year rebound in earnings was not unexpected. As we alluded to in our Strategy note dated 12 February 2014, the market has priced-in “...upward earnings trajectory in first half of 2014.” Moreover, we also suggested that “...earnings growth during the first and second quarters of 2014 to regain positive territory and trend higher towards the low double-digit levels.”

**Empirically, the movement of FBM KLCI is a good leading indicator** to its upcoming earnings result performance. Our ‘best-fit’ historical chart of the FBM KLCI against its 12-month trailing earnings (KLCI:EPS-T12M) shows the former led the latter by about 26 weeks . The approximately half-year lead time provides rather reliable guidance on earnings performances of the recent/prevailing quarter as well as the subsequent one.

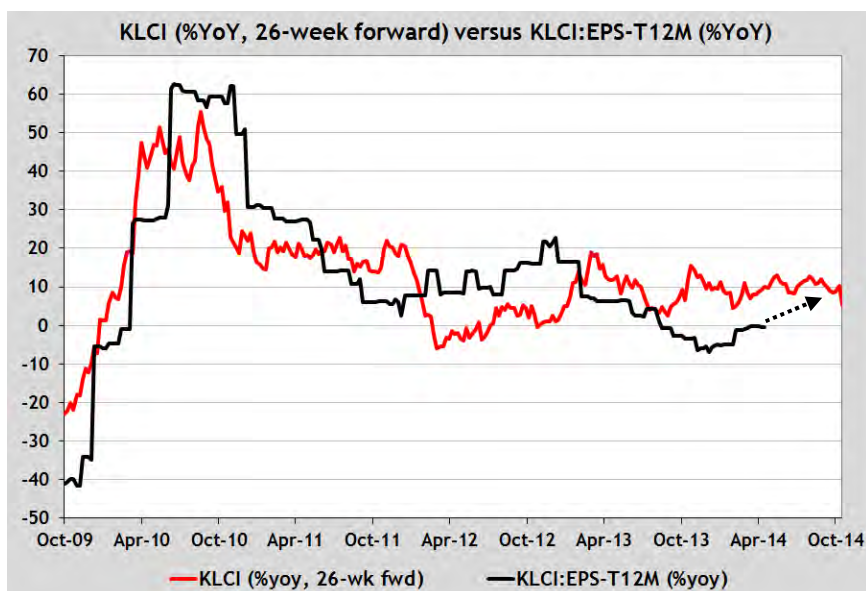


**Expect earnings to experience upward trajectory at least up to 2QCY14, failing which it may eventually invite price correction**

Source: Bloomberg, MIDFR

**Earnings are expected to catch-up with the ever firming price-led expectation.** By looking at the performance of FBM KLCI during the past 26 weeks (see Chart above), we can expect its 12-month trailing earnings to resume an upward trajectory in the first quarter of this year. Subsequently, its trailing earnings trajectory is anticipated to continue on at a similar upbeat pace in the quarter ending June 2014. In essence, earnings are expected to play catch-up with the ever firming price-led expectation.

**Failure of earnings to perform to market expectation shall invite price correction.** Nonetheless, as evident during the period of between 4QCY10 to 2QCY11, failure of earnings to keep pace with market expectation may eventually result in price correction.




**Accordingly, on-year EPS growth is anticipated to trend higher going forward**

Source: Bloomberg, MIDFR

**As stated, on-year earnings growth is expected to regain positive territory.** In tandem with the steady on-year growth performance of FBM KLCI during the past 26 weeks, we can expect its trailing earnings growth during the first and second quarters of 2014 to regain positive territory and trend higher towards the low double-digit levels (see Chart above).

**FBM KLCI to remain on its secular upward trajectory but...** We are rather sanguine on the likelihood of FBM KLCI forward earnings to eventually catch-up with the price-led expectation, supported by prospects of (i) gentler yet still robust domestic growth momentum, and (ii) supportive external economic conditions. Furthermore, we reiterate our view that the FBM KLCI is expected to remain on its secular upward trajectory at least in the medium-term.

**...upside may be capped by valuation, liquidity and monetary factors.** Having said that, there are factors that may put a cap to the market upside going forward, namely (i) the prevailing above mean valuation, (ii) the lack of foreign net liquidity into the market, and (iii) market 'expectation' of a hike in the OPR later this year.

**FBM KLCI year-end 2014 at 1,900 points.** Thus we reaffirm our rather modest FBM KLCI year-end 2014 baseline target of 1,900 points, with the upper and lower bounds at 1,980 points and 1,840 points respectively. 

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#### 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.