13 May 2015 | Strategy

Syed Muhammed Kifni | smkifni@midf.com.my

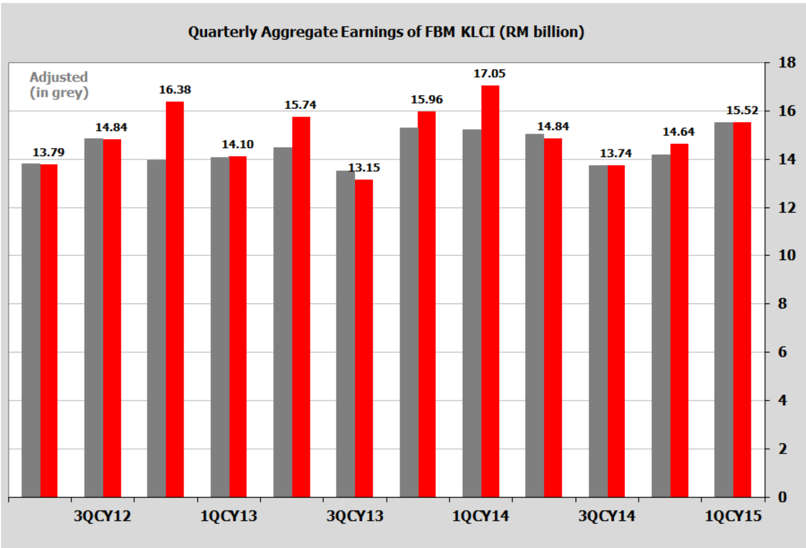
1QCY15: Earnings Preview

KLCI: 1,798.61 points

Expect mixed growth performance among major sectors

2015 Year-end Target: 1,900 points

Aggregate adjusted earnings of FBM KLCI stocks may increase +9.6%qoq and +2.0%yoy. For the quarter ended March 2015, the aggregate earnings of FBM KLCI current constituents is estimated at RM15.52b. Against the combined RM14.64b earnings recorded in preceding quarter, it is expected to record a single-digit sequential growth of +6.0%qoq in 1QCY15. Adjusted for extraordinary and non-recurring items, the on-quarter growth may be even higher at +9.6%qoq. On the other hand, the on-year growth figure in 1QCY15 is estimated to fall by -9.0%yoy. However, the adjusted on-year growth number might be better at +2.0%yoy, which is also a reversal to the -7.2%yoy adjusted growth performance of the prior quarter.



Source: Bloomberg, MIDFR

1QCY15 aggregate earnings of KLCI stocks estimated at RM15.52b

Mixed performance among major sectors. We are expecting mixed earnings performance among the FBM KLCI's Big 5 sectors, i.e. Banking, Utility, Telecommunication, Plantation and Oil & Gas. Of the Big 5 sectors, only Banking and Utility are expected to report positive on-year earnings growth. We also expect positive on-quarter growth for all Big 5 sectors excepting Utility and Oil & Gas.

FBM KLCI: Quarterly adjusted earnings (RM million) and growth estimates

Sector (#)	1QCY15*	4QCY14	QoQ	1QCY14	YoY
Banking (7)	5,766.33	5,263.81	9.5%	5,513.93	4.6%
Utility (2)	2,559.63	2,673.41	-4.3%	2,059.92	24.3%
Telecom (4)	1,772.12	1,712.33	3.5%	1,854.64	-4.4%
Plantation (5)	1,625.00	972.85	67.0%	1,801.61	-9.8%
Oil & Gas (4)	1,389.84	1,420.13	-2.1%	1,659.32	-16.2%
Gaming (2)	865.23	583.68	48.2%	931.26	-7.1%
Transport (1)	486.31	663.39	-26.7%	486.40	0.0%
Healthcare (1)	253.00	239.23	5.8%	159.05	59.1%
Tobacco (1)	243.36	187.44	29.8%	225.39	8.0%
Automotive (1)	242.50	83.17	191.6%	235.55	3.0%
Property (1)	178.51	251.97	-29.2%	183.96	-3.0%
Media (1)	140.00	113.30	23.6%	111.40	25.7%
Overall (30)	**15,521.82**	**14,164.69**	**9.6%**	**15,222.41**	**2.0%**

Source: Bloomberg, MIDFR; E* - estimate, (#) – No. of constituent

- **Banking.** Collectively, the banks are expected to register a rather subdued on-year earnings growth of circa mid-single digit in 1QCY15. However, its sequential figure may be lifted by the low-base effect from a rather sizable allowance made for impairment losses on loans, advances and financing notably by CIMB in 4QCY14. In general, while the banks may remain broadly profitable, we shall continue to see challenges to its earnings growth from: (i) slower loan growth than in 2014, (ii) persistent NIM pressure, (iii) market volatility impacting treasury and IB income, and (iv) lower ROEs reflecting softer market conditions. Our top picks are Hong Leong Bank (BUY, TP: RM16.10), Maybank (BUY, TP: RM10.80) and RHB Cap (BUY, TP: RM9.50).
- **Utility.** This sector on-year earnings growth is boosted mainly by the performance of Tenaga Nasional given the easing trend in fuel costs, thanks to the decline in coal and gas prices, and couple with a more favourable generation mix. As a result, both of its EBIT and EBITDA margins saw substantial increment. Nonetheless, the sequential earnings contraction is attributable to lower top line due to seasonal demand factor. We maintain our BUY call on Tenaga Nasional with a TP of RM17.20.
- **Telecommunication.** The expected weak on-year growth performance among telecommunication players is reflective of the maturing and competitive industry landscape whereby ARPU is continually under pressure but expenditures, particularly for marketing and branding, remain high. We do not think this situation will change drastically for the better anytime soon. It must also be highlighted that the positive sequential growth figure may be due to a low-base effect pursuant to the data re-pricing in 4QCY14 which resulted in lower top line contributions. Under the prevailing competitive landscape, we favour Digi (BUY, TP: RM7.04).
- **Plantation.** Average CPO price declined circa -15.6% to RM2,270pmt in 1QCY15 from 2,690pmt in the corresponding quarter last year. Quarter-on-quarter, the average CPO price staged a modest rebound of approximately +3.2% from RM2,200pmt in 4QCY14. On that score, the aggregate plantation earnings of FBM KLCI constituents may likely show a negative on-year earnings growth in 1QCY15. Furthermore, they should also show a small sequential rise. However, we are expecting a big on-quarter growth mainly due to the low base effect owing to poor earnings performance among some of the constituents in 4QCY14, e.g. IOI Corp suffered from RM274m foreign currency translation loss on foreign currency denominated borrowings and FGV recorded much lower profit due to poor downstream performance.
- **Oil & Gas.** In aggregate, the Oil & Gas constituent stocks registered both negative sequential and year-on-year earnings growth in 1QCY15 due to (i) petrochemical producer – Petronas Chemicals – is affected by lower ASP, and (ii) upstream player – SapuraKencana – is subjected to provision for the diminution in asset (i.e. oilfield) value. Nevertheless, despite the challenging industry environment, we continue to like SapuraKencana (BUY, TP: RM3.39) due to its affordable valuation with PER of only 13x, imminent re-inclusion into the Syariah-compliant list and strong order book of RM25 billion.

Expect a less disappointing earnings season. Recall that there were 9 underperformers, relative to our expectations, among FBM KLCI constituents during the previous reporting season as reported in our 4QCY14 Earnings Wrap dated 3 March 2015. While it may be too early to tell, the on-going 1QCY15 season might fare comparatively better as there is only 1 underperformer (i.e. SapuraKencana) thus far out of the 12 results released.

Maintain FBM KLCI year-end 2015 target at 1,900 points. We maintain our FBM KLCI 2015 year-end target of 1,900 points, which is equivalent to (i) 5.6% gain from current level, and (ii) 17.3x PER multiple of 2015 earnings. However, as highlighted in our previous Strategy reports, we expect the 2015 earnings revisions going forward to be generally flat or even upward-biased. Hence the resultant PER valuation of our 2015 year-end target may turn out to be lower than 17.3x.

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

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 *rise* 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 *fall* 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.